

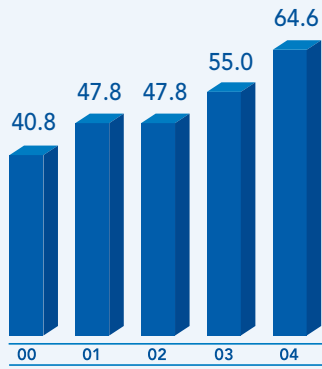


# VISION

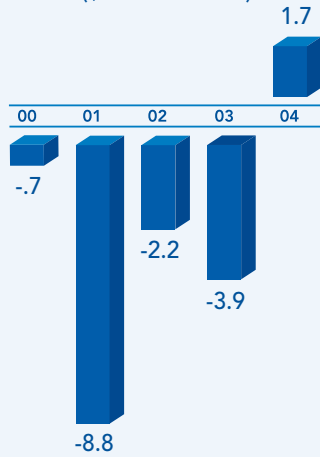
ANNUAL REPORT FISCAL YEAR ENDED MARCH 31, 2004

 **TransTechnology**  
corporation  
engineered products for global partners™

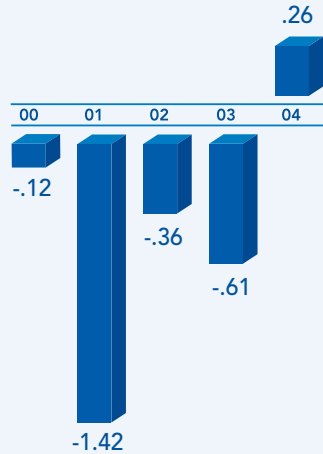
NET SALES  
(\$ IN MILLIONS)



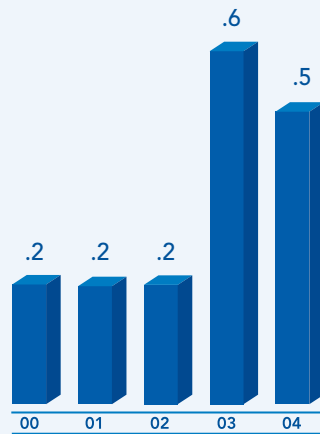
AFTER TAX INCOME  
FROM CONTINUING OPERATIONS  
(\$ IN MILLIONS)



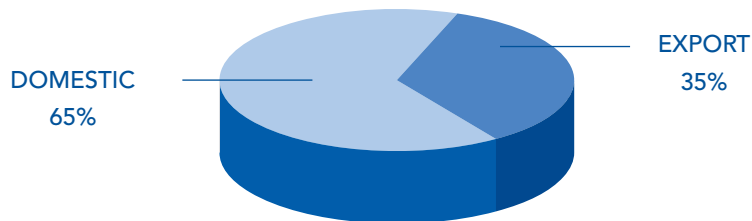
DILUTED INCOME PER SHARE  
FROM CONTINUING OPERATIONS  
(IN DOLLARS)



CAPITAL EXPENDITURES  
(\$ IN MILLIONS)



2004 DOMESTIC VS. EXPORT SALES



## Selected Financial Data

The following table provides selected financial data with respect to the consolidated statements of operations of the Company for the fiscal five years ended March 31, 2004 and the consolidated balance sheets of the Company at the end of each such year.

SELECTED FINANCIAL DATA (In thousands, except per share amounts)	Years ended March 31,				
	2004	2003	2002	2001	2000
Net sales	\$ 64,606	\$ 54,996	\$ 47,786	\$ 47,775	\$ 40,818
Income (loss) from continuing operations					
before income taxes	2,750	(7,439)	(3,596)	(13,947)	(1,204)
Provision (benefit) for income taxes	1,006	(3,574)	(1,366)	(5,191)	(456)
Income (loss) from continuing operations	1,744	(3,865)	(2,230)	(8,756)	(748)
Income (loss) from discontinued operations	-	13,099	(69,551)	(64,214)	7,342
Net income (loss)	\$ 1,744	\$ 9,234	\$ (71,781)	\$ (72,970)	\$ 6,594
Earnings (loss) per share:					
Basic:					
Income (loss) from continuing operations	\$ 0.26	\$ (0.61)	\$ (0.36)	\$ (1.42)	\$ (0.12)
Income (loss) from discontinued operations	-	2.08	(11.25)	(10.41)	1.19
Net income (loss) per share	\$ 0.26	\$ 1.47	\$ (11.61)	\$ (11.83)	\$ 1.07
Diluted:					
Income (loss) from continuing operations	\$ 0.26	\$ (0.61)	\$ (0.36)	\$ (1.42)	\$ (0.12)
Income (loss) from discontinued operations	-	2.08	(11.25)	(10.41)	1.19
Net income (loss) per share	\$ 0.26	\$ 1.47	\$ (11.61)	\$ (11.83)	\$ 1.07
Dividends declared and paid per share	\$ -	\$ -	\$ -	\$ 0.195	\$ 0.26
Total assets	\$ 77,209	\$ 85,123	\$ 144,746	\$ 395,852	\$ 482,752
Long-term debt	\$ 56,472	\$ 53,487	\$ 107,564	\$ 658 <sup>(a)</sup>	\$ 194,759
Redeemable common stock	\$ -	\$ 1,283	\$ -	\$ -	\$ -
Stockholders' (deficit) equity	\$ (3,787)	\$ (7,923)	\$ (16,207)	\$ 51,875	\$ 128,882
Book value per share	\$ (0.58)	\$ (1.23)	\$ (2.62)	\$ 8.40	\$ 20.97
Shares outstanding at year-end	6,498	6,457	6,191	6,172	6,145

(a) Excluding callable debt of \$271,307.

## MARKET AND DIVIDEND DATA

Quarter Ended	Market Price	
	High	Low
June 30, 2002	\$11.39	\$8.70
September 29, 2002	13.59	9.98
December 29, 2002	13.50	9.95
March 31, 2003	10.48	5.30
June 29, 2003	5.97	4.38
September 28, 2003	9.00	5.44
December 28, 2003	9.00	6.50
March 31, 2004	8.01	6.65

## Fellow Shareholders

The fiscal year ended March 31, 2004 was the first full year in our company's new era as solely an aerospace defense firm. Having completed all of our divestitures and other restructuring activities in the previous fiscal year, fiscal 2004 allowed us to focus all of our efforts on continuing to improve our market leading position as the world's premier manufacturer of rescue hoists, cargo hooks, and weapons loading systems.

The benefit of our ability to focus on this single business unit is clearly shown in our operating results. During fiscal 2004 we reported a 17% increase in revenues to \$64.6 million and a 71% increase in operating income to \$11.9 million. Our strong cash flow generation was illustrated by the \$12.4 million reduction in current and other long-term liabilities during the year as we cleared our balance sheet of most of the issues remaining from our restructuring.

Rescue hoists are used in life endangering situations, and our primary concern is always the safety of the brave men and women who use them.

Our plan to refinance our company's very expensive subordinated debt during the second quarter suffered a setback just prior to the scheduled completion of new credit facilities in late September when the Newark office of the United States Attorney executed a search warrant on our Breeze-Eastern repair and overhaul operation. While the repair and overhaul business accounts for less than 20% of our total revenues, the uncertainty resulting from the search warrant and subsequent investigation resulted in our prospective lenders suspending further action on the refinancing until the nature and outcome of the government's investigation become more clear. Our board of directors and management team immediately reacted to the government investigation. Our primary concern of course was the safety and

efficacy of our products. Rescue hoists are used in life endangering situations, and our primary concern is always the safety of the brave men and women who use them. We promptly began an independent investigation of the overhaul and repair operation, and we have cooperated very closely with the government, as they have with us, as we both seek to ensure that there are no safety issues with our equipment. The results of our independent investigations have not disclosed any deficiencies in the efficacy of equipment processed through our overhaul and repair operation. We have, however, discovered a number of business practices that could be enhanced to make the operation more efficient and to ensure compliance with all government record keeping and procedural requirements. We have not, as of mid June 2004, received any further indication from the United States Attorney as to the nature of its investigation, nor have any charges been alleged or filed against the company or any of its officers or employees.

As a result of the independent investigations, our management team developed a thirty-four point corrective action plan. We believe the implementation of this plan will strengthen our internal controls, improve the efficiency of the overhaul and repair operation, and allow us to provide even better service to our customers. Many of the action items in the corrective action plan have been completed, while others are of a longer-term nature and are on-going. Our entire management team, from shop floor to senior management and including the board of directors, is focused on the completion of this plan and a continuing commitment to self-improvement.

The investigation and the resultant delay in our refinancing have come at a great financial cost to our company. Based upon the expected terms of our refinancing, we believe that our borrowing costs would have been reduced to a weighted average rate of approximately 10%, compared to the 19% average cost of our subordinated debt during fiscal 2004, a potential interest expense savings of approximately \$100,000 per week or \$2.6 million for the last half of fiscal 2004. In addition, the direct costs of the investigation, including legal fees and the costs of the independent outside investigations, aggregated \$1.1 million in the last half of fiscal 2004. As we look ahead into fiscal

## Focus

2005, until the United States Attorney's office investigation is resolved and we are able to complete our refinancing, we expect to continue to suffer opportunity costs due to the higher interest rate of \$1.3 million per quarter. We have estimated that the investigatory costs in fiscal 2005 could match those of fiscal 2004.

We are very proud that, while not only cooperating with the government's investigation and the independent investigation, our entire workforce has rallied behind the company and focused their efforts on continuing to meet the needs of our customers in the military and search and rescue providers around the world. Fiscal 2004 resulted in the highest levels of shipments, operating profit, and free cash flow in the seventy-eight year history of Breeze-Eastern. We have successfully completed the delivery of over five hundred HLU-196 Bomb Hoists to the United States Navy, a product that didn't even exist two years ago. We also delivered sixty-five rescue hoists on the largest single award for new rescue hoists since the Vietnam War era, a one-hundred-two unit order for our hydraulic rescue hoists for the Sikorsky Seahawk helicopter. Even our overhaul and repair operation exceeded its budgeted level of new orders in fiscal 2004, both before and after the commencement of the government investigation.

We believe that these operational successes are indicative of our unflinching commitment to our customers for the provision of high quality products and services that can be counted on when needed to save lives and property in the most hostile environments. Compared to the trust of our customers, there is no higher standard that we can meet.

Our most significant objectives for fiscal 2005 will be the resolution of the government investigation and completing the refinancing of our debt. While both of those matters are somewhat outside of our control, our internal focus will continue to be the refinement of our manufacturing operations, especially the remaining portions of our corrective action plan. We expect to spend a good part of



Michael J. Berthelot, Chairman (left)  
Robert L. G. White, President and CEO (right)

the year installing a new \$3 million company-wide management information system that will enhance our internal control, record keeping, and efficiency of production. We will continue to support our almost \$5 million engineering and research and development budget, which provides the drive necessary for the continued growth of our company to meet our customers' demands for new weapons platforms, enhancements to existing products, and improvements to our internal design and production processes.

We would like to express our gratitude to our employees, who have worked so hard through such difficult times. The people of our company truly are our greatest asset, and their dedicated efforts have made all the difference in the world during the past fiscal year.

We would also like to thank our board of directors, which has proven itself once again to be dedicated to the practice of leading-edge corporate governance and the preservation and protection of our shareholders' interests.

And of course, we thank you, the shareholders of our company, who have placed your faith, trust, and investment with us. We appreciate your confidence, and we will continue to do all we can to enhance the value of our company for all of its shareholders.

Robert L. G. White  
President and  
Chief Executive Officer

Michael J. Berthelot  
Chairman

## Breeze-Eastern

TransTechnology Corporation's Breeze-Eastern division is the world's leading designer, manufacturer, and service provider of rescue hoists and cargo hooks for helicopters as well as cargo winches for both helicopters and fixed wing aircraft. Breeze-Eastern's products have been the industry standard almost since the development of the helicopter, the company's founder having worked with Igor Sikorsky in the 1940s to develop a rudimentary hoist for use on his first search and rescue aircraft. Since then, Breeze-Eastern has supplied more than twenty-thousand rescue hoists, cargo winches, and cargo hooks used by government agencies, both military and civil, around the world. Breeze-Eastern also has over twenty years of manufacturing experience in weapons handling systems components – an additional market for its sophisticated lifting technology.

### Rescue Hoists and Cargo Winches

Breeze-Eastern's rescue hoists and cargo winches are in service in more than forty countries and on every continent. Virtually every medium and heavy lift helicopter manufacturer, including (in the US) Sikorsky, Bell, Boeing, Kaman, and MD Helicopter, sources Breeze-Eastern products. International

**Breeze-Eastern's rescue hoists and cargo winches are in service in more than forty countries and on every continent.**

sales to helicopter manufacturers include Eurocopter (France and Germany), AgustaWestland (Italy and the UK), Hindustan (India), and Ulan Ude (Russia). Breeze-Eastern is currently pursuing new programs in China, India, Russia, Germany, and Italy that are anticipated to be a source of revenues over the next fifteen years.

Breeze-Eastern continually seeks input from its customers to support the engineering, research and development necessary to maintain Breeze-Eastern's long-standing record for safety, reliability, durability and service. This continuing dialogue has led to special product enhancements for existing

hoists, including cable-foul sensors and crushable bumpers, thereby further improving the overall safety and reliability of the company's products.

**The company's commitment to product development is exemplified by its HS-29900 electric hoist which is the highest performing hoist available in the world today.**

The company's commitment to product development is exemplified by its HS-29900 electric hoist which is the highest performing hoist available in the world today. Dual hoist installations, another Breeze-Eastern innovation pioneered for the Canadian Department of National Defense on the EH-101 "Cormorant" Search and Rescue Helicopter, have now been chosen by the Royal Danish Air Force for its EH-101's.

Breeze-Eastern cargo winches are used to move cargo horizontally within either fixed wing aircraft or helicopters. They generally have a less than 3,000-pound capacity and are used in aircraft such as the Boeing C-17 and EADS-CASA C235 and C295 for parachute line retrieval and for moving loads within the aircraft. The V-22 Osprey, currently in operational evaluation by the U.S. Marine Corps, the AgustaWestland EH101, and Lockheed Martin Alenia C27J Spartan are some of the new platforms that will use Breeze-Eastern cargo winches.

### Cargo Hooks

Breeze-Eastern is the world leader in medium- and heavy-lift cargo hooks. These fixed devices, found on the bottom exterior along the centerline of the helicopter, are used for lifting and transporting equipment and supplies. Typical loads are seismic measuring equipment, water buckets for fire fighting, logging apparatus, vehicles, artillery pieces, food and supplies. With hook models capable of carrying loads up to 36,000 pounds – the largest lift capacity in the industry – Breeze-Eastern cargo hooks are in service all over the globe. The US military utilizes Breeze-Eastern cargo hooks on all of their heavy-lift helicopters, including the Boeing

Global

Innovative



CH-47 Chinook and the Sikorsky CH-53 Super Stallion. All Sikorsky H-60 Hawk series helicopters, including the two new Naval Hawk variants, MH-60R Romeo and MH-60S Sierra, use Breeze-Eastern hooks. Breeze-Eastern cargo hooks can also be found on the Sikorsky S-61, Agusta Bell AB139 and Agusta Bell AB412.

### Weapons Handling Equipment

Breeze-Eastern is proud to have developed for the US Navy the HLU-196 munitions hoist, a battery

This success builds on the company's more than twenty years as the sole source supplier of more than \$100 million of loading equipment for Lockheed Martin's Multiple Launch Rocket System (MLRS), a system used during both the 1991 Persian Gulf War and Operation Iraqi Freedom in 2003.

pack powered bomb hoist used on aircraft carriers, to replace hazardous gasoline powered hoists. The company has supplied over \$18 million of these hoists to the US Navy. This success builds on the company's more than twenty years as the sole source supplier of more than \$100 million of loading equipment for Lockheed Martin's Multiple Launch Rocket System (MLRS), a system used during both the 1991 Persian Gulf War and Operation Iraqi Freedom in 2003.

Breeze-Eastern is currently participating in development of weapons handling systems for Lockheed Martin's High Mobility Artillery Rocket System (HIMARS) and Smiths Aerospace Pod

Reloader System used on the Line-of-Sight Antitank Weapon System (LOSAT). The company has received its first two low rate initial production orders from Lockheed Martin on the HIMARS program.

### Product Support

Breeze-Eastern's commitment to product support and customer service is widely recognized in the aviation industry. Building on that commitment, the Product Support department has undertaken a review of its internal processes and procedures and is implementing true root-cause corrective actions that will standardize work flow thereby reducing cycle time and costs and improving on-time delivery performance.

Breeze-Eastern strongly believes communication with its customers is the cornerstone of world-class service. To that end, the company's annual User Conference brings together front-line operators of Breeze-Eastern equipment from around the world to facilitate the exchange of information and to gain understanding of customers' missions and challenges. Breeze-Eastern engineers also make on-site visits to work with customers to ensure satisfaction with product performance.

Breeze-Eastern strongly believes communication with its customers is the cornerstone of world-class service.

Product support and after-market equipment sales generated more than 43% of revenues in fiscal 2004. As one of the most highly visible segments of the Breeze-Eastern business, Product Support receives substantial resources from marketing, engineering, manufacturing, quality, and finance departments.

## Service

## Reliable

Photos (L-R): 1. A Coast Guard HH-65 helicopter lowers a rescue swimmer during a Coast Guard search and rescue demonstration. Photo courtesy of USCG. 2. HS-29900 hoist installed on a Royal Malaysian Air Force S-61 helicopter. 3. LOSAT Firing. Photo Courtesy of Lockheed Martin

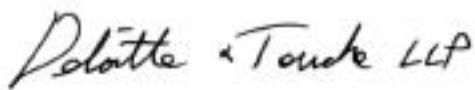
## Report of Independent Registered Public Accounting Firm

*To the Stockholders and the Board of Directors of TransTechnology Corporation:*

We have audited the accompanying consolidated balance sheets of TransTechnology Corporation and subsidiaries (the “Company”) as of March 31, 2004 and 2003, and the related statements of consolidated operations, stockholders’ equity (deficit) and cash flows for each of the three years in the period ended March 31, 2004. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

6 We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (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, such consolidated financial statements present fairly, in all material respects, the financial position of TransTechnology Corporation and subsidiaries at March 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2004 in conformity with accounting principles generally accepted in the United States of America.



Parsippany, New Jersey

June 21, 2004

## Consolidated Balance Sheets

(In thousands, except share data)

	March 31,	
	2004	2003
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 960	\$ 7,104
Accounts receivable (net of allowance for doubtful accounts of \$10 and \$65 in 2004 and 2003, respectively)	8,720	6,701
Inventories	20,449	19,683
Prepaid expenses and other current assets	842	1,364
Income tax receivable	395	363
Deferred income taxes	3,334	1,289
Real estate held for sale	1,432	-
Total current assets	36,132	36,504
PROPERTY:		
Land	534	534
Buildings	4,099	4,004
Machinery and equipment	4,565	4,544
Furniture and fixtures	4,024	3,639
Total	13,222	12,721
Less accumulated depreciation and amortization	10,794	10,372
Property - net	2,428	2,349
OTHER ASSETS:		
Deferred income taxes	27,035	30,712
Other	11,614	15,558
Total other assets	38,649	46,270
<b>TOTAL</b>	<b>\$ 77,209</b>	<b>\$ 85,123</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
CURRENT LIABILITIES:		
Current portion of long-term debt	\$ 79	\$ 79
Accounts payable - trade	5,224	4,954
Accrued compensation	2,890	2,847
Accrued income taxes	1,566	2,460
Other current liabilities	4,200	15,003
Total current liabilities	13,959	25,343
LONG-TERM DEBT PAYABLE TO BANKS AND OTHERS	56,472	53,487
DEFERRED INCOME TAXES	-	1,332
OTHER LONG-TERM LIABILITIES	10,565	11,601
COMMITMENTS AND CONTINGENCIES (Notes 12 and 13)		
REDEEMABLE COMMON STOCK	-	1,283
STOCKHOLDERS' DEFICIT:		
Preferred stock - authorized, 300,000 shares; none issued	-	-
Common stock - authorized, 14,700,000 shares of \$.01 par value, issued 7,059,107 and 7,018,299 shares in 2004 and 2003, respectively	71	70
Additional paid-in capital	76,728	74,283
Accumulated deficit	(71,249)	(72,993)
Unearned compensation	(97)	(43)
	5,453	1,317
Less treasury stock, at cost - 560,964 shares in 2004 and 2003	(9,240)	(9,240)
Total stockholders' deficit	(3,787)	(7,923)
<b>TOTAL</b>	<b>\$ 77,209</b>	<b>\$ 85,123</b>

See notes to consolidated financial statements.

## Statements of Consolidated Operations

(In thousands, except share data)

	Years ended March 31,		
	2004	2003	2002
Net sales	\$ 64,606	\$ 54,996	\$ 47,786
Cost of sales	36,503	30,426	26,900
Gross profit	28,103	24,570	20,886
General, administrative and selling expenses	16,211	17,605	16,807
Interest expense	10,431	9,158	4,931
Interest and other (income) expense - net	(1,289)	18	(1,536)
Unrealized gain on warrants	-	(1,967)	-
Forbearance fees	-	764	2,651
Charges related to debt reduction	-	3,735	-
Corporate office restructuring charge	-	2,696	1,629
Income (loss) from continuing operations before income taxes	2,750	(7,439)	(3,596)
Income tax provision (benefit)	1,006	(3,574)	(1,366)
Income (loss) from continuing operations	1,744	(3,865)	(2,230)
Discontinued operations:			
Income from sale of businesses and income from operations of discontinued businesses (less applicable income taxes of \$8,012 for 2002).	-	-	16,414
Income (loss) on disposal of discontinued businesses including provision for operating losses during phase-out periods (less applicable income taxes (benefit) of \$3,083 and (\$40,271) for 2003 and 2002, respectively).	-	13,099	(85,965)
Net income (loss)	\$ 1,744	\$ 9,234	\$ (71,781)
Earnings (loss) per share:			
Basic:			
Income (loss) from continuing operations	\$ 0.26	\$ (0.61)	\$ (0.36)
Income (loss) from discontinued operations	-	2.08	(11.25)
Net income (loss) per share	\$ 0.26	\$ 1.47	\$ (11.61)
Diluted:			
Income (loss) from continuing operations	\$ 0.26	\$ (0.61)	\$ (0.36)
Income (loss) from discontinued operations	-	2.08	(11.25)
Net income (loss) per share	\$ 0.26	\$ 1.47	\$ (11.61)
Weighted - average basic shares outstanding	6,658,000	6,303,000	6,181,000
Weighted - average diluted shares outstanding	6,679,000	6,303,000	6,181,000

See notes to consolidated financial statements.

## Statements of Consolidated Cash Flows

(In thousands)

	Years ended March 31,		
	2004	2003	2002
<b>Cash flows from operating activities:</b>			
Net income (loss)	\$ 1,744	\$ 9,234	\$ (71,781)
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Net (income) loss from discontinued operations, including asset impairments	-	(13,099)	85,965
Gain on sale of discontinued businesses, net of tax	-	-	(16,414)
Depreciation and amortization	2,279	2,367	2,546
Change in net assets of discontinued companies	-	(5,857)	17,463
Write-off of unamortized loan fees	-	2,199	-
Warrant mark-to-market adjustment	-	1,967	-
Noncash interest expense	3,256	3,263	2,528
(Reduction of) provision for losses on accounts and notes receivable	(55)	(276)	321
Loss (gain) on sale or disposal of fixed assets	-	7	(1,352)
Changes in assets and liabilities - excluding the effects of dispositions:			
(Increase) decrease in accounts receivable and other receivables	(1,976)	8,602	(816)
Increase in inventories	(766)	(2,814)	(1,923)
Decrease (increase) in deferred taxes, net	35	(2,608)	(22,041)
Increase in real estate held for sale	(1,432)	-	-
Decrease (increase) in other assets	1,785	(4,524)	(849)
Increase in accounts payable	270	451	463
Increase (decrease) in accrued compensation	43	616	(38)
(Decrease) increase in income taxes payable	(629)	2,011	(2,745)
(Decrease) increase in other liabilities	(11,130)	(2,263)	8,877
<b>Net cash (used in) provided by operating activities</b>	<b>(6,576)</b>	<b>(724)</b>	<b>204</b>
<b>Cash flows from investing activities:</b>			
Capital expenditures	(539)	(588)	(184)
Proceeds from sale of businesses	-	67,425	162,200
Proceeds from sale of fixed assets	-	1	2,233
Decrease (increase) in notes and other receivables	1,012	(980)	75
<b>Net cash provided by investing activities</b>	<b>473</b>	<b>65,858</b>	<b>164,324</b>
<b>Cash flows from financing activities:</b>			
Payments on long-term debt	-	(49,729)	(38,750)
Proceeds from long-term debt borrowings and bridge loan	-	20,500	-
Repayments of other debt	(79)	(28,819)	(128,097)
Exercise of stock options and other	38	(79)	79
<b>Net cash used in financing activities</b>	<b>(41)</b>	<b>(58,127)</b>	<b>(166,768)</b>
(Decrease) increase in cash and cash equivalents	(6,144)	7,007	(2,240)
Cash and cash equivalents at beginning of year	7,104	97	2,337
<b>Cash and cash equivalents at end of year</b>	<b>\$ 960</b>	<b>\$ 7,104</b>	<b>\$ 97</b>
<b>Supplemental information:</b>			
Interest payments	\$ 7,088	\$ 16,975	\$ 24,573
Income tax payments	\$ 2,105	\$ 266	\$ 919
Increase in senior subordinated note for paid-in-kind interest expense	\$ 3,064	\$ 2,672	\$ 2,316

See notes to consolidated financial statements.

## Statements of Consolidated Stockholders' Equity (Deficit)

(In thousands, except share data)

Years ended March 31, 2004, 2003 and 2002	Common Stock		Treasury Stock		Additional Paid-In Capital	Accumulated Deficit	Notes Receivable from Officers	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Total Comprehensive Income (Loss)
	Shares	Amount	Shares	Amount						
BALANCE, MARCH 31, 2001	6,718,614	\$ 67	(546,428)	\$ (9,070)	\$78,091	\$(10,446)	\$(191)	\$ (6,323)	\$(253)	
Net loss	-	-	-	-	-	(71,781)	-	-	-	\$(71,781)
Other comprehensive loss:										
Reclassification adjustment for minimum pension liability from sale of business	-	-	-	-	-	-	-	1,141	-	1,141
Currency translation adjustment (net of taxes of \$349)	-	-	-	-	-	-	-	(647)	-	(647)
Less: reclassification adjustment for sale of foreign subsidiaries	-	-	-	-	-	-	-	2,941	-	2,941
Issuance of stock under stock option plan/other	10,356	-	-	-	92	-	68	-	-	-
Issuance of stock under bonus plan	10,294	-	(1,758)	(16)	103	-	-	-	17	-
BALANCE, MARCH 31, 2002	6,739,264	67	(548,186)	(9,086)	78,286	(82,227)	(123)	(2,888)	(236)	<u>\$(68,346)</u>
Net income	-	-	-	-	-	9,234	-	-	-	<u>\$ 9,234</u>
Other comprehensive income:										
Currency translation adjustment	-	-	-	-	-	-	-	(86)	-	(86)
Less: reclassification adjustment on deferred tax on currency translation adjustment	-	-	-	-	-	-	-	(1,555)	-	(1,555)
Less: reclassification adjustment for sale of foreign subsidiaries	-	-	-	-	-	-	-	4,529	-	4,529
Loan repayment by officer	-	-	-	-	-	-	123	-	-	-
Warrant adjustment	-	-	-	-	(4,547)	-	-	-	-	-
Issuance of stock from warrant exercise	256,561	3	-	-	393	-	-	-	-	-
Issuance of stock under stock option plan/other	14,066	-	(5,138)	(56)	63	-	-	-	-	-
Issuance of stock under bonus plan	8,408	-	(7,640)	(98)	88	-	-	-	193	-
BALANCE, MARCH 31, 2003	7,018,299	70	(560,964)	(9,240)	74,283	(72,993)	-	-	(43)	<u>\$ 12,122</u>
Net income and other comprehensive income	-	-	-	-	-	1,744	-	-	-	<u>\$ 1,744</u>
Warrant put option expired	-	-	-	-	2,184	-	-	-	-	-
Issuance of stock under stock option plan/other	7,400	-	-	-	38	-	-	-	-	-
Issuance of stock under compensation and bonus plan	33,408	1	-	-	223	-	-	-	(54)	-
BALANCE, MARCH 31, 2004	7,059,107	\$71	(560,964)	\$(9,240)	\$76,728	\$(71,249)	\$ -	\$ -	\$(97)	<u>\$ 1,744</u>

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

## 1. SUMMARY OF ACCOUNTING PRINCIPLES

**Business** – The fiscal year for TransTechnology Corporation (the “Company”) ends on March 31. Accordingly, all references to years in the Notes to Consolidated Financial Statements refer to the fiscal year ended March 31 of the indicated year unless otherwise specified.

As a result of a restructuring program completed by the Company during 2003, the Company has reclassified all of the business units that made up its Specialty Fastener segment in prior years and its Aerospace Rivet Manufacturers Corporation and Norco, Inc. businesses, which had been included in its Aerospace Products segment, as discontinued operations. All references related to ongoing operations, or the Company, refer only to continuing operations, which consists of the Breeze-Eastern business.

The Company, which has one manufacturing facility in the United States, develops, manufactures, sells and services a complete line of sophisticated lifting and restraining products, principally performance critical helicopter rescue hoist and cargo hook systems, winches and hoists for aircraft and weapons systems.

**Use of Estimates** – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in its consolidated financial statements and accompanying notes. These estimates are based on historical experience and information that is available to management about current events and actions the Company may take in the future. Significant items subject to estimates and assumptions include the carrying value of long-lived assets; valuation allowances for receivables, inventories and deferred tax assets; environmental liabilities; litigation contingencies and obligations related to employee benefit plans. Actual results could differ from those estimates.

**Principles of Consolidation** – The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Intercompany balances and transactions are eliminated in consolidation.

**Revenue Recognition** – Revenue is recognized at the later of 1) when products are shipped to customers, or 2) when title passes to customers.

**Cash and Cash Equivalents** – The Company considers all highly liquid investments with a maturity at date of acquisition of three months or less to be cash equivalents.

**Inventories** – Inventories are stated at the lower of cost or market. Cost is determined using the first-in, first-out method. Cost includes material, labor and manufacturing overhead costs.

**Property and Related Depreciation and Amortization** – Property is recorded at cost. Provisions for depreciation

are made on a straight-line basis over the estimated useful lives of depreciable assets ranging from three to thirty years. Depreciation expense for the years ended March 31, 2004, 2003 and 2002 was \$0.5 million, \$0.5 million and \$0.6 million, respectively. During 2002 the Company sold excess real estate realizing a gain of \$1.3 million that is included in other income.

**Earnings per Share (“EPS”)** – The computation of basic earnings per share is based on the weighted-average number of common shares outstanding. The computation of diluted earnings per share assumes the foregoing and, in addition, the exercise of all dilutive stock options using the treasury stock method.

The components of the denominator for basic earnings per common share and diluted earnings per common share are reconciled as follows:

	2004	2003	2002
Basic earnings per common share:			
Weighted-average common shares outstanding	6,658,000	6,303,000	6,181,000
Diluted earnings per common share:			
Weighted-average common shares outstanding	6,658,000	6,303,000	6,181,000
Stock options	21,000	-	-
Denominator for diluted earnings per common share	6,679,000	6,303,000	6,181,000

Options to purchase 230,135 shares of common stock at prices between \$8.84 and \$19.38 were outstanding during 2004 but were not included in the computation of diluted EPS because the options’ exercise prices were greater than the average market price of the common shares. Similarly, during 2003, options to purchase 311,411 shares of common stock at prices between \$8.84 and \$27.88 were outstanding but were not included in the computation of diluted EPS. During 2002, options to purchase 450,183 shares of common stock at prices between \$8.84 and \$27.88 were outstanding but were not included in the computation of diluted EPS.

**Research, Development and Engineering Costs** – Research and development costs and engineering costs, which are charged to the statements of consolidated operations when incurred, amounted to \$2.3 million, \$2.3 million and \$1.7 million in 2004, 2003 and 2002, respectively. Included in these amounts were expenditures of \$2.0 million, \$1.7 million and \$1.2 million in 2004, 2003 and 2002, respectively, which represent costs related to research and development activities.

**Income Taxes** – Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax bases. The Company

periodically assesses recoverability of deferred tax assets and provisions for valuation allowances are made as required.

**Financial Instruments** – The Company does not hold or issue financial instruments for trading purposes. The estimated liability relating to interest rate swap agreements was accrued during 2002. These agreements were terminated and settled in 2003.

**Stock-Based Compensation** – Statement of Financial Accounting Standards (“SFAS”) No. 123, “Accounting for Stock-Based Compensation,” encourages, but does not require, companies to record compensation cost for stock-based employee compensation plans at fair value. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” and related interpretations. Accordingly, the Company records expense in an amount equal to the excess, if any, of the quoted market price on the grant date over the option price.

The following table includes as reported and proforma information required by SFAS No. 148, “Accounting for Stock-Based Compensation—Transition and Disclosure.” Proforma information is based on the fair value method under SFAS No. 123 (in thousands except per share amounts):

	2004	2003	2002
Net income (loss)	\$ 1,744	\$ 9,234	\$(71,781)
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects	(119)	(224)	(660)
	<u>\$ 1,625</u>	<u>\$ 9,010</u>	<u>\$(72,441)</u>
Net income (loss) per share:			
Basic and diluted – as reported	\$ 0.26	\$ 1.47	\$(11.61)
Basic and diluted – proforma	<u>\$ 0.24</u>	<u>\$ 1.43</u>	<u>\$(11.72)</u>

**New Accounting Standards** – In May 2003, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 150, “Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity,” that improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. SFAS No. 150 requires that those instruments be classified as liabilities in statement of financial position. The adoption of this standard did not have any impact on the Company’s financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, “Amendment of Statement 133 on Derivative Instruments and Hedging Activities” that amends and clarifies accounting for derivative instruments, including certain derivative instruments

embedded in other contracts, and for hedging activities under Statement 133. With certain exceptions, SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designed after June 30, 2003. The adoption of this standard did not have any impact on the Company’s financial position or results of operations.

In December 2003, the FASB issued Interpretation No. 46R, a revision to Interpretation No. 46, “Consolidation of Variable Interest Entities”, which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. Interpretation No. 46R clarifies some of the provisions of Interpretation No. 46 and exempts certain entities from its requirements. Interpretation No. 46R is effective at the end of the first interim period ending March 15, 2004. The adoption of this statement did not have a material impact on the Company’s financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, “Accounting for Stock-Based Compensation — Transition and Disclosure” which amends SFAS No. 123. This statement provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation and amends the disclosure requirements of SFAS No. 123. The transition guidance and disclosure requirements are effective for fiscal years ending after December 15, 2002. The adoption of this statement did not have a material effect on the Company’s financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” This interpretation requires a guarantor to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. It also enhances guarantor’s disclosure requirements to be made in its interim and annual financial statements about its obligations under certain guarantees it has issued. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. In the normal course of business, the Company does not issue guarantees to third parties; accordingly, this interpretation will not have any effect on the Company’s financial position or results of operations.

In June 2001, the FASB issued SFAS No. 143, “Accounting for Asset Retirement Obligations,” effective for fiscal years beginning after June 15, 2002. This statement addresses the diverse accounting practices for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The adoption of this statement did not have any effect on the Company’s financial position or results of operations.

**Impairment of Long-Lived Assets** – Long-lived assets (excluding financial instruments and deferred tax assets) and certain identifiable intangibles with finite useful lives to be held and used are reviewed by the Company for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such circumstances include, but are not limited to, a significant decrease in the market value of an asset, a significant change in the extent or manner in which an asset is used or a significant physical change in an asset, a significant adverse change in legal factors or in the business climate that could affect the value of an asset, or an adverse action or assessment by a regulator. If a review for recoverability is necessary, the Company estimates the future cash flows expected to result from the use of the asset. In performing these estimates, the Company groups its assets at the lowest level for which there are identifiable cash flows. If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized. Otherwise, an impairment loss is not recognized. Any impairment loss recognized is measured as the excess of the carrying amount of the asset over the fair value of the asset.

## 2. DISCONTINUED OPERATIONS AND RESTRUCTURING

On January 19, 2001, the Company announced its intention to restructure and divest its cold-headed products (TCR), retaining ring (Seeger-Orbis, TransTechnology (GB), TT Brasil and TransTechnology Engineered Rings USA), hose clamp (Breeze Industrial and Pebra) and aerospace rivet (Aerospace Rivet Manufacturers Corp.) operations. In addition, on April 12, 2001, the Company announced that it would divest TransTechnology Engineered Components (TTEC), a manufacturer of spring steel engineered fasteners and headlight adjusters. For business segment reporting purposes, these above-mentioned business units, excluding ARM for 2002, have previously been classified as the “Specialty Fasteners Segment.” The Company has reclassified these business units as discontinued operations for all periods presented.

A portion of the Company’s interest expense for 2003 and 2002 has been allocated to discontinued operations based upon the net asset balances attributable to those operations. Interest expense allocated to discontinued operations was \$6.3 million and \$20.1 million in 2003 and 2002, respectively. Income taxes have been allocated to discontinued operations in 2003 and 2002 based on the estimated tax attributes of the income and assets of the underlying discontinued businesses.

On July 10, 2001, the Company sold its Breeze Industrial and Pebra hose clamp businesses to Industrial Growth Partners and members of Breeze Industrial’s management for \$46.2 million, which was paid in cash. In a related transaction, the Company sold the real estate occupied by Breeze Industrial to a quasi-governmental organization for \$2.0 million which the Company may, under certain circumstances, be required to repurchase for \$1.0 million in fis-

cal 2006. Proceeds from the sales were used to repay borrowings outstanding under the Company’s then current Credit Facility (the “Fleet Credit Facility”).

On December 5, 2001, the Company sold its TTEC businesses to a company formed by affiliates of Kohlberg & Company, LLC for \$98.5 million, of which \$96.0 million was cash and the balance the assumption of certain liabilities related to the purchased businesses. The cash proceeds of the sale were used to repay borrowings outstanding under the Fleet Credit Facility. In the fiscal quarter ended September 30, 2001, as part of its restructuring program, the Company reported a pre-tax asset impairment charge for TTEC in the amount of \$85.8 million to reduce the carrying value of these businesses to estimated fair market value. This noncash charge was specifically related to the write-down of goodwill. The sale proceeds of TTEC approximated its adjusted carrying value.

On February 21, 2002, the Company sold its Seeger-Orbis retaining ring business in Germany to Barnes Group Inc. for \$20.0 million cash. The net proceeds of the sale were used to repay borrowings outstanding under the Fleet Credit Facility.

On April 16, 2002, the Company sold its Aerospace Rivet Manufacturers Corporation subsidiary to Allfast Fastening Systems, Inc. for \$3.2 million cash. The net proceeds of the sale were used to repay borrowings outstanding under the Fleet Credit Facility.

On May 30, 2002, the Company completed the sale of substantially all of the net assets of its U.S. retaining ring business to SeaView Capital LLC for \$2.9 million of cash, a promissory note of \$0.8 million and warrants for 5% of the equity of the purchaser. The net proceeds of the sale were used to repay borrowings outstanding under the Fleet Credit Facility.

On July 16, 2002, the Company completed the recapitalization of TransTechnology (GB) Ltd., now known as Cirteq, Ltd., by selling 81% of its shares to a new entity controlled by local management for \$121 (one hundred twenty-one dollars). The Company also converted \$2.0 million of unsecured intercompany debt into a \$2.0 million loan secured by a first lien on Cirteq’s real property in Glusburn, England. In the third quarter of 2004, the Company recorded a pre-tax gain of \$0.9 million that is included in other income relating to the sale of the remaining 19% interest in Cirteq, Ltd. and the collection of the loan from Cirteq, Ltd.

On August 6, 2002, we completed the sale of all of the shares of TransTechnology Brasil, Ltda. for \$0.7 million, of which \$0.3 million was paid in cash and the balance in installment payments. We also will be paid \$0.3 million of intracompany debt due from the Brazilian unit. We used the net proceeds of the sale to repay borrowings outstanding under the Fleet Credit Facility.

On January 3, 2003, the Company completed the sale of TCR Corporation for cash consideration of \$10.0 million, plus the assumption of certain liabilities, to an affiliate of MidMark

Capital LLC. The net proceeds of the sale were used to repay borrowings outstanding under the New Senior Credit Facility (as defined in Note 7).

On February 24, 2003, the Company sold Norco, Inc. for \$51.0 million cash and a \$1.0 million reimbursement for certain income taxes payable as a result of the transaction to a wholly-owned subsidiary of TransDigm Inc. The net cash proceeds were used to retire senior debt under the New Senior Credit Facility and partially repay subordinated debt.

Net sales and income (losses) from the discontinued operations were as follows (in thousands):

	2003	2002
Net sales	\$ 48,146	\$ 185,888
Loss on disposal of discontinued businesses including provision for operating losses during phase out period	\$ -	\$ (126,236)
Income from sale of businesses and income from operations of discontinued businesses prior to phase out period	16,182	24,426
Income tax provision (benefit)	3,083	(32,259)
Net income (loss) from discontinued operations	\$ 13,099	\$ (69,551)

The 2003 gain was comprised of \$8.2 million of charges to reflect the amounts ultimately realized from the sales of discontinued businesses; \$7.0 million of actual operating income of the discontinued businesses; a gain of \$28.5 million from the sale of Norco, Inc.; \$6.3 million of allocated interest expense; \$0.2 million for the final settlement of interest rate swap contracts; and a noncash charge of \$4.6 million associated with the recognition of accumulated currency translation losses from the sale of the Brazilian operation. These gains and losses, which aggregated a net gain of \$16.2 million, were reduced by a tax provision of \$3.1 million. The 2002 loss was comprised of \$110.3 million of impairment charges related to reducing the carrying values of the discontinued businesses to their estimated net realizable values; \$12.0 million of actual operating income of the discontinued businesses through their expected divestiture dates; \$20.1 million of allocated interest expense; \$8.4 million from the write-off of capitalized loan fees and the mark-to-market of interest rate swaps; \$24.7 million of gains recognized on the sale of certain business units; and, \$0.2 million of other income or credits associated with the discontinued operations. These gains and losses, which aggregated a net loss of \$101.9 million, were reduced by a tax benefit of \$32.3 million.

In fiscal 2003 and 2002, the Company recognized charges of \$2.7 million and \$1.6 million, respectively, for severance and

other costs related to the corporate office restructuring, substantially all of which costs were paid by the end of each fiscal year.

### 3. INVENTORIES

Inventories at March 31, consisted of the following (in thousands):

	2004	2003
Finished goods	\$ 1	\$ 2
Work in process	7,037	6,105
Purchased and manufactured parts	13,411	13,576
Total	\$20,449	\$19,683

### 4. OTHER ASSETS

Other assets at March 31, consisted of the following (in thousands):

	2004	2003
Real estate held for sale	\$ 4,000	\$ 5,800
Other	7,614	9,758
Total	\$11,614	\$15,558

### 5. OTHER CURRENT LIABILITIES

Other current liabilities at March 31, consisted of the following (in thousands):

	2004	2003
Accrued interest	\$ 1,811	\$ 1,749
Customer advances	231	1,741
Obligations from divestitures	164	7,035
Accrued medical benefits cost	753	557
Other	1,241	3,921
Total	\$ 4,200	\$15,003

### 6. INCOME TAXES

The components of total income (loss) from operations (including continuing and discontinued operations) before income taxes were (in thousands):

	2004	2003	2002
Domestic	\$ 2,750	\$ 7,011	\$(86,453)
Foreign	-	1,732	(18,952)
Total	\$ 2,750	\$ 8,743	\$(105,405)

The provision (benefit) for income taxes is summarized below (in thousands):

	2004	2003	2002
Currently payable (receivable):			
Federal	\$ (396)	\$ (1,038)	\$ (9,372)
Foreign	1,062	-	46
State	40	1,599	400
	706	561	(8,926)
Deferred	300	(1,052)	(29,556)
Valuation allowance	-	-	4,857
	300	(1,052)	(24,699)
Total	\$ 1,006	\$ (491)	\$(33,625)

The provision (benefit) for income taxes is allocated between continuing and discontinued operations as summarized below (in thousands):

	2004	2003	2002
Continuing	\$ 1,006	\$ (3,574)	\$ (1,366)
Discontinued	-	3,083	(32,259)
Total	\$ 1,006	\$ (491)	\$ (33,625)

The consolidated effective tax rates for continuing operations differ from the federal statutory rates as follows:

	2004	2003	2002
Statutory federal rate	35.0%	(35.0%)	(35.0%)
State income taxes after federal income tax	1.0	-	0.6
Earnings of the foreign sales corporation	-	(0.9)	-
Gain on warrants	-	(9.4)	-
Amortization of purchase price and impairment not deductible for tax purposes	-	3.0	(0.3)
Other	0.6	(5.7)	(3.3)
Effective tax rate	36.6%	(48.0%)	(38.0%)

The following is an analysis of deferred income taxes (in thousands):

	2004	2003
Assets:		
Current:		
Bad debts	\$ 1,066	\$ 25
Employee benefit accruals	103	569
Inventory	558	524
Other	1,607	171
Total current	3,334	1,289
Noncurrent:		
Employee benefit accruals	497	(961)
Environmental	70	1,363
Accrued liabilities	(1,281)	(1,225)
Net operating loss carryforward	25,282	30,537
Other	1,981	998
Property	486	-
Total noncurrent	27,035	30,712
Total assets	\$ 30,369	\$ 32,001
Liabilities:		
Property	\$ -	\$ 1,332
Total liabilities	\$ -	\$ 1,332
Net deferred tax asset	\$ 30,369	\$ 30,669

The Company has federal and state net operating loss carryforwards of \$58.0 million and \$77.4 million, respectively, which will be available to offset taxable income during the carryforward period. The tax benefits of these items are reflected in the above analysis of deferred tax assets and liabilities. If not used, some of these carryforwards begin to expire in fiscal 2006 through fiscal 2024.

## 7. LONG-TERM DEBT PAYABLE TO BANKS AND OTHERS

Long-term debt payable to banks and others, including current maturities, at March 31 consisted of the following (in thousands):

	2004	2003
Senior Subordinated Notes - 19%	\$ 56,393	\$ 53,329
Other	158	237
	56,551	53,566
Less current maturities	79	79
Total long-term debt	\$ 56,472	\$ 53,487

**Credit Facilities** – At March 31, 2004, the Company had a senior credit facility consisting of an \$8.0 million asset-based revolving credit facility which was established in August 2002 (the “New Senior Credit Facility”) to refinance all remaining obligations outstanding under its prior senior credit facility. The New Senior Credit Facility was amended on August 5, 2003 and was amended again on January 30, 2004. The maturity date of this facility, as amended, is July 31, 2004. The current interest rate is approximately 5.0%. The New Senior Credit Facility is secured by all of the Company’s assets. The Company is in compliance with the provisions of the facility. There were no borrowings outstanding under the facility at March 31, 2004.

**Senior Subordinated Notes** – On August 30, 2000, the Company completed a private placement of \$75 million of senior subordinated notes (the “Notes”) and warrants to purchase shares of the Company’s common stock (the “Warrants”) to a group of institutional investors (collectively, the “Purchasers”). The Company used the proceeds of the private placement to retire, in full, a \$75 million bridge loan held by a group of lenders led by Fleet National Bank. The Notes, as amended in August 2002, are due on August 29, 2005 and bear interest at a rate of 18% per annum consisting of 13% cash interest on principal, payable quarterly, and 5% interest on principal, payable quarterly in “payment-in-kind” (“PIK”) promissory notes. The PIK portion of the interest rate increases 0.25% each quarter, commencing December 31, 2002 until the Notes are retired. The Company may prepay the Notes after August 29, 2001, at a premium initially of 9%, declining to 5%, 3% and 1% on each of the next succeeding anniversaries of that date. The Notes contain customary financial covenants and events of default, including a cross-default provision to the Company’s senior debt obligations. The Company is in compliance with the provisions of the Notes. At March 31, 2004, the principal balance outstanding on the Notes amounted to \$56.4 million, which included the original principal amount plus the PIK notes. At March 31, 2003, the Company reported redeemable common stock in the amount of \$1.3 million representing the per share put right (257,000 shares at \$5.00 per share) held by certain Purchasers who had exercised their Warrants and recorded a \$2.0 million noncash, non-taxable gain relating to the mark-to-market accounting of the Warrants as a derivative. The put right on approximately 211,000 shares

expired on June 24, 2003 and, accordingly, the Company reclassified in the first quarter of 2004, \$1.1 million from redeemable common stock to additional paid in capital with the remainder of the redeemable common stock being reclassified to long-term debt to reflect the exercise of the put by a Purchaser. Subsequent to the end of the first quarter of 2004, the Purchaser revoked its put exercise and that portion was reclassified to additional paid in capital in the second quarter. In addition, the put right on 171,041 Warrants expired and, accordingly, \$0.9 million representing the cash value of the put right on these Warrants was reclassified from a liability account to additional paid-in-capital in the first quarter of 2004. At March 31, 2004, there were 171,041 Warrants outstanding which are each convertible into common stock at the price of \$.01 per warrant. These Warrants are considered to be common stock equivalents for the purpose of calculating basic earnings per share at March 31, 2004.

Amortization of loan origination fees on the Credit Facilities and the Senior Subordinated Notes amounted to \$1.6 million, \$1.7 million and \$1.7 million in 2004, 2003 and 2002, respectively. The loan agreements prohibit the payment of dividends.

The Company has long-term debt maturities of \$0.1 million and \$56.5 million in fiscal 2005 and fiscal 2006, respectively.

## 8. OTHER LIABILITIES

Other liabilities at March 31 consisted of the following (in thousands):

	2004	2003
Environmental Reserves	\$5,557	5,813
Other	5,008	5,788
Total	<u>\$10,565</u>	<u>\$11,601</u>

## 9. STOCKHOLDERS' EQUITY AND EMPLOYEE/DIRECTOR STOCK OPTIONS

The Company maintains the amended and restated 1992 long-term incentive plan (the "1992 Plan"), the 1998 non-employee directors stock option plan (the "1998 Plan") and the 1999 long-term incentive plan (the "1999 Plan").

Under the terms of the 1999 plan, 300,000 of the Company's common shares may be granted as stock options or awarded as restricted stock to officers, directors and certain employees of the Company through July 2009. Under both the 1992 and 1999 Plans, option exercise prices equal the fair market value of the common shares at their grant dates. For grants made prior to May 1999, options expire not later than five years after the date of the grant. Options granted beginning in May 1999 to officers and employees expire not later than 10 years after

the date of the grant. Options granted to directors and to officers and employees with the annual cash bonus vest ratably over three years beginning one year after the date of the grant. Restricted stock is payable in equivalent number of common shares. The shares are distributable in a single installment and, with respect to officers and employees, restrictions lapse ratably over a three-year period from the date of the award, and with respect to directors, the restrictions lapse six months after the director ceases to be a member of the board of directors.

Under the terms of the 1998 Plan, non-employee directors are entitled to receive matching options for a) each share of the Company's common stock which they hold at the end of a 60-day period following initial election as a director, but not to exceed 25,000 shares, with the strike price of the option being the fair market value of the shares at their grant dates, and b) thereafter, for each share of the Company's common stock that they purchase on the open market, with the strike price of the option being the purchase price of the share, up to a maximum of 5,000 options in any twelve month period or 15,000 options over a three-year period. Options granted under the 1998 Plan vest on the first anniversary of the grant. Options expire not later than five years after the date of the grant.

The following table summarizes stock option activity over the past three years under the plans:

	Number of Shares	Weighted-Average Exercise Price
Outstanding at March 31, 2001	542,171	\$18.25
Granted	159,000	7.63
Exercised	(10,356)	8.84
Canceled or expired	<u>(150,268)</u>	18.86
Outstanding at March 31, 2002	540,547	16.30
Granted	-	-
Exercised	(14,066)	4.45
Canceled or expired	<u>(130,540)</u>	18.68
Outstanding at March 31, 2003	395,941	14.42
Granted	69,500	5.38
Exercised	(7,400)	5.11
Canceled or expired	<u>(99,491)</u>	23.32
Outstanding at March 31, 2004	<u>358,550</u>	10.39
Options exercisable at March 31, 2002	318,189	19.00
Options exercisable at March 31, 2003	286,446	16.88
Options exercisable at March 31, 2004	246,378	12.25

In 2004, 2003 and 2002 the Company awarded restricted stock totaling 33,408 shares, 8,408 shares and 10,294 shares, respectively. The weighted-average fair value of this restricted stock was \$6.69, \$10.15 and \$10.12 in 2004, 2003 and 2002, respectively. The expense recorded in 2004, 2003 and 2002 for restricted stock was \$170,000, \$88,000 and \$98,000, respectively.

The weighted-average Black-Scholes value per option granted in 2004 and 2002 was \$3.41 and \$4.22, respectively. No options were granted in 2003. The following assumptions were used in the Black-Scholes option pricing model for options granted in 2004 and 2002:

	2004	2002
Dividend yield	0.0%	0.0%
Volatility	56.6%	75.6%
Risk-free interest rate	3.1%	3.3%
Expected term of options (in years)	7.0	4.0

For options outstanding and exercisable at March 31, 2004, the exercise price ranges and average remaining lives were:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding at March 31, 2004	Weighted Average Remaining Life	Weighted Average Exercise Price	Number Exercisable at March 31, 2004	Weighted Average Exercise Price
\$ 5-10	256,500	7	\$ 7.21	144,328	\$ 7.91
15-20	<u>102,050</u>	4	<u>18.37</u>	<u>102,050</u>	<u>18.37</u>
	<u>358,550</u>	5	<u>\$10.39</u>	<u>246,378</u>	<u>\$ 12.25</u>

## 10. EMPLOYEE BENEFIT PLANS

The Company has a defined contribution plan covering all eligible employees. Contributions are based on certain percentages of an employee's eligible compensation. Expenses related to this plan were \$0.7 million, \$0.6 million and \$0.6 million in 2004, 2003 and 2002, respectively.

The Company provides postretirement benefits to certain union employees. The Company funds these benefits on a pay-as-you-go basis. On December 8, 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 was enacted that introduces a prescription drug benefit under Medicare as well as a subsidy to sponsors of retiree health care benefit plans. The Company has elected to defer the recognition of the Act until such time when the authoritative guidance is issued. Any measures of the accumulated postretirement benefit obligation or net periodic postretirement benefit cost in the Company's financial statements do not reflect the effect of the Act.

(In thousands)

Components of net periodic benefit cost:	Postretirement Benefits		
	Year Ended March 31,		
	2004	2003	2002
Interest cost	\$ 97	\$ 114	\$ 86
Amortization of net loss	97	51	53
Net periodic benefit cost	<u>\$ 194</u>	<u>\$ 165</u>	<u>\$ 139</u>

### Weighted-average assumption as of March 31:

Discount rate	5.00%	5.75%	7.25%
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### Change in benefit obligation:

	Postretirement Benefits	
	Year Ended March 31,	
	2004	2003
Benefit obligation at beginning of year	\$ 1,628	\$ 1,205
Interest cost	97	114
Actuarial loss	11	440
Benefits paid	(186)	(131)
Benefit obligation at end of year	<u>\$ 1,550</u>	<u>\$ 1,628</u>

### Reconciliation of funded status:

	Postretirement Benefits	
	Year Ended March 31,	
	2004	2003
Funded status	\$ (1,550)	\$ (1,628)
Unrecognized actuarial loss	561	648
Accrued liability	<u>\$ (989)</u>	<u>\$ (980)</u>

For measurement purposes, a 13.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2004 and 2003. The rate was assumed to decrease gradually to 4.75% by 2011 and remain at that level thereafter. Under the Plan, the actuarially determined effect of a one-percentage point change in the assumed health care cost trend would be as follows:

	One Percentage Point Increase	One Percentage Point Decrease
Effect on interest cost components	\$ 7	\$ (7)
Effect on accumulated postretirement benefit obligation	130	(114)

Included in the balance sheet are a noncurrent asset and a noncurrent liability in the amount of \$3.7 million relating to the pension plan of a divested company. These amounts represent the legal liability of the company under German law and the indemnification received from the buyer of the business for that liability.

## 11. FINANCIAL INSTRUMENTS

**Cash and Cash Equivalents** – The carrying amount reported in the balance sheet for cash and cash equivalents approximates its fair value.

**Accounts Receivable, Debt, Accounts Payable and Other Liabilities** – The carrying amounts of these items approximate their fair value.

**Concentration of Credit Risk** – The Company is subject to concentration of credit risk primarily with its trade and notes receivable. The Company grants credit to certain customers who meet pre-established credit requirements and generally requires no collateral from its customers. Estimates of potential credit losses are provided for in the Company's consolidated financial statements and are within management's expectations and industry averages. As of March 31, 2004, the Company had no other significant concentrations of risk.

## 12. COMMITMENTS

The Company and its subsidiaries have minimum rental commitments under noncancelable operating leases, primarily for leased equipment, as follows (in thousands):

2005	\$ 116
2006	115
2007	102
2008	35
2009	-
Total	\$ 368

Rent expense under operating leases for the years ended March 31, 2004, 2003 and 2002 was \$0.2 million, \$0.4 million and \$0.6 million, respectively.

## 13. CONTINGENCIES

**Environmental Matters** – The environmental cleanup plan presented by the Company during the fourth quarter of fiscal 2000 for a portion of a site in Pennsylvania which continues to be owned, although the related business has been sold, was approved during the third quarter of fiscal 2004. This plan was submitted pursuant to the Consent Order and Agreement with the Pennsylvania Department of Environmental Protection ("PaDEP") concluded in fiscal 1999. Pursuant to the Consent Order, upon its execution the Company paid \$0.2 million for past costs, future oversight expenses and in full settlement of claims made by PaDEP related to the environmental remediation of the site with an additional \$0.2 million paid in fiscal 2001. A second Consent Order was concluded with PaDEP in the third quarter of fiscal 2001 for another portion of the site, and a third Consent Order for the remainder of the site was concluded in the third quarter of fiscal 2003. An environmental cleanup plan for the portion of the site covered by the 2003 Consent Order was presented by the Company during the second quarter of fiscal 2004. The Company is also administering an agreed settlement with the Federal government under which the government pays 50% of the direct and indirect environmental response costs associated with a portion of the site. The Company has also reached an agreement in principle with the Federal government and is in the process of finalizing the necessary documentation under which the Federal government will pay 45% of the direct and indirect environmental response costs associated with another portion of the site. At March 31, 2004, the Company's cleanup reserve was \$2.0 million based on the net present value of future expected cleanup costs. The Company expects that remediation at the Pennsylvania site will not be completed for several years.

The Company also continues to participate in environmental assessments and remediation work at nine other locations, including former facilities of the Company. The Company estimates that its potential cost for implementing corrective action at these sites will not exceed \$0.5 million payable over the next several years, and has provided for the estimated costs in its accrual for environmental liabilities. In addition, in the first quarter of fiscal 2003, the Company entered into a consent order for a former facility in New York pursuant to which it is developing a remediation plan for review and approval by the New York Department of Environmental Conservation. The Company has established a reserve of \$2.4 million which it believes is adequate.

In addition, the Company has been named as a potentially responsible party in five environmental proceedings pending in several states in which it is alleged that the Company was a generator of waste that was sent to landfills and other treatment facilities and, as to one site, it is alleged that the Company was an owner or operator. Such properties generally relate to businesses which have been sold or discontinued. The Company estimates that its expected future costs, and its estimated proportional share of remedial work to be performed, associated with these proceedings will not exceed \$0.2 million and has provided for these estimated costs in its accrual for environmental liabilities.

**Litigation** – The Company is also engaged in various other legal proceedings incidental to its business. It is the opinion of management that, after taking into consideration information furnished by its counsel, these matters will have no material effect on the Company’s consolidated financial position or the results of the Company’s operations in future periods.

**United States Attorney Investigation** – As previously reported, the Company is subject to an investigation being conducted by the Newark, New Jersey office of the United States Attorney with respect to Breeze-Eastern’s overhaul and repair operations. The Company has, to date, cooperated fully and will continue to cooperate fully with the government’s investigation. In addition, the Board of Directors retained a fact finding and forensic accounting firm, The Bradlau Group of Morristown, New Jersey, to perform an independent review of the overhaul and repair operations of the Company’s Breeze-Eastern business. The Board of Directors has shared the preliminary and follow-on reports of the findings of this independent review with the United States Attorney’s office. The investigation has had no impact, and the Company does not expect an impact, on the Company’s ability to manufacture and ship products and meet customer delivery schedules. As of this date, the

United States Attorney’s investigation is continuing and the Company has not been made aware of any specific statutory or regulatory violations resulting from that investigation.

#### 14. SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates in only one business segment, the design, manufacture and sale of equipment for use in the aerospace industry. Approximately 60.7%, 55.1% and 47.3% of sales in 2004, 2003 and 2002 were derived from sales to the United States Government and its prime contractors.

Net sales below show the geographic location of customers (in thousands):

Location	2004	2003	2002
United States	\$42,052	\$33,110	\$26,264
Europe	15,860	9,238	13,367
Pacific and Far East	3,461	8,406	5,523
Other non-United States	3,233	4,242	2,632
Total	\$64,606	\$54,996	\$47,786

#### 15. UNAUDITED QUARTERLY FINANCIAL DATA

(In thousands except per share amounts)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
<b>2004</b>					
Net sales	\$16,119	\$ 16,333	\$ 16,679	\$ 15,475	\$ 64,606
Gross profit	7,347	6,758	6,997	7,001	28,103
Net income (loss)	\$ 694	\$ 508	\$ 664	\$ (122)	\$ 1,744
Basic earnings (loss) per share	\$ 0.10	\$ 0.08	\$ 0.10	\$ (0.02)	\$ 0.26
Diluted earnings (loss) per share	\$ 0.10	\$ 0.08	\$ 0.10	\$ (0.02)	\$ 0.26
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
<b>2003</b>					
Net sales	\$13,887	\$ 11,854	\$ 15,562	\$ 13,693	\$ 54,996
Gross profit	6,211	5,474	7,486	5,399	24,570
(Loss) income from continuing operations	(143)	(1,710)	1,437	(3,449)	(3,865)
Income (loss) from discontinued operations	(607)	(3,523)	(3,126)	20,355	13,099
Net income (loss)	\$ (750)	\$ (5,233)	\$ (1,689)	\$ 16,906	\$ 9,234
Basic earnings (loss) per share:					
(Loss) income from continuing operations	\$ (0.02)	\$ (0.28)	\$ 0.23	\$ (0.52)	\$ (0.61)
Income (loss) from discontinued operations	(0.10)	(0.57)	(0.51)	3.07	2.08
Net income (loss) per share	\$ (0.12)	\$ (0.85)	\$ (0.28)	\$ 2.55	\$ 1.47
Diluted (loss) earnings per share:					
(Loss) income from continuing operations	\$ (0.02)	\$ (0.28)	\$ 0.23	\$ (0.52)	\$ (0.61)
Income (loss) from discontinued operations	(0.10)	(0.57)	(0.50)	3.07	2.08
Diluted income (loss) per share	\$ (0.12)	\$ (0.85)	\$ (0.27)	\$ 2.55	\$ 1.47

# Management's Discussion and Analysis of Financial Condition and Results of Operations

## FORWARD-LOOKING STATEMENTS

Certain statements in this Annual Report constitute "forward-looking statements" within the meaning of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended (the "Acts"). Any statements contained herein that are not statements of historical fact are deemed to be forward-looking statements.

The forward-looking statements in this Annual Report are based on current beliefs, estimates and assumptions concerning the operations, future results and prospects of the Company. As actual operations and results may materially differ from those assumed in forward-looking statements, there is no assurance that forward-looking statements will prove to be accurate. Forward-looking statements are subject to the safe harbors created in the Acts.

Any number of factors could affect future operations and results, including, without limitation, the results of audits and inquiries into the Company's business practices; the Company's ability to complete the refinancing of its Senior and Subordinated Credit Facilities on terms and conditions acceptable to the Company; the Company's ability to be profitable with a smaller and less diverse base of operations that will generate less revenue; the Company's ability to satisfy the listing requirements of the NYSE or any other national exchange on which its shares are or will be listed or otherwise provide a trading venue for its shares; the value of replacement operations, if any; determination by the Company to dispose of additional existing assets; general industry and economic conditions; events impacting the U.S. and world financial markets and economies; interest rate trends; capital requirements; competition from other companies, changes in applicable laws, rules and regulations affecting the Company in the locations in which it conducts its business; the availability of equity and/or debt financing in the amounts and on the terms necessary to support the Company's future business; and those specific risks that are discussed in the Company's previously filed Annual Report on Form 10-K for the fiscal year ended March 31, 2004.

The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of new information or future events.

## GENERAL

We design, develop and manufacture sophisticated lifting equipment for specialty aerospace and defense applications. With over 50% of the global market, we have long been recognized as the world's largest designer and leading supplier of performance-critical rescue hoists and cargo-hook systems. We also manufacture weapons-handling systems, cargo winches, tie-down equip-

ment and tow-hook assemblies. Marketed under the trade name "Breeze-Eastern," our products are designed to be efficient and reliable in extreme operating conditions. Our equipment is used to complete rescue operations and military insertion/extraction operations, move and transport cargo, and load weapons onto aircraft and ground-based launching systems.

Beginning in fiscal 2001, we implemented a restructuring plan to focus our resources and capital on our aerospace and defense products business and exit the specialty fastener segment. On February 24, 2003, we completed the sale of the business and substantially all of the assets of our subsidiary, Norco, Inc., to Marathon Power Technologies Company, a division of TransDigm Inc., for cash consideration of \$51.0 million, subject to post-closing adjustments. This transaction completed our divestiture program. As a result, our discontinued operations for fiscal 2003 and 2002 include Norco, Inc. and all of the operations related to our Specialty Fastener segment, including the TransTechnology Engineered Rings retaining rings businesses, Aerospace Rivet Manufacturers Corp. and TCR Corporation. Of the operations included in discontinued operations prior to fiscal 2003, only the operations of TransTechnology Engineered Rings USA, Inc., TransTechnology (GB) Limited, TransTechnology Brasil Ltda., Aerospace Rivet Manufacturers Corporation, TCR Corporation and Norco, Inc. were carried into fiscal 2003.

All discussions related to our ongoing operations, or to TransTechnology Corporation, which include our results of operations, refer only to continuing operations, which consists of our Breeze-Eastern business. We discuss our discontinued operations separately under the heading — "Divestitures and Discontinued Operations."

All references to years in this Management's Discussion and Analysis of Financial Condition and Results of Operations refer to the fiscal year ended March 31 of the indicated year unless otherwise specified.

As previously reported, we are subject to an investigation being conducted by the Newark, New Jersey office of the United States Attorney with respect to Breeze-Eastern's overhaul and repair operations. We have, to date, cooperated fully and will continue to cooperate fully with the government's investigation. In addition, the Board of Directors retained a fact finding and forensic accounting firm, The Bradlau Group of Morristown, New Jersey, to perform an independent review of the overhaul and repair operations of our Breeze-Eastern business. The Board of Directors has shared the preliminary and follow-on reports of the findings of this independent review with the United States Attorney's office. The investigation has had no impact, and we do not expect an impact, on our ability to manufacture and ship products and meet customer delivery schedules. As of this date, the United States Attorney's

investigation is continuing and we have not been made aware of any specific statutory or regulatory violations resulting from that investigation.

## CRITICAL ACCOUNTING POLICIES

**Revenue Recognition.** We recognize revenue at the later of 1) when products are shipped to customers or 2) when title passes to customers.

**Inventory.** We purchase materials to manufacture components for use in our products and for use by our engineering, repair and overhaul business. Our decision to purchase a set quantity of a particular item is influenced by several factors including current and projected cost, future estimated availability, lead time for production of the materials, existing and projected contracts to produce certain items and the estimated needs for our repair and overhaul business.

We value our inventories using the lower of cost or market on a first-in first-out (FIFO) basis. We reduce the carrying amount of these inventories to net realizable value based on our assessment of inventory that is considered excess or obsolete using a formula based on firm sales orders and historical usage. Since all of our products are produced to meet firm sales orders, our focus for reserves is on the purchased and manufactured parts.

**Environmental Reserves.** We provide for environmental reserves when, after consultation with our internal and external counsel and other environmental consultants, we determine that a liability is both probable and estimable. In many cases, we do not fix or cap the liability for a particular site when we first record it. Factors that affect the recorded amount of the liability in future years include our participation percentage due to a settlement by, or bankruptcy of, other potentially responsible parties, a change in the environmental laws requiring more stringent requirements, a change in the estimate of future costs that will be incurred to remediate the site, changes in technology related to environmental remediation and appropriate discount factors to reflect the net present value of expected expenditures.

We discuss current estimated exposure to environmental claims under the caption — “Environmental Matters.”

**Financial Derivatives.** Until July 5, 2002, we had outstanding interest rate swaps in association with our prior senior credit agreement. We valued these swaps using estimates based on then-prevailing interest rates and the amount we were required to pay was impacted significantly by changes in interest rates. We no longer hold any such agreements. Additionally, we were required to treat our outstanding warrants as financial derivatives and mark these securities to market at the end of each accounting period, resulting in the recognition of a gain or loss in each period. This mark-to-market requirement terminated at the end of the first quarter of fiscal 2004 as the put feature causing the warrants to be treated as derivatives expired during that period.

**Deferred Tax Assets.** This asset, for which no valuation allowance was needed, represents income tax benefits expected to be realized in the future, primarily as a result of the use of net operating loss carry-forwards. Because we expect to generate adequate amounts of taxable income prior to the expiration of the tax loss carry-forwards in 2006 through 2024, no valuation allowance is considered necessary. If we do not generate adequate taxable earnings, some or all of our deferred tax assets may not be realized. Additionally, changes to the federal and state income tax laws also could impact our ability to use the net operating loss carryforwards. The State of New Jersey, in response to a budget crisis, has suspended through fiscal 2004 the ability of a corporation to use a net operating loss carryforward against taxable income earned in the state. As a result, we are required to pay New Jersey income taxes (if any) for fiscal years 2003 and 2004 in spite of losses being carried forward. It is possible that the State of New Jersey could extend the suspension.

**Impairment of Long-Lived Assets.** Long-lived assets (excluding financial instruments and deferred tax assets) and certain identifiable intangibles with finite useful lives to be held and used are reviewed by us for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Such circumstances include, but are not limited to, a significant decrease in the market value of an asset, a significant change in the extent or manner in which an asset is used or a significant physical change in an asset, a significant adverse change in legal factors or in the business climate that could affect the value of an asset, or an adverse action or assessment by a regulator. If a review for recoverability is necessary, we estimate the future cash flows expected to result from the use of the asset. In performing these estimates, we group our assets at the lowest level for which there are identifiable cash flows (including divestitures of certain businesses in prior years). If the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount of the asset, an impairment loss is recognized. Otherwise, an impairment loss is not recognized. Any impairment loss recognized is measured as the excess of carrying amount of the asset over the fair value of the asset.

## RESULTS OF OPERATIONS

### **Fiscal 2004 Compared to Fiscal 2003**

**Net sales.** Our sales increased to \$64.6 million for fiscal 2004, a 17% increase over sales of \$55.0 million for fiscal 2003. This increase in sales is the result of higher shipments of rescue hoists and cargo hooks for military and civil rescue agencies and shipments of our HLU-196 Bomb Hoist to the U.S. Navy. The HLU-196 Bomb Hoist is a newly developed product for which we were under contract to the U.S. Navy to deliver approximately 550 units with 13 units remaining which will be shipped in the first quarter of fiscal 2005.

*Gross profit.* Gross profit increased 14% to \$28.1 million for fiscal 2004 from \$24.6 million for fiscal 2003. Generally, repair and overhaul services and spare parts sales have higher gross margins than sales of new equipment or engineering services. Notwithstanding improved gross margins realized in fiscal 2004 for new equipment versus 2003, the change in product mix to one that was more heavily weighted in favor of new equipment led to a decrease in gross margin to 43.5% in fiscal 2004 from 44.7% in fiscal 2003. Generally, we cannot predict changes in our product mix between aftermarket sales and new equipment sales for any given period because the changes result primarily from the timing of our customers' orders, over which we have little control.

*General, administrative and selling expenses.* General, administrative and selling expenses decreased 8% to \$16.2 million in fiscal 2004 from \$17.6 million in fiscal 2003. This decrease was primarily due to lower corporate office expenses resulting from the completion of the restructuring of the corporate office that began in the fourth quarter of fiscal 2001. This decrease was offset partially by approximately \$1.0 million of legal and other costs associated with the ongoing investigation by the Newark, New Jersey office of the United States Attorney of our overhaul and repair operations

*Operating income.* Operating income (gross profit less general, administrative and selling expenses) increased 71% to \$11.9 million in fiscal 2004 from \$7.0 million in fiscal 2003. This increase mainly was due to higher sales volume, the benefit of spreading fixed costs over a larger sales volume and the reduction in corporate office expenses.

*Interest expense.* Interest expense increased \$1.2 million to \$10.4 million in fiscal 2004 from \$9.2 million in fiscal 2003 as a result of the allocation formula we used to apportion interest expense between continuing and discontinued operations in fiscal 2003. We based this allocation formula for fiscal 2003 upon the net asset balances attributable to continuing and discontinued operations. Total interest expense for fiscal 2004 decreased \$5.0 million to \$10.4 million from \$15.4 million for fiscal 2003 due to the retirement of debt with the proceeds from divestitures and other internally generated sources of cash.

*Interest and other income.* In fiscal 2004 we recorded a pre-tax gain of \$0.9 million relating to the sale of our remaining 19% interest in Cirteq, Ltd. and the collection of a note from Cirteq, Ltd. There was no such transaction in fiscal 2003.

*Forbearance fees.* During fiscal 2004, we incurred no expense for forbearance fees versus the \$0.8 million we paid in fiscal 2003 to our lenders under our prior senior credit agreement in exchange for their agreement not to pursue any actions against us for violating certain financial covenants. The elimination of this expense was the result of the refinancing of our prior senior credit agreement in August 2002, which cured all defaults and ended the forbearance agreements.

*Corporate office restructuring charge.* In fiscal 2003 we recognized a \$2.7 million charge associated with severance and other costs related to the elimination of several positions and restructuring in our corporate office, all of which was paid in fiscal 2003 and 2004. There was no such charge in fiscal 2004.

*Unrealized gain on warrants.* As we discuss in Note 7 to the financial statements included in this report, the warrants associated with our senior subordinated notes due 2006 were deemed to be derivative financial instruments for purposes of U.S. generally accepted accounting principles at the end of fiscal 2003. As required by those principles, changes in the value of our share price between August 7, 2002 and the end of fiscal 2003 resulted in our recognizing a noncash, non-taxable gain of \$2.0 million during fiscal 2003. We recognized no similar gain or loss in fiscal 2004.

*Net income.* We earned net income of \$1.7 million in fiscal 2004, versus net income of \$9.2 million (including a gain from discontinued operations of \$13.1 million — see "Divestitures and Discontinued Operations") in fiscal 2003, which primarily resulted from the reasons discussed above.

*New orders.* New orders received in fiscal 2004 totaled \$59.4 million, which represents a 12% decrease from new orders of \$67.3 million in fiscal 2003. The rescue hoist and cargo winch product line was particularly strong in fiscal 2003 and accounted for virtually all of the decrease in fiscal 2004. Increases in orders for cargo hooks and overhaul and repair were offset by decreases in spares orders and engineering. Generally, new equipment sales are the subject of high-value, long-term contracts, while repair, overhaul and spare parts sales have much shorter lead times and a less predictable order pattern.

*Backlog.* Backlog at March 31, 2004 was \$41.0 million, down \$5.2 million from \$46.2 million at March 31, 2003. The decrease in the backlog is primarily attributable to shipments of the HLU-196 Bomb Hoist for the U. S. Navy mentioned above. We measure backlog by the amount of products or services that our customers have committed by contract to purchase from us as of a given date. Our book to bill ratio for fiscal 2004 was 0.92, compared to 1.22 for fiscal 2003. Cancellations of purchase orders or reductions of product quantities in existing contracts could substantially and materially reduce our backlog. Therefore, our backlog may not represent the actual amount of shipments or sales for any future period.

### ***Fiscal 2003 Compared to Fiscal 2002***

*Net sales.* Our sales increased to \$55.0 million for fiscal 2003, a 15% increase over sales of \$47.8 million for fiscal 2002. This increase in sales was the result of higher shipments of cargo hooks and weapons handling equipment for military and civil agencies, as well as increases in sales of spare parts, repair and overhaul of equipment already in the field and the

initial shipments of our HLU-196 Bomb Hoist to the U.S. Navy. The HLU-196 Bomb Hoist is a newly developed product for which we are under contract to the U.S. Navy to deliver approximately 550 units through fiscal 2004.

*Gross profit.* Gross profit increased 18% to \$24.6 million for fiscal 2003 from \$20.9 million for fiscal 2002. Generally, repair and overhaul services and spare parts sales have higher gross margins than sales of new equipment or engineering services. As a result of a sales mix that was more heavily weighted in favor of aftermarket sales due to the timing of customer orders, we recorded slightly higher gross margins for fiscal 2003. These improvements in product mix, combined with fixed-cost absorption on a generally higher sales volume led to an increase in gross margin to 44.7% in fiscal 2003 from 43.7% in fiscal 2002. These margin improvements from product mix, however, were partially offset by lower than normal gross margins on the HLU-196 Bomb Hoist, a product that was shipped for the first time during the third quarter of fiscal 2003. While the gross margins recognized on the initial shipments of the HLU-196 were lower than historical gross margins, they were higher than the budgeted gross margins due to the realization of manufacturing efficiencies not originally expected in the initial production lots. As a result of the lower gross margins experienced on the HLU-196, we expect future gross margins to be lower than those historically reported. Generally, we cannot predict changes in our product mix between aftermarket sales and new equipment sales for any given period because the changes result primarily from the timing of our customers' orders, over which we have little control.

*General, administrative and selling expenses.* General, administrative and selling expenses increased 4.7% to \$17.6 million in fiscal 2003 from \$16.8 million in fiscal 2002. This increase was primarily due to higher general, administrative and selling expenses due to our higher sales volume and a significant increase in the cost of aircraft product liability insurance, the write-off of \$0.7 million of costs associated with our efforts to restructure the balance sheet, and a provision of \$0.4 million associated with a product liability claim from a business sold several years ago offset by \$1.2 million on a 14% reduction in corporate office expense. The decrease in corporate office expenses during fiscal 2003 was primarily due to the restructuring of the corporate office that began in the fourth quarter of fiscal 2001.

*Operating income.* Operating income increased 71% to \$7.0 million in fiscal 2003 from \$4.1 million in fiscal 2002. This increase mainly was due to a more favorable mix of repair, overhaul and spare parts business, a higher sales volume, the benefit of spreading fixed costs over a larger sales volume and the reduction in corporate office expenses.

*Interest expense.* Interest expense increased \$4.2 million to \$9.2 million in fiscal 2003 from \$4.9 million in fiscal 2002 as

a result of the allocation formula we use to apportion interest expense between continuing and discontinued operations. We base this allocation formula upon the net asset balances attributable to continuing and discontinued operations. Total interest expense for fiscal 2003 decreased \$9.6 million to \$15.4 million from \$25.1 million for fiscal 2002 due to the retirement of debt with the proceeds from divestitures and other internally generated sources of cash. Assets held for sale also were reduced substantially, however, causing a higher percentage of assets to be allocated to continuing operations in fiscal 2003 compared to fiscal 2002, which resulted in an increased allocation of interest expense to continuing operations in fiscal 2003. The sale of our Norco subsidiary in February 2003 completed our divestiture program and, accordingly, all interest expense is now charged to continuing operations.

*Interest and other income.* In March 2002, we sold excess real estate and recorded a pre-tax gain of \$1.3 million. There was no such transaction in fiscal 2003.

*Forbearance fees.* During fiscal 2003, we incurred an expense of \$0.8 million for forbearance fees we paid to our lenders under our prior senior credit agreement in exchange for their agreement not to pursue any actions against us for violating certain financial covenants. In fiscal 2002, we incurred \$2.7 million of such expenses. The reduction in these expenses was the result of lower overall levels of debt during the current fiscal year and the refinancing of our prior senior credit agreement in August 2002, which cured all defaults and ended the forbearance agreements.

*Corporate office restructuring charge.* In fiscal 2003 we recognized a \$2.7 million charge associated with severance and other costs related to the elimination of several positions and restructuring in our corporate office, 90% of which was paid by the end of the first quarter of 2004. In fiscal 2002, we recognized a \$1.6 million charge associated with the restructuring of our corporate office, related primarily to severance costs following the elimination of several positions, all of which amounts have been paid.

*Unrealized gain on warrants.* As we discuss in Note 7 to the financial statements included in this report, the warrants associated with our senior subordinated notes due 2006 were deemed to be derivative financial instruments for purposes of U.S. generally accepted accounting principles in fiscal 2003. As required by those principles, changes in the value of our share price between August 7, 2002 and the end of fiscal 2003 resulted in our recognizing a noncash, non-taxable gain of \$2.0 million during fiscal 2003. We recognized no similar gain or loss in fiscal 2002. As the put feature of the warrants expired during the first quarter of fiscal 2004, no future gains or losses on the warrants were recognized.

*Net income.* We earned net income of \$9.2 million in fiscal 2003, versus a loss of \$71.8 million in fiscal 2002, which primarily resulted from the reasons discussed above.

*New orders.* New orders received in fiscal 2003 totaled \$67.3 million, which represents a 28% increase from new orders of \$52.4 million in fiscal 2002. The rescue hoist and cargo winch product line was particularly strong, accounting for \$14.3 million of the increase. We derived a significant portion of fiscal 2003 orders from long-term contracts. Generally, new equipment sales are the subject of high-value, long-term contracts, while repair, overhaul and spare parts sales have much shorter lead times and a less predictable order pattern.

*Backlog.* Backlog at March 31, 2003 was \$46.2 million, up \$12.4 million from \$33.8 million at March 31, 2002. We measure backlog by the amount of products or services that our customers have committed by contract to purchase from us as of a given date. Our book to bill ratio for fiscal 2003 was 1.22, compared to 1.10 for fiscal 2002. Cancellations of purchase orders or reductions of product quantities in existing contracts could substantially and materially reduce our backlog. Therefore, our backlog may not represent the actual amount of shipments or sales for any future period.

### ***Liquidity and Capital Resources***

Our liquidity requirements depend on a number of factors, many of which are beyond our control, including the timing of production under our long-term contracts with the U.S. Government. Although we have infrequently received payments on these government contracts based on performance milestones, as is the case with our contract with the U.S. Navy for the HLU-196 Bomb Hoist, our working capital needs fluctuate between periods as a result of changes in program status and the timing of payments by program. Additionally, as our sales are generally made on the basis of individual purchase orders, our liquidity requirements vary based on the timing and volume of these orders.

Our restructuring and divestiture program has had a substantial impact upon our financial condition through March 31, 2004, as we reduced debt with the proceeds from the divestitures and lowered costs as a result of the corporate office restructuring. At March 31, 2004 and 2003, there was no indebtedness outstanding under our Senior Credit Facility. The loan agreements prohibit the payment of dividends.

As previously reported, the New York Stock Exchange (NYSE) has notified us that the Company has fallen below the NYSE continued listing standards requiring total market capitalization of not less than \$50 million over a 30-day trading period and total stockholders' equity of not less than \$50 million. We have submitted to the NYSE a plan to comply with the listing standards, which was accepted by the NYSE on July 7, 2003. The Company periodically updates the NYSE on developments with respect to the plan. In the event of delisting from the NYSE, we believe an alternate trading venue would be available.

### ***Working Capital***

Our working capital at March 31, 2004, was \$22.2 million, compared to \$11.2 million at the beginning of fiscal 2004. The ratio of current assets to current liabilities was 2.6 to 1.0 at March 31, 2004, compared to 1.4 to 1.0 at the beginning of fiscal 2004.

Working capital changes during fiscal 2004 resulted from an increase in accounts receivable of \$2.0 million, an increase in inventories of \$0.8 million, a decrease in prepaid expenses of \$0.5 million and an increase in real estate held for sale of \$1.4 million. The increase in accounts receivable was due to strong shipments in March of fiscal 2004 versus the same month in fiscal 2003. The increase in inventory was largely due to the purchase of long lead time materials and the manufacture of work in progress needed to fulfill customers' long-term purchase orders. The decrease in prepaid expenses was due primarily to the receipt of an escrow deposit related to a divestiture. The increase in real estate held for sale is due to a pending sale of the land and building retained from a previous divestiture. The number of days that sales were outstanding in accounts receivable increased to 35.2 days at March 31, 2004, from 31.8 days at March 31, 2003. Inventory turnover improved to 1.79 turns from 1.55 turns over the same time period. Current liabilities decreased \$11.4 million, primarily due to the payment of state income taxes relating to the sale of Norco, Inc. of \$2.2 million, off-set by an increase of \$1.1 million for income taxes due resulting from the disposition of a former foreign affiliate, payments due to the corporate office restructuring of \$0.8 million, settlement of obligations from divestitures of \$7.5 million, reduction in customer advances of \$1.5 million and other items of \$0.5 million.

### ***Capital Expenditures***

Our capital expenditures were \$0.5 million for fiscal 2004, compared to \$0.6 million for fiscal 2003. The Company initiated the implementation of a new enterprise resource planning system late in fiscal 2004 and expects to complete the project in early fiscal 2006. In fiscal 2005, total capital expenditures are expected to be in a range of \$2.6 million to \$3.3 million.

### ***Senior Credit Facility***

At March 31, 2004, we had a senior credit facility consisting of an \$8.0 million asset based revolving credit facility which was established in August 2002 (the "New Senior Credit Facility") to refinance all remaining obligations outstanding under our prior senior credit facility. The New Senior Credit Facility was amended on August 5, 2003 and was amended again on January 30, 2004. The maturity date of this facility, as amended, is July 31, 2004. The current interest rate is approximately 5.0%. The New Senior Credit Facility is secured by all of our assets. We are in compliance with the provisions of the facility. There were no borrowings outstanding under the facility at March 31, 2004.

### **Senior Subordinated Notes**

On August 30, 2000, we completed a private placement of \$75 million of senior subordinated notes (the “Notes”) and warrants to purchase shares of our common stock (the “Warrants”) to a group of institutional investors (collectively, the “Purchasers”). We used the proceeds of the private placement to retire, in full, a \$75 million bridge loan held by a group of lenders led by Fleet National Bank. The Notes, as amended in August 2002, are due on August 29, 2005 and bear interest at a rate of 18% per annum consisting of 13% cash interest on principal, payable quarterly, and 5% interest on principal, payable quarterly in “payment-in-kind” (“PIK”) promissory notes. The PIK portion of the interest rate increases 0.25% each quarter, commencing December 31, 2002 until the Notes are retired. We may prepay the Notes after August 29, 2001, at a premium initially of 9%, declining to 5%, 3% and 1% on each of the next succeeding anniversaries of that date. The Notes contain customary financial covenants and events of default, including a cross-default provision to our senior debt obligations. We are in compliance with the provisions of the Notes. At March 31, 2004, the principal balance outstanding on the Notes amounted to \$56.4 million, which included the original principal amount plus the PIK notes. At March 31, 2003, we reported redeemable common stock in the amount of \$1.3 million representing the per share put right (257,000 shares at \$5.00 per share) held by certain Purchasers who had exercised their Warrants and recorded a \$2.0 million noncash, non-taxable gain relating to the mark-to-market accounting of the Warrants as a derivative. The put right on approximately 211,000 shares expired on June 24, 2003 and, accordingly, we reclassified in the first quarter of 2004, \$1.1 million from redeemable common stock to additional paid in capital with the remainder of the redeemable common stock being reclassified to long-term debt to reflect the exercise of the put by a Purchaser. Subsequent to the end of the first quarter of 2004, the Purchaser revoked its put exercise and that portion was reclassified to additional paid-in capital in the second quarter. In addition, the put right on 171,041 Warrants expired and, accordingly, \$0.9 million representing the cash value of the put right on these Warrants was reclassified from a liability account to additional paid-in capital in the first quarter of 2004. At March 31, 2004, there were 171,041 Warrants outstanding which are each convertible into common stock at the price of \$.01 per warrant. These Warrants are considered to be common stock equivalents for the purpose of calculating basic earnings per share at March 31, 2004.

We have long-term debt maturities of \$0.1 million and \$56.5 million in fiscal 2005 and fiscal 2006, respectively.

Our operations require significant amounts of cash, and we may be required to seek additional capital, whether from selling equity or borrowing money, for the future growth and development of our business or to fund our operations and

inventory, particularly in the event of a market downturn. Although currently we have the ability to borrow additional sums under the New Senior Credit Facility, this facility contains a borrowing base provision and financial covenants which may limit the amount we can borrow. Also, while we continue to have on-going discussions with prospective lenders, we may not be able to replace or renew the New Senior Credit Facility upon its expiration on terms that are favorable to us. In addition, a number of factors could affect our ability to access debt or equity financing, including our financial strength and credit rating, the financial market’s confidence in our management team and financial reporting, general economic conditions, the conditions in the defense and aerospace industries and overall capital market conditions.

Even if available, additional financing could be costly or have adverse consequences. If we raise additional funds by issuing stock, dilution to stockholders may result. If we raise additional funds by incurring debt, we will incur increased debt servicing costs and may become subject to additional restrictive financial and other covenants. We can give no assurance as to the terms or availability of additional capital. If we were not successful in obtaining sufficient capital, it could reduce our sales and earnings and adversely impact our financial position and we may not be able to expand or operate our business as planned.

### **TAX BENEFITS FROM NET OPERATING LOSSES**

At March 31, 2004, we had federal and state net operating loss carryforwards, or NOLs, of approximately \$58.0 million and \$77.4 million, respectively, which are due to expire in fiscal 2006 through fiscal 2024. These NOLs may be used to offset future taxable income through their respective expiration dates and thereby reduce or eliminate our federal and state income taxes otherwise payable. The Internal Revenue Code of 1986, as amended (the “Code”) imposes significant limitations on the utilization of NOLs in the event of an “ownership change” as defined under section 382 of the Code (the “Section 382 Limitation”). The Section 382 Limitation is an annual limitation on the amount of pre-ownership NOLs that a corporation may use to offset its post-ownership change income. The Section 382 Limitation is calculated by multiplying the value of a corporation’s stock immediately before an ownership change by the long-term tax-exempt rate (as published by the Internal Revenue Service). Generally, an ownership change occurs with respect to a corporation if the aggregate increase in the percentage of stock ownership by value of that corporation by one or more 5% shareholders (including specified groups of shareholders who in the aggregate own at least 5% of that corporation’s stock) exceeds 50 percentage points over a three-year testing period. We believe that we have not gone through an ownership change that would cause our NOLs to be subject to the Section 382 Limitation.

## DIVESTITURES AND DISCONTINUED OPERATIONS

During fiscal 2001, we implemented a restructuring plan to focus our resources and capital on our aerospace and defense products business and exit the specialty fastener segment. As a result, our discontinued operations in fiscal 2003 and 2002 include all of the operations related to our specialty fastener segment, which includes all of the divested operations we describe below.

On July 10, 2001, we sold our Breeze Industrial and Pebra hose clamp businesses to Industrial Growth Partners and members of Breeze Industrial's management for \$46.2 million in cash. In a related transaction, we sold the real estate occupied by Breeze Industrial to a quasi-governmental organization for \$2.0 million which we may, under certain circumstances, be required to repurchase for \$1.0 million in fiscal 2006. We used the proceeds from these sales to repay borrowings outstanding under the Fleet Credit Facility.

On December 5, 2001, we sold TransTechnology Engineered Components to a company formed by affiliates of Kohlberg & Company, LLC for \$98.5 million, of which \$96.0 million was cash and the balance the assumption of certain liabilities related to the purchased businesses. We used the cash proceeds of the sale to repay borrowings outstanding under the Fleet Credit Facility. In the fiscal quarter ended September 30, 2001, as part of our restructuring program, we reported a pre-tax asset impairment charge for TransTechnology Engineered Components, Inc. in the amount of \$85.8 million to reduce the carrying value of these businesses to estimated fair market value. This noncash charge was related specifically to the write-down of goodwill. The sale proceeds of TransTechnology Engineered Components approximated our adjusted carrying value.

On February 21, 2002, we sold Seeger-Orbis to Barnes Group Inc. for \$20.0 million cash. We used the net proceeds of the sale to repay borrowings outstanding under the Fleet Credit Facility. Our balance sheet contains a noncurrent asset and a noncurrent liability in the amount of \$3.7 million relating to the pension plan of Seeger-Orbis. These amounts represent our legal liability under German law and the indemnification we received from the buyer of the business for that liability.

On April 16, 2002, we sold Aerospace Rivet Manufacturers Corporation to Allfast Fastening Systems, Inc. for \$3.2 million in cash. We used the net proceeds of the sale to repay borrowings outstanding under the Fleet Credit Facility.

On May 30, 2002, we completed the sale of substantially all of the net assets of TransTechnology Engineered Rings (USA) to a newly formed affiliate of Sea View Capital LLC for \$2.9 million in cash, a promissory note of \$0.8 million and warrants for 5% of the equity of the purchaser. We used the net proceeds of the sale to repay borrowings outstanding under the Fleet Credit Facility.

On July 16, 2002, we completed the recapitalization of our TransTechnology (GB) Ltd. subsidiary, now known as Cirteq, Ltd., by selling 81% of its shares to a new entity controlled by local management for \$121 (one hundred twenty-one dollars). We also converted \$2.0 million of unsecured intercompany debt into a \$2.0 million loan secured by a first lien on Cirteq's real property in Glusburn, England. In the third quarter of 2004, the Company recorded a pre-tax gain of \$0.9 million that is included in other income relating to the sale of the remaining 19% interest in Cirteq, Ltd. and the collection of the loan from Cirteq, Ltd.

On August 6, 2002, we completed the sale of all of the shares of TransTechnology Brasil, Ltda. for \$0.7 million, of which \$0.3 million was paid in cash and the balance in installment payments. We also will be paid \$0.3 million of intracompany debt due from the Brazilian unit. We used the net proceeds of the sale to repay borrowings outstanding under the Fleet Credit Facility.

On January 3, 2003, we completed the sale of the business and substantially all of the assets of our wholly owned subsidiary, TCR Corporation, to a newly formed affiliate of Mid-Mark Capital LLC for \$10.0 million in cash. We used the net proceeds of the sale to repay borrowings outstanding under our New Senior Credit Facility.

On February 24, 2003, we sold Norco, Inc. for \$51.0 million cash and a \$1.0 million reimbursement for certain income taxes payable as a result of the transaction to a wholly owned subsidiary of TransDigm Inc. We used the net cash proceeds to retire senior debt under the New Senior Credit Facility and partially repay subordinated debt.

For fiscal 2003, the \$13.1 million gain from discontinued operations included actual operating income of \$7.0 million from discontinued operations, a gain of \$28.5 million from the sale of our Norco subsidiary, allocated interest expense of \$6.3 million, an \$8.2 million charge to reflect the amounts ultimately realized from sales of discontinued business units, a cash charge of \$0.2 million from the final settlement of our interest rate swap contracts, a noncash charge of \$4.6 million associated with the recognition of accumulated currency translation losses from the sale of our Brazilian operation and a tax provision of \$3.1 million.

For fiscal 2002, the \$69.6 million loss from discontinued operations included \$110.3 million of impairment charges related to reducing the carrying values of the discontinued businesses to their estimated net realizable values, \$12.0 million of actual operating income of the discontinued businesses through their expected divestiture dates, \$20.1 million of allocated interest expense; \$8.4 million from the write-off of capitalized loan fees and the mark-to-market of interest rate swaps required under the terms of our credit agreements, \$24.7 million of

gains recognized on the sale of certain business units; and \$0.2 million of other income or credits associated with the discontinued operations. These gains and losses, which aggregated \$101.9 million, were reduced by a tax benefit of \$32.3 million.

## SUMMARY DISCLOSURE ABOUT CONTRACTUAL OBLIGATIONS AND COMMERCIAL COMMITMENTS

The following table reflects a summary of our contractual cash obligations for the next several years:

(Dollars in thousands)

	2005	2006	2007	2008	2009	Total
Long-term debt	\$ 79	\$56,472	\$ -	\$ -	\$ -	\$56,551
Operating leases	116	115	102	35	-	368
Total	\$ 195	\$56,587	\$ 102	\$ 35	\$ -	\$56,919

In addition, we have divested ten businesses since March 31, 2001. Under the terms of the agreements associated with the sales of those businesses, we have agreed to indemnify the purchasers for certain damages that might arise in the event that a representation we made with respect to the divested business is found to have contained a material misstatement, subject in each case to a customary cap on the indemnification amount and customary limitations on the survivability of the representations made. As of the date of this report, we have unresolved claims for indemnification with respect to these divested businesses that aggregate less than \$0.1 million. Additionally, the terms of these divestiture agreements generally require the calculation of purchase price adjustments based upon the amount of working capital or net assets transferred at the closing date. In the case of each divestiture completed as of the filing date purchase price adjustments have been agreed and paid.

## INFLATION

While neither inflation nor deflation has had, and we do not expect it to have, a material impact upon operating results, we cannot assure you that our business will not be affected by inflation or deflation in the future.

## CONTINGENCIES

**Environmental Matters** – The environmental cleanup plan presented by the Company during the fourth quarter of fiscal 2000 for a portion of a site in Pennsylvania which continues to be owned although the related business has been sold was approved during the third quarter of fiscal 2004. This plan was submitted pursuant to the Consent Order and Agreement with the Pennsylvania Department of Environmental Protection (“PaDEP”) concluded in fiscal 1999. Pursuant to the Consent

Order, upon its execution the Company paid \$0.2 million for past costs, future oversight expenses and in full settlement of claims made by PaDEP related to the environmental remediation of the site with an additional \$0.2 million paid in fiscal 2001. A second Consent Order was concluded with PaDEP in the third quarter of fiscal 2001 for another portion of the site, and a third Consent Order for the remainder of the site was concluded in the third quarter of fiscal 2003. An environmental cleanup plan for the portion of the site covered by the 2003 Consent Order was presented by the Company during the second quarter of fiscal 2004. The Company is also administering an agreed settlement with the Federal government under which the government pays 50% of the direct and indirect environmental response costs associated with a portion of the site. The Company has also reached an agreement in principle with the Federal government and is in the process of finalizing the necessary documentation under which the Federal government will pay 45% of the direct and indirect environmental response costs associated with another portion of the site. At March 31, 2004, the Company’s cleanup reserve was \$2.0 million based on the net present value of future expected cleanup costs. The Company expects that remediation at the Pennsylvania site will not be completed for several years.

The Company also continues to participate in environmental assessments and remediation work at nine other locations, including former facilities of the Company. The Company estimates that its potential cost for implementing corrective action at these sites will not exceed \$0.5 million payable over the next several years, and has provided for the estimated costs in its accrual for environmental liabilities. In addition, in the first quarter of fiscal 2003, the Company entered into a consent order for a former facility in New York pursuant to which it is developing a remediation plan for review and approval by the New York Department of Environmental Conservation. The Company has established a reserve of \$2.4 million which it believes is adequate.

In addition, the Company has been named as a potentially responsible party in five environmental proceedings pending in several states in which it is alleged that the Company was generator of waste that was sent to landfills and other treatment facilities and, as to one site, it is alleged that the Company was an owner or operator. Such properties generally relate to businesses which have been sold or discontinued. The Company estimates that its expected future costs, and its estimated proportional share of remedial work to be performed, associated with these proceedings will not exceed \$0.2 million and has provided for these estimated costs in its accrual for environmental liabilities.

**Litigation** – The Company is also engaged in various other legal proceedings incidental to its business. It is the opinion of management that, after taking into consideration information

furnished by its counsel, these matters will have no material effect on the Corporation's consolidated financial position or the results of the Corporation's operations in future periods.

## RECENTLY ISSUED ACCOUNTING STANDARDS

In May 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," that improves the accounting for certain financial instruments that, under previous guidance, issuers could account for as equity. SFAS No. 150 requires that those instruments be classified as liabilities in statement of financial position. The adoption of this standard did not have any impact on our financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" that amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under Statement 133. With certain exceptions, SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and for hedging relationships designed after June 30, 2003. The adoption of this standard will not have any impact on our financial position or results of operations.

In December 2003, the FASB issued Interpretation No. 46R, a revision to Interpretation No. 46, "Consolidation of Variable Interest Entities", which addresses how a business enterprise should evaluate whether it has a controlling financial interest in an entity through means other than voting rights and accordingly should consolidate the entity. Interpretation No. 46R clarifies some of the provisions of Interpretation No. 46 and exempts certain entities from its requirements.

Interpretation No. 46R is effective at the end of the first interim period ending March 15, 2004. The adoption of this statement did not have a material impact on our financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation — Transition and

Disclosure" which amends SFAS No. 123. This statement provides alternative methods of transition for a voluntary change to the fair value-based method of accounting for stock-based employee compensation and amends the disclosure requirements of SFAS No. 123. The transition guidance and disclosure requirements are effective for fiscal years ending after December 15, 2002. The adoption of this statement did not have a material effect on our financial position or results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation requires a guarantor to recognize, at the inception of the guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. It also enhances guarantor's disclosure requirements to be made in its interim and annual financial statements about its obligations under certain guarantees it has issued. The initial recognition and initial measurement provisions of this interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002. In the normal course of business, we do not issue guarantees to third parties; accordingly, this interpretation will not have any effect on our financial position or results of operations.

In June 2001, the FASB issued SFAS No. 143, "Accounting for Asset Retirement Obligations," effective for fiscal years beginning after June 15, 2002. This statement addresses the diverse accounting practices for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The adoption of this statement did not have any effect on our financial position or results of operations.

## QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, primarily changes in interest rates associated with the New Senior Credit Facility under which there were no borrowings at March 31, 2004.

## CORPORATE OFFICERS

**Robert L. G. White**  
President and  
Chief Executive Officer

**Joseph F. Spanier**  
Vice President, Chief Financial Officer  
and Treasurer

**Gerald C. Harvey**  
Vice President, Secretary and  
General Counsel

### COUNSEL

Hahn, Loeser & Parks  
Cleveland, Ohio

### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Deloitte & Touche LLP  
Parsippany, New Jersey

### TRANSFER AGENT AND REGISTRAR

EquiServe  
Boston EquiServe Division  
Canton, Massachusetts

## INVESTOR RELATIONS

### Investor Relations Contact

Joseph F. Spanier  
Vice President, Chief Financial Officer  
and Treasurer  
TransTechnology Corporation  
700 Liberty Avenue  
Union, New Jersey 07083  
908/688-2440  
908/686-6991 fax  
www.transtechology.com

### Annual Meeting

The Annual Shareholders'  
Meeting will be held on  
Thursday, September 2, 2004 at  
The Bernards Inn  
27 Mine Brook Road  
Bernardsville, New Jersey 07924

### Form 10-K and Additional Information

The Company, upon request to the  
Investor Relations department, will  
provide to any shareholder,  
a copy of the Form 10-K required  
to be filed with the Securities and  
Exchange Commission and any other  
available information.

## DIRECTORS

- \* **Gideon Argov**  
Managing Director  
*Parthenon Capital*
  
- Michael J. Berthelot**  
Chairman of the  
Board of Directors  
*TransTechnology Corporation*
  
- ^\* **Thomas V. Chema**  
President  
*Hiram College*
  
- ^N **Jan Naylor Cope**  
President  
*J. Naylor Cope Company*
  
- ^ **John H. Dalton**  
President  
*IPG Photonics Corporation*  
Former Secretary of the Navy
  
- \*N **William J. Recker**  
Managing Director  
*IronBridge Partners LLC*
  
- Robert L.G. White**  
President and  
Chief Executive Officer  
*TransTechnology Corporation*

- 
- \* Audit Committee
  
  - N Governance & Nominating  
Committee
  
  - ^ Incentives & Compensation  
Committee

[www.transtechology.com](http://www.transtechology.com)

Rescue hoists are used in life endangering situations,  
and our primary concern is always the safety  
of the brave men and women who use them.



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