GSI GROUP INC
Form 10-K/A
April 27, 2005

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K/A
(AMENDMENT NO. 1)

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

For the Fiscal Year Ended December 31, 2002

OR

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

Commission File Number 333-43089

THE GSI GROUP, INC.
(Exact name of registrant as specified in its charter)

DELAWARE	37-0856587
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1004 E. ILLINOIS STREET, ASSUMPTION, ILLINOIS	62510
(Address of principal executive offices)	(Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (217) 226-4421

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT: NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: NONE

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

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

Indicate by check mark whether the registrant is an accelerated filer: Yes [ ] No [X]

Aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant: $0

Indicate the number of shares outstanding of each of the registrant's classes of common stock as of the latest practicable date: Common stock, par value $0.01 per share, 826,948 shares outstanding as of April 26, 2005.

Documents Incorporated by Reference: None

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INTRODUCTORY NOTE

This Amendment No. 1 to The GSI Group, Inc.'s (the "Company's") Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (the "Form 10-K/A") includes restated consolidated financial statements as of December 31, 2002 and 2001. The accompanying restated consolidated financial statements, including the notes thereto, have been revised to reflect the restatement.

The restatement was initially disclosed in the Company's Current Report on Form 8-K, filed on March 8, 2005 and was reflected in Company's Annual Report on Form 10-K for the year ended December 31, 2004. The Company has restated in this Form 10-K/A its consolidated balance sheets as of December 31, 2002 and 2001, and consolidated statements of operations, cash flows and stockholders' deficit for the fiscal years ended December 31, 2002 and 2001 to reflect this restatement.

This Form 10-K/A amends and restates Items 6, 7 and 8 of Part II and Items 11, 13 and 14 of Part III of the original Form 10-K, and no other information included in the original Form 10-K is amended hereby. Although not amended or updated, all other Items of the original Form 10-K are contained herein for the convenience of the reader.

All referenced amounts in this Form 10-K/A for prior periods and prior period comparisons reflect the balances and amounts on a restated basis.

Except with respect to Item 14 of Part III, the information set forth under "Forward-Looking Statements" and the statements included in this Introductory Note, this Form 10-K/A has not been updated for changes in events, estimates or other developments subsequent to March 31, 2003, the date of filing of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002. For a discussion of these subsequent events and developments as well as revisions to prior estimates, please refer to the Company's Form 10-K for the year ended December 31, 2004.

During the 2004 year-end closing process, the Company discovered unintentional accounting errors in prior years' financial statements. The errors have been corrected in the accompanying 2002 and 2001 financial statements. A description of the errors and related impact of each on the financial statements follows. Amounts are stated in whole dollars.

- At the end of 2001, the Company began the process of shutting down its Mason City, Iowa plant, which served as the headquarters for its DMC subsidiary. As the Company began the revenue cycle process at its corporate headquarters, cost of sales estimates were understated during 2002, while cost accounting records were being developed for the products previously handled by the Mason City employees, which caused the remaining inherited inventory costs to be overstated by approximately $6.5 million. The Company became aware of the overstatement in early 2003, but erroneously assigned the overstated value to inventory that would flow through the cost of sales over the next few years. This erroneous correction reduced the stated value of the inventory by approximately $2.2 million in 2003 and $4.3 million in 2004. During the 2004

year-end closing process, this issue was re-examined, and the Company determined that it would be appropriate to restate the 2002 cost of sales and year-end inventory, the period when the overstatement occurred.

- In 1997, the majority shareholder sold non-voting shares to certain employees at an arm's length market value price. The majority shareholder helped finance each employee purchase with a non-recourse interest-bearing note with each employee with the shares being held as collateral against that note. The Company failed to ascertain the market value of those shares at each year-end to determine if compensation expense should be recorded to comply with generally accepted accounting principles. The Company has now performed that review and determined that for the first time at the end of 2002, compensation expense of $89,511 was created. The dividends paid to the non-voting shareholders are classified as compensation expense and reduced previously reported net income for 2002 by $113,647.

- The Company mistakenly treated its Mexican subsidiary with the local currency being the functional currency. The Company should have treated its Mexican subsidiary with the U.S. dollar as being the functional currency. The result of this error was an unfavorable impact to the profit and loss statement of $315,917.

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- The Company mistakenly did not capitalize the overhead component of the Brazilian Subsidiary's inventory to comply with United States generally accepted accounting principles. The result of this error was a favorable impact to the profit and loss statement of $11,080.

- The Company had an error in its calculation of the intercompany profit and loss component residing in the year end inventory balance. The result of this error was a favorable impact to the profit and loss statement of $60,447.

- The Company, now with the benefit of hindsight, made the error of not accruing the CEO's salary and board of director fees that were being refused at that time by the CEO. The result of this error was an unfavorable impact to the profit and loss statement of $507,515.

- The Company, when it made the shift in late 2000 from a premium stop-loss worker's compensation insurance policy to a high-deductible self-insured policy, failed to begin to accrue for the "incurred but not reported" liability. The result of this error was an unfavorable impact to the profit and loss statement of $698,246.

- The Company, when it entered into an agreement at the beginning of 2002 with the manager of its Brazilian Subsidiary to partially compensate him with an ownership percentage of that subsidiary, neglected to initiate a process to account for his minority ownership. The result of that error was an unfavorable impact to the profit and loss statement of $26,312 and a reclassification of the balance sheet equity section for $400,986.

- The quarterly impact of these issues to the profit and loss statement was approximately $1.2 million per quarter, while the balance sheet equity section cumulative impact was approximately $0.9 million per quarter. Due to the straight line nature of these adjustments, it was deemed that restating the 10-Q's would not benefit the reader.

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FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements within the meaning of the

Private Securities Litigation Reform Act of 1995 concerning, among other things, the prospects and developments of the Company and business strategies for its operations, all of which are subject to risks and uncertainties. These forward-looking statements are included in various sections of this report. These statements are identified as "forward-looking statements" or by their use of terms (and variations thereof) such as "will," "may," "can," "anticipate," "intend," "continue," "estimate," "expect," "plan," "should," "outlook," "believe," and "seek" and similar terms (and variations thereof) and phrases.

When a forward-looking statement includes a statement of the assumptions or bases underlying the forward-looking statement, the Company cautions that, while it believes such assumptions or bases to be reasonable and makes them in good faith, assumed facts or bases almost always vary from actual results, and the differences between assumed facts or bases and actual results can be material, depending upon the circumstances. Where, in any forward-looking statement, the Company or its management expresses an expectation or belief as to future results, it expresses that expectation or belief in good faith and believes it has a reasonable basis, but the Company or its management can give no assurance that the statement of expectation or belief will result or be achieved or accomplished.

The Company's actual results may differ significantly from the results discussed in the forward-looking statements.

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PART I

ITEM 1. BUSINESS.

GENERAL

The Company is a leading manufacturer and supplier of agricultural equipment and services worldwide. The Company believes that it is the largest global provider of both (i) grain storage bins and related drying and handling systems and (ii) swine feed storage, feed delivery, confinement and ventilation systems. The Company is also one of the largest global providers of poultry feed storage, feed delivery, watering, ventilation and nesting systems. The Company markets its agricultural products in approximately 75 countries through a network of over 2,500 independent dealers to grain, swine and poultry producers primarily under its GSI, DMC, FFI, Zimmerman, AP and Cumberland brand names. The Company's current market position in the industry reflects both the strong, long-term relationships the Company has developed with its customers as well as the quality and reliability of its products.

The primary users of the Company's grain storage, drying and handling products are farm operators or commercial businesses, such as the Archer-Daniels-Midland Company and Cargill, Inc., that operate feed mills, grain elevators, port storage facilities and commercial grain processing facilities. The Company believes that its grain storage, drying and handling equipment is superior to that of its principal competitors on the basis of strength, durability, reliability, design efficiency and breadth of product offering. The Company's feeding and ventilation systems are used primarily by growers that raise swine and poultry, typically on a contract basis for large integrators such as Perdue Farms Incorporated and Tyson Foods, Inc. In the swine industry however, there is a significant portion of the industry that is not integrated at this time that is also served. Because swine and poultry growers are always concerned about the efficiency of their operations, especially where it relates to feed, they seek to purchase systems that minimize the feed-to-meat ratio. As a result of its proprietary designs, the Company believes that its swine and poultry systems are the most effective in the industry in serving this customer objective.

The industry in which the Company operates is characterized both domestically and internationally by a few large companies with broad product offerings and numerous small manufacturers of niche product lines. Domestically, the Company intends to build on its established presence in the grain, swine and poultry markets. Internationally, the Company intends to capitalize on opportunities arising from still-developing agricultural industries. The Company believes that less functionally sophisticated and efficient grain storage systems used by facilities located outside the U.S. and Western Europe, which experience relatively high levels of grain spoilage and loss, are likely to be replaced by more modern systems. The Company also believes that the economic growth occurring in the Company's international markets will result in consumers devoting larger portions of their income to improved and higher-protein diets, stimulating demand for poultry and pork. The Company believes that it is well-positioned to capture increases in worldwide demand for its products resulting from these industry trends because of its leading brand names, broad and diversified product lines, strong distribution network and high-quality products.

The Company was incorporated in Delaware on April 30, 1964. The Company's principal executive office is located at 1004 East Illinois Street, Assumption, Illinois 62510 and its telephone number is (217) 226-4421.

COMPANY STRENGTHS

Market Leader. The Company believes that it is the largest global provider of both (i) grain storage bins and related drying and handling systems and (ii) swine feed storage, feed delivery, confinement and ventilation systems. The Company is also one of the largest global providers of poultry feed storage, feed delivery, watering, ventilation and nesting systems.

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Provider of Fully-Integrated Systems. The Company offers a broad range of products that permit customers to purchase all of their grain, swine and poultry production needs from one supplier. The Company believes that providing fully-integrated systems significantly lowers total production costs and enhances producer productivity by offering compatible products designed to promote synergies and achieve maximum operating results. Dealers who purchase fully-integrated systems also benefit from lower administrative and shipping costs and the ease of dealing with a single supplier. The Company intends to maintain its position as a provider of fully-integrated systems by continuing to offer the most complete line of products available within its markets and by developing and introducing new products within its existing lines.

Brand Name Recognition and Reputation for Quality Products and Service. Through its manufacturing expertise and experience, the Company has established recognition in its markets for the GSI, DMC, FFI, Zimmerman, AP and Cumberland brand names. The Company seeks to protect the reputation for high quality, reliability and specialized services that are associated with such brand names through quality control and customer feedback programs. The Company believes that its reputation and recognized brand names, along with its extensive distribution network, will assist it in its efforts to further penetrate both the domestic and international markets in which the Company operates.

Effective and Established Distribution Network. The Company believes that its development of a highly effective and established distribution network affords it significant competitive advantages. The Company's distribution network consists of over 2,500 independent dealers that market the Company's products in approximately 75 countries throughout the world. The breadth and scope of the Company's distribution network makes its products readily available in each of the Company's markets and lowers transportation costs for its customers. Dealers are carefully selected and trained to ensure high levels of customer service. In addition, the Company has experienced a very low turn-over rate of its dealers since the Company's inception, which promotes consistency and stability to customers.

Long-Term Alliances with Customers. The Company has a history of developing long-term alliances with customers who are market leaders in both the industries and the geographic markets they serve. The Company works closely with customers through all stages of product development in order to tailor products and systems to meet each customer's unique needs, making substitutions with competitor products more difficult. The Company's commitment to product quality, dedication to customer service and responsiveness to changing customer needs have enabled the Company to develop and strengthen long-term alliances with its customers.

Flexible Manufacturing Facilities. The Company's facilities are designed to be easily reconfigured to adapt to demand changes for any or all of the Company's products. The Company's primary manufacturing facility, located in

Assumption, Illinois, consists of approximately 900,000 square feet and operates on a 24-hour basis during peak production periods. The Company's facilities employ state-of-the-art machines that have enhanced production efficiencies.

Company Operated by Experienced Management Team. The Company is led by a management team with significant experience in the agricultural products industry. The Company believes that the agricultural expertise of its management team permit it to establish strong customer relationships and respond quickly to market opportunities.

BUSINESS STRATEGY

The Company's objective is to capitalize on its strengths through the implementation of its business strategy, which includes the following principal elements:

Capitalize on Opportunities in International Markets. The Company intends to continue to leverage its worldwide brand name recognition, leading market positions and international distribution network to capture the demand for its products that exists in the international marketplace. The Company believes that increasing the diversity of both its customer base and geographic coverage by expanding its international operations will mitigate the effect of future reductions in demand within any of its individual product lines, or within a particular geographic selling region.

Continue Development of Proprietary Product Innovations. The Company's research and development efforts focus on the development of new and technologically advanced products to respond to customer demands, changes in the marketplace and new technology. The Company employs a strategy of working closely with its customers and capitalizing on existing technology to improve existing products and develop new value-added products. The Company intends to continue to actively develop product improvements and innovations to more effectively serve its customers.

Reduce Expenses and Improve Profitability. The Company focuses on improving its financial performance by reducing non-strategic expenses and streamlining the processes at all levels of its organization.

INDUSTRY OVERVIEW

Demand for the Company's products is driven by the overall worldwide level of grain, swine and poultry production as well as the increasing focus, both domestically and internationally, on improving productivity in these industries. These markets are driven by a number of factors, including consumption trends affected by economic and population growth and government policies.

Demand for grain and the required infrastructure for grain storage, drying and handling is driven by several factors, including the need for grain for worldwide production of meat protein and cereals. The Company believes that less functionally sophisticated and efficient grain storage facilities located outside the U.S. and Western Europe, which experience higher levels of grain spoilage and loss, are over time likely to be replaced by more modern equipment. The Company also believes that these dynamics will continue to support domestic and international demand for the Company's grain storage, drying and handling systems.

Demand for the Company's swine and poultry feeding equipment and feed storage and delivery systems is impacted by the rate of economic growth occurring in international markets. As disposable incomes increase in these international markets, consumers have in the past, and should in the future, devote larger portions of their income to improved and higher protein-based

diets. In the past, this trend has stimulated stronger demand for meat, specifically poultry and pork, as these meats provide more cost-effective sources of animal protein than beef.

The Company's sales of grain equipment have historically been affected by feed and grain prices, acreage planted, crop yields, demand, government policies, government subsidies and other factors beyond the Company's control. Weather conditions also can adversely impact the agricultural industry and delay planned construction activity, resulting in fluctuating demand for the Company's grain equipment and delayed or lost revenues. Increases in feed and grain prices have in the past resulted in a decline in sales of feeding, watering and ventilation systems. The Company's sales of swine and poultry equipment historically have been affected by the level of construction activity by swine and poultry producers, which is affected by feed prices, environmental regulations and domestic and international demand for pork and poultry.

PRODUCTS

The Company manufactures and markets (i) grain storage bins and related drying and handling equipment systems, (ii) swine feed storage, feed delivery, confinement and ventilation systems and (iii) poultry feed storage, feed delivery, watering, ventilation and nesting systems. The Company offers a broad range of products that permits customers to purchase their grain, swine and poultry production equipment needs from one supplier. The Company believes that its ability to offer integrated systems provides it with a competitive advantage by enabling producers to purchase complete, integrated production systems from a single distributor who can offer high-quality installation and service.

Grain Product Line

The Company's grain equipment consists of the following products:

Grain Storage Bins. The Company manufactures and markets a complete line of over 1,000 models of both flat and hopper bottomed grain storage bins with capacities of up to 710,000 bushels. The Company markets its bins to both farm and commercial end users under its GSI brand name. The Company's grain storage bins are manufactured using high-yield, high tensile, galvanized steel (the thickest in the industry) and are assembled with high strength, galvanized bolts and anchor brackets. The Company's grain storage bins offer efficient design enhancements, including patented walk-in doors and a roof design that provides specialized vents for increased efficiency, extruded lips for protection against leakage, large and accessible eave and peak openings for ease of access, and reinforced supportive bends to increase rigidity. The Company believes that its grain storage bins are the most reliable and heaviest in the industry.

Grain Conditioning Equipment. To meet the need to dry grain for storage, the Company manufactures and markets a complete line of over 100 models of grain drying devices with capacities of up to 10,000 bushels per hour. The Company markets its grain drying equipment to both farm and commercial end users under its GSI, DMC, Zimmerman, FFI, and Airstream brand names. The Company's drying equipment, which includes fans, heaters, top dryers, stirring devices, portable dryers, stack dryers, tower dryers and process dryers, is manufactured using galvanized steel and high-grade electrical components and utilize patented control systems, which offer computerized control of all dryer functions from one panel.

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Grain Handling Equipment. The Company manufactures and markets a complete line of grain handling equipment to complement its grain storage and drying product offerings. The Company markets its grain handling equipment, which includes bucket elevators, conveyors and augers, to both farm and commercial end

users under its GSI and Grain King brand names. The Company's grain handling equipment offers ease of integration into Company or competitor systems and enables the Company to offer a fully-integrated product line to grain producers.

Swine Product Line

The Company's swine equipment consists of the following products:

Feeding Systems. The Company manufactures and markets its swine feeding products under its AP brand name. The Company custom designs a wide array of state of the art feeding systems used in today's modern swine facilities. These include the popular Flex-Flo auger systems that typically transport feed from the Bulk Feed Storage Tanks located outside of the buildings to inside of the structure. Once inside it is moved either by additional Flex-Flo equipment or is transferred to the versatile Chain Disk System, which can make turns and changes in elevation much more easily. Finally, the feed is delivered to the animals using either a wide variety of ad lib feeders that are specifically designed to waste a minimum amount of feed, provide the animals a high degree of comfort, and be user friendly to the producer. Sometimes an individual feed dispenser that allows the producer to feed each animal an exact amount of feed daily is used. All of these systems are highly automated and address the ever changing and multifaceted production practices that still abound in the pork production industry, such as "wean to finish" or "sorting technology".

Ventilation Systems. The Company manufactures and markets ventilation systems for swine buildings under its AP and Airstream brand names. These systems consist of fans, heating and evaporative cooling systems, winches, inlets and other accessories (including computer based automated control devices) that regulate temperature and air flow. Proper ventilation systems are crucial for minimizing the feed-to-meat conversion ratio by reducing stress caused by extreme temperature fluctuation, allowing for higher density production and providing optimum swine health through disease prevention. The Company's swine ventilation systems produce high levels of air output at low levels of power consumption, adapt to a wide array of specialty fans and other accessories, operate with little maintenance or cleaning and provide precision monitoring of environmental control. The Company specializes in designs that work with the new emerging production practices as they are being developed by producers so that they are market ready when these practices become commonplace.

Other Production Equipment. The Company manufactures and markets a wide array of equipment used in the balance of the swine production process, including plastic and cast iron slated flooring, highly efficient watering devices, a wide variety of PVC extrusions used for construction applications in the facilities, many sizes of rubber floor mats for pig comfort, creep heating systems for baby pigs, several styles of steel confinement equipment, and the latest in practical feed, water, and environmental monitoring equipment.

Poultry Product Line

The Company's poultry equipment consists of the following products:

Feeding Systems. The Company manufactures and markets its poultry feeding systems under its Cumberland brand name. The Company manufactures feeding systems that are custom tailored to both the general industry needs of different types of poultry producers and to the specialized needs of individual poultry producers. The Company's poultry feeding systems consist of a feed storage bin located outside the poultry house, a feed delivery system that delivers the feed from the feed storage bin into the house and an internal feed distribution

system that delivers feed to the birds. The Company's poultry feed storage bins contain a number of patented features designed to maximize capacity, manage the quality of stored feed, prevent rain and condensation from entering feed storage bins and provide first-in, first-out material flow, thereby keeping feed fresh to help prevent spoilage, and blended to provide uniform quality rations. The Company's poultry feed delivery systems use non-corrosive plastic and galvanized steel parts specially engineered for durability and reliable operations and specialized tubing and auguring or chain components that allow feed to be conveyed up, down and around corners. The Company believes that its patented HI-LO pan feeder is superior to competitor products due to its unique ability to adjust from floor feeding for young chicks to regulated feed levels for older birds.

Watering Systems. The Company manufactures and markets nipple watering systems for poultry producers under its Cumberland brand name. The ability of a bird to obtain water easily and rapidly is an essential factor in facilitating weight gain. The Company's poultry watering system consists of pipes that distribute water throughout the house to drinking units supported by winches, cables and other components. The water is delivered through a regulator designed to provide differential water pressure according to demand. The Company's poultry watering systems are distinguished by their toggle action nipples, which transmit water from nipple to beak without causing undue stress on the bird or excess water to be splashed onto the floor. The watering nipples produced by the Company also are designed to allow large water droplets to form on the cavity of the nipple, thereby attracting young birds to drink, which ultimately promotes weight gain.

Ventilation Systems. The Company manufactures and markets ventilation systems for poultry producers under its Cumberland brand name. Equipment utilized in such systems include fiberglass and galvanized fans, the Komfort Kooler evaporative cooling systems, manual and automated curtains, heating systems and automated controls for complete ventilation, cooling and heating management. The Company believes its poultry ventilation products are reliable and easy to assemble in the field, permit energy-efficient airflow management and are well-suited for international sales because they ship compactly and inexpensively and assemble with little hardware and few tools. Accurate bird weighing systems integrate with the environmental controls to give growers and integrators running averages of their flock weights.

Nesting Systems. The Company manufactures and markets nesting systems for poultry producers under its Cumberland brand name. These systems consist of mechanical nests and egg collection tables. The Company's nesting systems are manufactured using high-yield, high tensile galvanized steel and are designed to promote comfort for nesting birds and efficiency for production personnel. The Company believes that its nesting systems are among the most reliable and cost-effective in the poultry industry.

In 2002, 2001 and 2000, no single customer represented more than 10% of the Company's sales and no single class of products represented more than 10% of the Company's sales.

PRODUCT DISTRIBUTION

The Company distributes its products primarily through a network of U.S. and international independent dealers who offer targeted geographic coverage in key grain, swine and poultry producing markets throughout the world. The Company's dealers sell products to grain, swine and poultry producers, agricultural companies and various other farm and commercial end-users. The Company believes that its distribution network is one of the strongest in the industry, providing its customers with high levels of service. Since its inception, the Company has experienced a very low turnover rate of its dealers.

The Company believes this has resulted in a reputation of consistency in its products and stability with its customers. The Company further believes that the high level of commitment its dealers have to the Company is evidenced by the fact that many of the Company's dealers choose not to sell products of the Company's competitors.

The Company also maintains a sales force to provide oversight services for the Company's distribution network, interact with integrators and end users, recruit additional dealers for the Company's products, and educate the dealers on the uses and functions of the Company's products. The Company further supports and markets its products with a technical service and support team, which provides training and advice to dealers and end users regarding installation, operation and service of products and, when necessary, on-site service.

For information regarding the Company's sales by geographic region, see Note 13 to the Consolidated Financial Statements included in Item 8 hereof.

COMPETITION

The market for the Company's products is competitive. Domestically and internationally, the Company competes with a variety of manufacturers and suppliers that offer only a limited number of the products offered by the Company.

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Competition is based on the price, value, reputation, quality and design of the products offered and the customer service provided by distributors, dealers and manufacturers of the products. The Company believes that its leading brand names, diversified product lines, strong distribution network and high quality products enable it to compete effectively. The Company further believes that its ability to offer integrated systems to grain, swine and poultry producers, which significantly lowers total production costs and enhances producer productivity, provides it with a competitive advantage. Integrated equipment systems offer significant benefits to dealers, including lower administrative and shipping costs and the ease of dealing with a single supplier for all of their customer needs. In addition, the Company's dealers provide producers with high quality service, installation and repair.

NEW PRODUCT DEVELOPMENT

The Company has a product development and design engineering staff, most of whom are located in Assumption, Illinois. Expenditures by the Company for product research and development were approximately $2.7 million, $2.8 million and $2.3 million for the years ended December 31, 2002, 2001 and 2000, respectively. The Company charges research and development costs to operations as incurred.

RAW MATERIALS

The primary raw materials used by the Company to manufacture its products are steel and polymer materials, including PVC pipe, polypropylene and polyethylene. The Company also purchases various component parts that are integrated into the Company's products. The Company is not dependent on any one of its suppliers and in the past has not experienced difficulty in obtaining materials or components. In addition, materials and components purchased by the Company are readily available from alternative suppliers. The Company has no long-term supply contracts for materials or components.

REGULATORY AND ENVIRONMENTAL MATTERS

Like other manufacturers, the Company is subject to a broad range of

federal, state, local and foreign laws and requirements, including those governing discharges to the air and water, the handling and disposal of solid and hazardous substances and wastes, the remediation of contamination associated with releases of hazardous substances at the Company's facilities and offsite disposal locations, workplace safety and equal employment opportunities. Expenditures made by the Company to comply with such laws and requirements historically have not been material.

BACKLOG

Backlog is not a significant factor in the Company's business because most of the Company's products are delivered within a few weeks of their order. The Company's backlog at December 31, 2002 was $33.0 million compared to $28.3 million at December 31, 2001. The Company believes that all such backlog will be filled by the end of 2003.

PATENTS AND TRADEMARKS

The Company protects its technological and proprietary developments. The Company currently has several active U.S. and foreign patents, trademarks and various licenses for other intellectual property. While the Company believes its patents, trademarks and licensed information have significant value, the Company does not believe that its competitive position or that its operations are dependent on any individual patent or trademark or group of related patents or trademarks.

EMPLOYEES

As of December 31, 2002, the Company had 1,511 employees of whom 1,497 were permanent and 14 were seasonal. The Company's employees are not represented by a union. Management believes that its relationships with the Company's employees are good.

ITEM 2. PROPERTIES.

The principal properties of The GSI Group as of March 7, 2003, were as follows:

Location	Description of Property
Assumption, Illinois. .	Manufacturing/Sales
Paris, Illinois	Manufacturing/Assembly
Newton, Illinois. . . .	Manufacturing/Assembly
Vandalia, Illinois. . .	Manufacturing/Assembly
Flora, Illinois	Manufacturing/Assembly
Clear Lake, Iowa. . . .	Sales/Warehouse
Sioux City, Iowa. . . .	Sales/Warehouse
Geneva, Indiana	Sales/Warehouse
Watertown, South Dakota	Sales/Warehouse
West Memphis, Arkansas.	Sales/Warehouse
Hampton, Nebraska . . .	Sales/Warehouse/Research
Marau, Brazil	Manufacturing/Sales
Penang, Malaysia. . . .	Manufacturing/Sales/Warehouse
Queretero, Mexico . . .	Sales/Warehouse
Honeydew, South Africa.	Sales/Warehouse

Venlo, The Netherlands. Warehouse
Ludford, Great Britain. Sales
Poznan, Poland. . . . . Sales
Shanghai, China . . . . Manufacturing/Sales/Warehouse

The corporate headquarters for the Company is located in Assumption, Illinois.

During 2002, the Company expanded its manufacturing processes, which enabled it to open a manufacturing facility in Flora, Illinois.

During 2002, the Company expanded its presence in Eastern Europe by opening a sales office in Poznan, Poland.

The Company's owned facilities are subject to mortgages. The Company's leased facilities are leased through operating lease agreements with varying expiration dates. For information on operating leases, see Note 12 to the Consolidated Financial Statements included in Item 8 hereof.

The Company believes that its facilities are suitable for their present and intended purposes and have adequate capacity for the Company's current levels of operation.

ITEM 3. LEGAL PROCEEDINGS.

The Company is involved in various legal matters arising in the ordinary course of business which, in the opinion of management, will not have a material adverse affect on the Company's financial position or results of operations.

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

No matters were submitted to a vote of security holders of the Company during the fourth quarter of the fiscal year ended December 31, 2002.

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PART II

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

There is no established public trading market for any class of the Company's Common Stock. As of March 7, 2003, the Company had 10 holders of its Common Stock. See Item 12, "Security Ownership of Certain Beneficial Owners and Management".

The Company generally has not paid dividends in the past, except to enable its stockholders to pay taxes resulting from the Company's status as a subchapter S corporation. During the years ended December 31, 2002 and December 31, 2001, the Company declared dividends totaling $1.8 million and $1.1 million,

respectively. The Company is subject to certain restrictions on the payment of dividends contained in the indenture governing the Company's 10 % Senior Subordinated Notes due 2007 (the "Notes") and in the Company's credit facility with LaSalle National Bank (the "Credit Facility"). Future dividends, if any, will depend upon, among other things, the Company's operations, capital requirements, surplus, general financial condition, contractual restrictions and such other factors, as the Board of Directors may deem relevant.

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ITEM 6. SELECTED FINANCIAL DATA.

Set forth below is certain selected historical consolidated financial data for the Compan and for the years ended December 31, 1998, 1999, 2000, 2001 and 2002. The selected his consolidated financial data for the years indicated were derived from the consolidated fi statements of the Company. The information set forth below should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" Consolidated Financial Statements and notes thereto included in Item 8 hereof.

As discussed in the Note 17 to the Consolidated Financial Statements, certain his information in the Consolidated Financial Statements has been restated. Please read Note 17 Consolidated Financial Statements for additional information about these restatements. The s financial data set forth below has been adjusted to reflect these restatements.

	YEARS ENDED DECEMBER 31,				
	1998	1999	2000	2001	
INCOME STATEMENT (000'S):					
Sales	$270,127	$229,210	$243,961	$229,921	$2
Cost of sales	209,236	179,927	184,622	174,847	1
Gross profit	60,891	49,283	59,339	55,074	
Operating expenses	50,245	38,669	40,070	41,456	
Operating income	10,646	10,614	19,269	13,618	
Interest expense	(12,946)	(14,768)	(14,997)	(14,397)	(
Other income (expense)	1,117	477	439	312	
Income (loss) from continuing operations	(1,183)	(3,677)	4,711	(467)	
Provision (benefit) for income taxes	(260)	(336)	(568)	(656)	
Income (loss) before minority interest	(923)	(3,341)	5,279	189	
Minority Interest in Net income of Subsidiaries.	--	--	--	--	
Net income (loss)	$ (923)	$ (3,341)	$ 5,279	$ 189	$
BASIC AND DILUTED EARNINGS PER SHARE:					
Continuing operations	$ (0.59)	$ (1.84)	$ 2.52	$ (0.26)	$
Net income (loss)	$ (0.46)	$ (1.67)	$ 2.82	$ 0.11	$

BALANCE SHEET (000'S):

Total Assets	$174,648	$158,519	$164,123	$154,751	$1
Long-term obligations.	$134,216	$133,315	$130,870	$136,211	$1
Dividends per share.	$ 0.56	$ 0.0	$ 1.05	$ 0.60	$

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

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Consolidated Financial Statements and the notes included in Item 8 hereof. The Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in this Item 7 has been restated to reflect certain adjustments to the Company's consolidated financial information previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2002 filed on March 31, 2003 (the "Form 10-K"). The Management's Discussion and Analysis of Financial Condition and Results of Operations set forth in this Item 7 has not been updated to reflect changes in events, estimates or other developments subsequent to March 31 2003, the date of filing of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002. Refer to note 17, "Restatement," to the Consolidated Financial Statements for further information.

GENERAL

The Company is a leading manufacturer and supplier of agricultural equipment and services worldwide. The Company's grain, swine and poultry products are used by producers and purchasers of grain, and by producers of swine and poultry. Fluctuations in grain and feed prices directly impact sales of the Company's grain equipment. Because the primary cost of producing swine and poultry is the cost of the feed grain consumed by animals, fluctuations in the supply and cost of grain to users of the Company's products in the past have impacted sales of the Company's swine and poultry equipment. The Company believes, however, that its diversified product offerings mitigate some of the effects of fluctuations in the price of grain since the demand for grain storage, drying and handling equipment tends to increase during periods of higher grain prices, which somewhat offsets the reduction in demand during such periods for the Company's products by producers of swine and poultry.

Sales of agricultural equipment are seasonal, with farmers traditionally purchasing grain storage bins and grain drying and handling equipment in the summer and fall in conjunction with the harvesting season, and swine and poultry producers purchasing equipment during prime construction periods in the spring, summer and fall. The Company's sales and net income have historically been lower during the first and fourth fiscal quarters as compared to the second and third quarters.

Although the Company's sales are primarily denominated in U.S. dollars and are not generally affected by currency fluctuations (except for transactions from the Company's Brazilian operations), the production costs, profit margins and competitive position of the Company are affected by the strength of the U.S. dollar relative to the strength of the currencies in countries where its

products are sold.

The Company's international sales have historically comprised a significant portion of sales. In 2002, 2001 and 2000, the Company's international sales accounted for 36.6%, 32.3% and 36.1% of sales, respectively. International operations generally are subject to various risks that are not present in domestic operations, including restrictions on dividends, restrictions on repatriation of funds, unexpected changes in tariffs and other trade barriers, difficulties in staffing and managing foreign operations, political instability, fluctuations in currency exchange rates, reduced protection for intellectual property rights in some countries, seasonal reductions in business activity and potentially adverse tax consequences, any of which could adversely impact the Company's international operations.

The primary raw materials used by the Company to manufacture its products are steel and polymers. Fluctuations in the prices of steel and, to a lesser extent, polymer materials can impact the Company's cost of sales. Recent increases in steel tariffs initiated by the U.S. Government have adversely affected the price the Company pays for steel. In response to initial steel price increases, the Company has nominally raised the selling price of its products.

The Company currently operates as a subchapter S corporation and, accordingly, is not subject to federal income taxation for the periods for which financial information has been presented herein. Because the Company's stockholders are subject to tax liabilities based on their pro rata shares of the Company's income, the Company's policy is to make periodic distributions to its stockholders in amounts equal to such tax liabilities. The Company intends to continue this policy.

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RESTATEMENT

During the 2004 year-end closing process, the Company discovered unintentional accounting errors in prior years' financial statements. The errors have been corrected in the accompanying 2002 and 2001 financial statements. A description of the errors and related impact of each on the financial statements follows. Amounts are stated in whole dollars.

At the end of 2001, the Company began the process of shutting down its Mason City, Iowa plant, which served as the headquarters for its DMC subsidiary. As the Company began the revenue cycle process at its corporate headquarters, cost of sales estimates were understated during 2002, while cost accounting records were being developed for the products previously handled by the Mason City employees, which caused the remaining inherited inventory costs to be overstated by approximately $6.5 million. The Company became aware of the overstatement in early 2003, but erroneously assigned the overstated value to inventory that would flow through the cost of sales over the next few years. This erroneous correction reduced the stated value of the inventory by approximately $2.2 million in 2003 and $4.3 million in 2004. During the 2004 year-end closing process, this issue was re-examined, and the Company determined that it would be appropriate to restate the 2002 cost of sales and year-end inventory, the period when the overstatement occurred. The effect of this change reduced previously reported net income for 2002 by $6,470,161.

In 1997, the Company's majority stockholder began selling non-voting shares to certain employee's. The stockholder helped finance each purchase with non-recourse interest-bearing notes with the shares as the only collateral on the notes. APB Opinion 25 and its interpretations require that these transactions be imputed to the Company's financial statements and be accounted for as variable stock awards, which practice the Company had not followed. The fair value of the underlying shares first exceeded the price paid for the shares

in 2002. The effect of recording the resulting compensation expense reduced previously reported net income for 2002 by $89,511. The dividends paid to the non-voting shareholders are classified as compensation expense and reduced previously reported net income for 2002 and 2001 by $113,647 and $84,810, respectively.

In 2002 the Company entered into an agreement with the manager of its Brazilian subsidiary whereby it compensated him with shares of the subsidiary's stock. This constitutes a stock compensation arrangement for which the Company did not recognize compensation expense. The effect of recording compensation expense related to this arrangement reduced previously reported net income for 2002 by $401,000.

The Company has determined that the functional currency of its Mexican subsidiary should be U.S. Dollars rather than Pesos. The effect of this change reduced previously reported 2002 net income by $315,917 and increased previously reported 2001 net income by $69,692.

In 2001 and 2002, the Company's CEO and majority stockholder elected not to accept salary and board fees that were subsequently paid in 2004. The company did not accrue these amounts in those years. The effects of accruing compensation for this individual reduced previously reported 2002 and 2001 net income by $507,515 and $257,000, respectively.

The Company changed from a stop-loss workers' compensation insurance policy to a high-deductible self-insured policy in 2000 and did not subsequently accrue for claims incurred but not reported. The effect of accruing for such claims in 2002 and 2001 reduced previously reported net income by $698,246 and $603,090, respectively.

The Company also made adjustments in 2002 and 2001 to correct previous reporting of overhead adjustments in overseas inventories and gain on inter-company sales.

The financial statement impact of the above noted adjustments are indicated in the table below:

AS

	AS PREVIOUSLY REPORTED	ADJUSTMENTS	RE
FISCAL YEAR 2002			
Consolidated Balance Sheet:			
Inventory.	$ 63,893	$ (6,389)	$
Payroll and payroll related expenses	2,987	565	
Other accrued expenses	4,144	1,501	
Paid in capital.	3,006	90	
Accumulated other comprehensive loss	(14,336)	246	(
Retained earnings.	19,971	(9,192)	
Consolidated Statement of Income:			
Cost of sales.	176,836	7,097	1
Selling, general and administrative expenses .	36,767	1,087	
Operating income	15,787	(8,184)	
Foreign currency transaction loss.	(468)	(316)	
Minority interest in net income of subsidiary.	--	(26)	
Net income (loss).	2,330	(8,526)	

Basic and diluted earnings per share	$ 1.31	($4.80)	

	AS PREVIOUSLY REPORTED	ADJUSTMENTS	AS REST
FISCAL YEAR 2001			
Consolidated Balance Sheet:			
Inventory.	$ 55,294	$ 10	$ 55
Payroll and payroll related expenses	4,234	157	4
Other accrued expenses	4,855	703	5
Accumulated other comprehensive loss	(10,216)	(70)	(10
Retained earnings.	19,550	(780)	18
Consolidated Statement of Income:			
Cost of sales.	174,254	593	174
Selling, general and administrative expenses	39,386	342	39
Operating income	14,553	(935)	13
Foreign currency transaction loss.	33	70	
Net income	1,054	(865)	
Basic and diluted earnings per share	$ 0.59	($0.48)	$

RESULTS OF OPERATIONS

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

Sales increased 0.3% or $0.7 million to $230.6 million in 2002 compared to $229.9 million in 2001. Grain equipment sales were essentially flat. Increases in demand for poultry products were offset by decreases in demand for swine products.

Gross profit decreased to $46.7 million in 2002 or 20.2% of sales from $55.1 million or 24.0% of sales in 2001. This decrease was primarily due to production inefficiencies caused by consolidation efforts.

Operating expenses decreased 5.7% or $2.4 million to $39.1 million in 2002 from $41.5 million in 2001. As a percentage of sales, operating expenses decreased to 17.0% in 2002 from 18.0% in 2001. This decrease was primarily the result of cost cutting measures, which included the consolidation of the Indianapolis office.

Operating income decreased to $7.6 million in 2002 from $13.6 million in 2001. Operating income margins decreased to 3.3% of sales in 2002 from 5.9% in

2001.

Interest expense decreased $1.4 million due to lower borrowing costs.

Net income decreased to $6.2 million loss in 2002 from $0.2 million income in 2001.

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

Sales decreased 5.8% or $14.1 million to $229.9 million in 2001 compared to $244.0 million in 2000. The decrease was primarily driven by weaker domestic demand for grain storage and conditioning equipment. Brazilian and domestic poultry sales were also lower due to weaker demand. This decrease was partially offset by increased swine equipment sales, which were higher due to strengthening demand.

Gross profit decreased to $55.1 million in 2001 or 24.0% of sales from $59.3 million or 24.3% of net sales in 2000. This decrease was caused by decreased sales and restructuring expenses incurred at the end of the year to consolidate manufacturing operations.

Operating expenses increased 3.5% or $1.4 million to $41.5 million in 2001 from $40.1 million in 2000. This increase was primarily the result of integration costs necessary to support the sales volume resulting from the FFI acquisition. Restructuring charges incurred during the period were offset by cost reduction and consolidation actions. As a percentage of sales, operating expenses increased to 18.0% in 2001 from 16.4% in 2000.

Operating income decreased to $13.6 million in 2001 from $19.3 million in 2000. Operating income margins decreased to 5.9% of sales in 2001 from 7.9% in 2000. This decrease was attributable to the decrease in sales and increased operating expenses.

Interest expense decreased $0.6 million due to lower borrowing costs.

Net income decreased to $0.2 million in 2001 from $5.3 million in 2000. The decrease was primarily attributable to the factors discussed above relating to operating expenses and operating income.

Year Ended December 31, 2000 Compared to Year Ended December 31, 1999

Sales increased 6.4% or $14.8 million to $244.0 million in 2000 compared to $229.2 million in 1999. The increase was primarily driven by increased demand for grain equipment caused by a successful early-order program, increased export activity, a strong harvest and price increases. Poultry and swine equipment sales were essentially flat with increased international activity offsetting weak domestic demand.

Gross profit increased to $59.3 million in 2000 or 24.3% of sales from $49.3 million or 21.5% of sales in 1999. This increase was caused by increased sales, increased prices, the absence of low-margin international projects, the absence of restructuring charges and reduced expenses related to cost containment measures related to plant closures at the end of 1999.

Operating expenses increased 3.6% or $1.4 million to $40.1 million in 2000 from $38.7 million in 1999. This increase was primarily due to a change in compensation structure for the Company's employees and the increase in the doubtful account reserve in recognition of the weaker agricultural market. This increase was partially offset by the reduction in staffing that was a significant part of the restructuring program in 1999. As a percentage of sales, operating expenses decreased to 16.4% in 2000 from 16.9% in 1999.

Operating income increased to $19.3 million in 2000 from $10.6 million in 1999. Operating income margins increased to 7.9% of sales in 2000 from 4.6% in 1999. This increase was attributable to the increase in sales and improved margins.

Interest expense was essentially flat for 2000 as compared to 1999.

Net income improved to $5.3 million in 2000 from a net loss of $3.3 million in 1999.

LIQUIDITY AND CAPITAL RESOURCES

The Company has historically funded capital expenditures, working capital requirements, debt service, stockholder dividends and stock repurchases from cash flow from its operations, augmented by borrowings made under various credit agreements and the sale of the Notes.

The Company's working capital requirements for its operations are seasonal, with investments in working capital typically building in the second and third quarters and then declining in the first and fourth quarters. The Company defines working capital as current assets less current liabilities. As of December 31, 2002, the Company had $58.9 million of working capital, a decrease of $1.8 million as compared to its working capital as of December 31, 2001. This increase in working capital was primarily due to increases in inventory and decreases in accounts payable, billings in excess of costs, and accrued expenses.

Operating activities generated $3.6 million, $5.0 million and $9.5 million of cash in 2002, 2001 and 2000, respectively. The decrease in cash flow from operating activities from 2001 to 2002 of $1.4 million was primarily the result of decreased depreciation and amortization and net income and an increase in inventory of $10.9 million offset by changes in accounts receivable, accounts payable, other current assets, accrued expenses, customer deposits and deferred taxes of $9.1 million.

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The Company's capital expenditures totaled $5.2 million, $4.4 million and $6.3 million in 2002, 2001 and 2000, respectively. Capital expenditures have primarily been for machinery and equipment and the expansion of facilities. The Company anticipates that its capital expenditures in 2003 will be less than that of 2002.

Cash provided by financing activities in 2002 consisted primarily of $7.8 million of increased borrowings under the Credit Facility and a $1.5 million shareholder loan offset by $4.5 million of payments of long-term debt, a $1.8 million dividend for taxes, and a $0.7 million payment of shareholder loans. Cash used in financing activities in 2001 consisted primarily of $6.7 million of payments on long-term debt, a $1.1 million dividend for taxes, and a $2.2 million payment of a shareholder loan offset by $8.0 million of increased borrowings under the Credit Facility and a $1.0 million shareholder loan. Cash used by financing activities in 2000 consisted of $4.9 million of payments on long-term debt, $1.4 million purchase of treasury shares and $1.9 million dividend for taxes offset by $2.6 million of borrowings under the Credit Facility and a shareholder loan of $1.5 million.

During the third quarter of 2001, the Credit Facility was amended to provide for a $43.1 million revolving loan facility and a $16.9 million term loan. LaSalle Bank N.A. and the Company further amended the Credit Facility to modify certain covenants for the remainder of 2001 and for the year 2002 as well as to provide a seasonal over-advance facility for the third and fourth quarters of 2002. The Company was in compliance with or in the process of receiving

waivers for all covenants under the Credit Facility as of December 31, 2002. For a more detailed description of the Credit Facility, see Note 9 to the Consolidated Financial Statements included in Item 8 hereof.

The Company believes that existing cash, cash flow from operations and available borrowings under the Credit Facility will be sufficient to support its working capital, capital expenditures and debt service requirements for the foreseeable future.

INFLATION

The Company believes that inflation has not had a material effect on its results of operations or financial condition during recent periods.

CRITICAL ACCOUNTING POLICIES

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States of America requires management to make judgments, assumptions, and estimates that affect the amounts reported in the Consolidated Financial Statements and accompanying notes. Note 2 to the Consolidated Financial Statements describes the significant accounting policies and methods used in the preparation of the Consolidated Financial Statements. Estimates are used for, but not limited to, the accounting for the allowance for doubtful accounts and sales returns, inventory allowances, warranty costs, investment impairments, goodwill impairments, contingencies, restructuring costs and other special charges, and taxes. Actual results could differ materially from these estimates. The following critical accounting policies are impacted significantly by judgements, assumptions, and estimates used in the preparation of the Consolidated Financial Statements.

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The allowance for doubtful accounts is based on our assessment of the collectibility of specific customer accounts and the aging of the accounts receivable. If there were a deterioration of a major customer's creditworthiness, or actual defaults were higher than our historical experience, our estimates of the recoverability of amounts due to us could be overstated, which could have an adverse impact on our revenue.

REVENUE RECOGNITION

A reserve for sales returns is established based on historical trends in product return rates. If the actual future returns were to deviate from the historical data on which the reserve had been established, our revenue could be adversely affected.

INVENTORY

Inventory purchases and commitments are based upon future demand forecasts. If there were to be a sudden significant decrease in demand for our products, or if there were a higher incidence of inventory obsolescence because of rapidly changing technology and customer requirements, we could be required to increase our inventory allowances and our gross margins could be adversely affected.

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WARRANTY

We accrue for warranty costs based on historical trends in product return rates and the expected material and labor costs to provide warranty services. If we were to experience an increase in warranty claims compared with our historical experience or costs of servicing warranty claims were greater than

the expectations on which the accrual had been based, our gross margins could be adversely affected.

GOODWILL IMPAIRMENT

We perform goodwill impairment tests on an annual basis. In response to changes in industry and market conditions, we may be required to strategically realign our resources and consider restructuring, disposing, or otherwise exiting businesses, which could result in impairment of goodwill.

CONTINGENCIES

We are subject to the possibility of various loss contingencies arising in the ordinary course of business. We consider the likelihood of loss or impairment of an asset or the incurrence of a liability, as well as our ability to reasonably estimate the amount of loss in determining loss contingencies. An estimated loss contingency is accrued when it is probable that an asset has been impaired or a liability has been incurred and the amount of loss can be reasonably estimated. We regularly evaluate current information available to us to determine whether such accruals should be adjusted.

SELF INSURANCE

A reserve for workers compensation IBNR (incurred but not reported) claims is established based on information provided by the insurance carrier. This reserve is adjusted monthly.

COMPENSATION EXPENSE

In 1997, the majority shareholder sold non-voting shares to certain employees at an arm's length market value price. The majority shareholder helped finance each employee purchase with a non-recourse interest-bearing note with each employee with the shares being held as collateral against that note. The Company failed to ascertain the market value of those shares at each year-end to determine if compensation expense should be recorded to comply with generally accepted accounting principles. The Company has now performed that review and determines annually the compensation expense impact.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to market risk associated with adverse changes in interest rates and foreign currency exchange rates. The Company does not hold any market risk sensitive instruments for trading purposes. At December 31, 2002, principle exposed to interest rate risk was limited to $42.8 million in variable rate debt. The interest rates on the various debt instruments range from 4.19% to 19.63%. The Company measures its interest rate risk by estimating the net amount by which potential future net earnings would be impacted by hypothetical changes in market interest rates related to all interest rate sensitive assets and liabilities. Therefore, a change in the interest rate of 1% will change earnings by $0.4 million.

At December 31, 2002, approximately 16.3% of sales were derived from international operations with exposure to foreign currency exchange rate risk. The Company mitigates its foreign currency exchange rate risk principally by establishing local production facilities in the markets it serves and by invoicing customers in the same currency as the source of the products. The Company also monitors its foreign currency exposure in each country and implements strategies to respond to changing economic and political

environments. The Company's exposure to foreign currency exchange rate risk relates primarily to the financial position and the results of operations of its Brazilian subsidiary. The Company's exposure to such exchange rate risk as it relates to the Company's financial position and results of operations would be adversely impacted by further devaluation of the Brazilian Real per U.S. dollar. These amounts are difficult to accurately estimate due to factors such as the inherent fluctuations of intercompany account balances, balance sheet accounts and the existing economic uncertainty and future economic conditions in the international marketplace.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS OF THE GSI GROUP, INC.

Reports of Independent Registered Public Accounting Firms . . . .
Consolidated Balance Sheets as of December 31, 2002 and 2001 . . . .
Consolidated Statements of Operations for the years ended December 31, 2002, 2001 and 2000 . . .
Consolidated Statements of Stockholders' Deficit for the years ended December 31, 2002, 2001 and 2000. . . . .
Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000 . . .
Notes to Consolidated Financial Statements . . . .

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
The GSI Group, Inc.

We have audited the accompanying consolidated balance sheet of The GSI Group, Inc. as of December 31, 2002 and the related consolidated statements of operations, stockholders' deficit and cash flows for the year ended December 31, 2002. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these

consolidated financial statements based on our audit. We did not audit the financial statements of Agromarau Industria e Comercio Ltda., a partially owned subsidiary (95.46 percent owned at December 31, 2002), which statements reflect total assets of $11.8 million as of December 31, 2002 and total revenue of $18.3 million for the year then ended. Those statements were audited by other accountants whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Agromarau Industria e Comercio Ltda., is based solely on the report of other accountants. The consolidated financial statements of The GSI Group, Inc. as of December 31, 2001 and for the two years then ended, before the restatements as discussed below, were audited by other accountants who ceased operations and whose report dated February 25, 2002 expressed an unqualified opinion on those statements.

We conducted our audit in accordance with the 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 audit and the reports of the other auditors provide a reasonable basis for our opinion.

Our audits also included auditing the adjustments to convert the financial statements of all foreign subsidiaries into accounting principles generally accepted in the United States of America for purposes of consolidation.

In our opinion, based on our audit and the report of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of The GSI Group, Inc. as of December 31, 2002 and the results of its operations and its cash flows for the year ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2, in 2002 the Company changed its method of accounting for goodwill and other intangible assets. Also, as discussed in Note 17 to the consolidated financial statements, the Company has restated its financial statements to correct its method of accounting for inventories, stock-based and other compensation, certain matters involving foreign subsidiaries and insurance costs.

As discussed above, the financial statements of The GSI Group, Inc. as of December 31, 2001, and for the year then ended were audited by other auditors who have ceased operations. As described in Note 17, these financial statements have been restated. We audited the adjustments described in Note 17 that were applied to restate 2001 financial statements. In our opinion, such adjustments are appropriate and have been properly applied. However, we were not engaged to audit, review, or apply any procedures to the 2001 financial statements of the Company other than with respect to such adjustments and, accordingly, we do not express an opinion or any other form of assurance on the 2001 financial statements taken as a whole.

BKD LLP

Decatur, IL
March 18, 2005

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Stockholders of
The GSI Group, Inc.

We have audited the accompanying consolidated balance sheets of The GSI Group, Inc. and subsidiaries as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' deficit and cash flows for each of the three years in the period ended December 31, 2001. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The GSI Group, Inc. and subsidiaries as of December 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 4 to the consolidated financial statements, effective for the year ended December 31, 2001, the Company has given retroactive effect to the change in accounting principle for David Manufacturing Company, a wholly owned subsidiary of The GSI Group Inc., from the last-in-first-out ("LIFO") method to the first-in-first-out ("FIFO") method.

As explained in Note 4 to the consolidated financial statements, effective for the year ended December 31, 2000, the Company has given retroactive effect to the change in accounting principle for all of the Company's domestic inventory except that of David Manufacturing Company, a wholly owned subsidiary of The GSI Group Inc., from the last-in-first-out ("LIFO") method to the first-in-first-out ("FIFO") method.

ARTHUR ANDERSEN LLP

Chicago, Illinois
February 25, 2002

* This audit report of Arthur Andersen LLP, the Company's former independent public accountants is a copy of the original audit report dated February 25, 2002 rendered by Arthur Andersen LLP on the Company's financial statements included in its Annual Report on Form 10-K filed on April 3, 2002, and has not been reissued by Arthur Andersen LLP since that date.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have audited the accompanying balance sheet of Agromarau Industria e Comercio Ltda. (the "Company") as of December 31, 2002, and the related statements of income, changes in shareholders' equity and changes in financial position for the year ended December 31, 2002. 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 audit.

We conducted our audit 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 misstatements. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Agromarau Industria e Comercio Ltda. as of December 31, 2002, and the result of its operations and changes in its financial position for the year ended December 31, 2002, in conformity with accounting practices adopted in Brazil.

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

January 24, 2003
Porto Alegre, RS, Brazil

PART I - FINANCIAL INFORMATION

THE GSI GROUP, INC.
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2002 AND 2001
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

ASSETS	RESTATED	RESTATED
Current Assets:		
Cash and cash equivalents		$ 2,936
Accounts receivable, net		23,274
Inventories, net		57,504
Prepaids		2,039
Deferred income taxes		66
Other		5,261
Total current assets		91,080
Notes Receivable		--
Long-Term Retainage		--
Property, Plant and Equipment, net		38,705
Other Assets:		
Goodwill, net		9,738
Other intangible assets, net		3,237
Deferred financing costs, net		2,054
Other		804
Total other assets		15,833
Total assets		$ 145,618
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Current Liabilities:		
Accounts payable		$ 11,063
Payroll and payroll related expenses		3,552
Deferred income taxes		--
Billings in excess of costs		--
Accrued warranty		1,341
Other accrued expenses		5,645
Customer deposits		7,159
Current maturities of long-term debt		3,404
Total current liabilities		32,164
Long-Term Debt, less current maturities		139,735

Deferred Income Taxes	474
MINORITY INTEREST	401
Stockholders' Deficit:	
Common stock, $.01 par value, voting (authorized 6,900,000 shares; issued 6,633,652 shares; outstanding 1,575,000 shares)	16
Common stock, $.01 par value, nonvoting (authorized 1,100,000 shares; issued 1,059,316 shares; outstanding 200,000 shares)	2
Additional paid-in capital	3,096
Accumulated other comprehensive loss	(14,090)
Retained earnings	10,779
Treasury stock, at cost, voting (5,058,652 shares)	(26,950)
Treasury stock, at cost, nonvoting (859,316 shares)	(9)
Total stockholders' deficit	(27,156)
Total liabilities and stockholders' deficit	$ 145,618

The accompanying notes to consolidated financial statements are an integral part of these statements.

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THE GSI GROUP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	2002 RESTATED	2001 RESTATED	2000
Sales	$ 230,636	$ 229,921	$ 243,961
Cost of Sales	183,933	174,847	184,622
Gross profit	46,703	55,074	59,339
Selling, General and Administrative Expenses	37,854	39,728	38,492
Amortization Expense	1,246	1,728	1,578
Total operating expenses	39,100	41,456	40,070
Operating income	7,603	13,618	19,269
Other Income (Expense):			

Interest expense	(13,011)	(14,397)	(14,997)
Interest income	411	485	152
Loss on sale of fixed assets	(353)	(350)	(155)
Foreign currency transaction gain (loss)	(784)	103	247
Other, net	123	74	195
Income before income tax provision (benefit)	(6,011)	(467)	4,711
Income Tax Provision (Benefit)	159	(656)	(568)
Income before minority interest	(6,170)	189	5,279
Minority Interest in Net Income of Subsidiaries	(26)	--	--
Net income (loss)	$ (6,196)	$ 189	$ 5,279
Basic and Diluted Earnings Per Share	$ (3.49)	$ 0.11	$ 2.82
Weighted Average Common Shares Outstanding	1,775,000	1,775,000	1,872,397

The accompanying notes to consolidated financial statements are an integral part of these statements.

THE GSI GROUP, INC.
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT
FOR THE YEARS ENDED DECEMBER 31, 2000, 2001 AND 2002
(IN THOUSANDS, EXCEPT SHARE DATA)

Common Stock	
Voting	Nonvoting

	Accumulated Additional Shares Outstanding	Other Shares Amount	Paid-In Outstanding	Comprehensiv Amount
Balance, December 31, 1999	1,800,000	$ 18	200,000	$
Net income.	-	-	-	
Capital contributions	-	-	-	
Purchase of treasury shares	(225,000)	(2)	-	
Other comprehensive loss-foreign currency Translation adjustments	-	-	-	
Dividends	-	-	-	
Balance, December 31, 2000	1,575,000	$ 16	200,000	$
Restated net income	-	-	-	
Other comprehensive loss-foreign currency Translation adjustments	-	-	-	
Dividends	-	-	-	
Restated Balance, December 31, 2001. . . .	1,575,000	$ 16	200,000	$
Restated net income	-	-	-	
Stock Based Compensation.	-	-	-	
Other comprehensive loss-foreign currency Translation adjustments	-	-	-	
Dividends	-	-	-	
Restated Balance, December 31, 2002. . . .	1,575,000	$ 16	200,000	$

	Treasury Stock				
	Voting	Nonvoting			
	Total Retained Earnings	Comprehensive Stockholders' Shares	Income Amount	Shares	Amount
Balance, December 31, 1999.	$ 16,237	4,833,652	$(25,524)	859,316	$ (9
Net income	5,279	-	-	-	-
Capital contributions.	-	-	-	-	-
Purchase of treasury shares. .	-	225,000	(1,426)	-	-
Other comprehensive loss-foreign Currency translation adjustments	-	-	-	-	-
Comprehensive income	$ 4,170				
Dividends.	(1,862)	-	-	-	-
Balance, December 31, 2000.	$ 19,654	5,058,652	$(26,950)	859,316	$ (9
Restated net income.	189	-	-	-	-
Other comprehensive Loss- foreign currency Translation adjustments.	-	-	-	-	-
Comprehensive loss	$ (1,992)				
Dividends.	(1,073)	-	-	-	-

Restated Balance, December 31, 2001	$ 18,770	5,058,652	$(26,950)	859,316	$ (9
Restated net income.	(6,196)	-	-	-	-
Stock Based Compensation	-	-	-	-	-
Other comprehensive loss-foreign Currency translation adjustments	-	-	-	-	-
Comprehensive loss	$ (10,000)				
Dividends.	(1,795)	-	-	-	-
Restated Balance, December 31, 2002	$ 10,779	5,058,652	$(26,950)	859,316	$ (9

The accompanying notes to consolidated financial statements are an integral part of these statements.

THE GSI GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000
(IN THOUSANDS)

	2002 RESTATED	2001 RESTATED	2000
Cash Flows From Operating Activities:			
Net income (loss).	$ (6,196)	$ 189	$ 5,2
Adjustments to reconcile net income to cash provided by operating activities:			
Depreciation and amortization.	7,065	8,775	8,7
Amortization of deferred financing costs and debt discount . .	643	725	7
Loss on sale of assets	353	350	1
Deferred taxes	(188)	(973)	(8
Minority Interest in Net Income of Subsidiaries.	26		
Minority Interest Compensation Expense	375		
Stock based Compensation	90		
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable, net	5,708	3,621	(2,6
Inventories, net	(2,200)	558	(8,8
Other current assets	(180)	(1,069)	1
Accounts payable	(1,184)	(3,437)	5,2
Payroll and payroll related expenses	(793)	444	1,0
Billings in excess of costs.	(257)	(1,777)	(6
Accrued warranty	(691)	(409)	
Other accrued expenses	42	(1,228)	8
Customer deposits.	955	(814)	3
Net cash flows provided by operating activities.	3,568	4,955	9,5
Cash Flows From Investing Activities:			
Capital expenditures	(5,170)	(4,387)	(6,2

Proceeds from sale of fixed assets	1,299	1,523	3
Acquisition of FFI Corp., net of cash acquired	--	(1,457)	
Other	(11)	25	
Net cash flows used in investing activities	(3,882)	(4,296)	(5,8
Cash Flows From Financing Activities:			
Payments on shareholder loans	(684)	(2,182)	(3
Proceeds from shareholder loans	1,452	1,017	1,5
Payments on debt	(4,512)	(6,690)	(4,9
Net borrowings under line-of-credit agreement	7,800	8,000	2,6
Contributed capital	--	--	
Purchase of treasury shares	--	--	(1,4
Dividends	(1,795)	(1,073)	(1,8
Other	(1,580)	471	2
Net cash flows provided by (used in) financing activities	681	(457)	(4,0
Effect of Exchange Rate Changes on Cash	(259)	(53)	(1
CHANGE In Cash and Cash Equivalents	$ 108	$ 149	$ (5
Cash and Cash Equivalents, beginning of year	2,828	2,679	3,2
Cash and Cash Equivalents, end of year	$ 2,936	$ 2,828	$ 2,6

The accompanying notes to consolidated financial statements are an integral part of these statements

THE GSI GROUP, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. NATURE OF OPERATIONS

The GSI Group, Inc., a Delaware corporation, and its subsidiaries (the "Company") manufacture and sell equipment for the agricultural industry. In limited cases, the Company enters into contracts to manufacture and supervise the assembly of grain handling systems. The Company's product lines include: grain storage bins and related drying and handling equipment systems and swine and poultry feed storage and delivery, ventilation, and watering systems. The Company's headquarters and main manufacturing facility are in Assumption, Illinois, with other manufacturing facilities in Illinois. In addition, the Company has manufacturing and assembly operations in Brazil, Malaysia and Canada and selling and distribution operations in China, Great Britain, Mexico, South Africa, The Netherlands, and Poland.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation

The accompanying financial statements reflect the consolidated results of the Company. All intercompany transactions and balances have been eliminated. The Company records income or loss on the sales to its foreign subsidiaries. That income or loss is not recognized until the inventory is sold by the subsidiary. The Company reviews and adjusts for any material differences between United States of America and location country generally accepted accounting principles. The Company's subsidiaries are as follows:

COMPANY NAME	LOCATION
The GSI Asia Group Sdn.Bhd.	Malaysia
The GSI Group Africa (Proprietary) Limited.	South Africa
The GSI Group Europe Limited.	Great Britain
GSI Cumberland de Mexico, S. de R.L. de C.V..	Mexico
Agromarau Industria E Comercio Ltda..	Brazil
The GSI Agricultural Equipments (Shanghai) Co., Ltd	China

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Company considers all short-term investments with original maturities of three months or less to be cash equivalents.

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Concentration of Credit Risk

The Company's financial instruments that are exposed to concentrations of credit risk consist primarily of cash and cash equivalents and trade accounts receivable. The Company places its cash and temporary investments with high quality financial institutions. At times, such investments may be in excess of the FDIC insurance limit. Temporary investments are valued at the lower of cost or market and at the balance sheet dates approximates fair market value. The Company primarily serves customers in the agricultural industry. This risk exposure is limited due to the large number of customers comprising the Company's customer base and its dispersion across many geographic areas. The Company grants unsecured credit to its customers. In doing so, the Company reviews a customer's credit history before extending credit. In addition, the Company routinely assesses the financial strength of its customers, and, as a

consequence, believes that its trade accounts receivable risk is limited.

Fair Value of Financial Instruments

The carrying amounts of cash, receivables, accounts payable and accrued expenses approximate fair value because of the short-term nature of the items. The carrying amount of the Company's lines of credit, notes and other payables, except for senior subordinated notes payable, approximate their fair values either due to their short term nature, the variable rates associated with these debt instruments or based on current rates offered to the Company for debt with similar characteristics.

Accounts and Notes Receivable

Accounts receivable is stated at the amount billed to customers plus any accrued and unpaid interest. The Company provides an allowance for doubtful accounts, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Accounts receivable is ordinarily due 30 days after the issuance of the invoice. Accounts that are unpaid after the due date bear interest at 1% per month. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

Notes receivable are stated at their outstanding principal amount, net of allowance for uncollectible notes. The Company provides an allowance for uncollectible notes, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Outstanding notes accrue interest based on the terms of the respective note agreements. A note receivable is considered delinquent when the debtor has missed three or more payments. Delinquent notes are written off based on individual credit evaluation and specific circumstances of the borrower.

Inventories

Inventories are stated at the lower of cost or market. Cost includes the cost of materials, labor and factory overhead. The cost of all domestic and international inventories were determined using the first-in-first-out ("FIFO") method. Inventories and cost of sales are based in part on accounting estimates relating to differences resulting from periodic physical inventories.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation. The cost of property, plant and equipment acquired as part of a business acquisition represents the estimated fair market value of such assets at the acquisition date. Depreciation is provided using the straight-line method over the following estimated useful lives.

	YEARS
Building and Improvements. . .	10-25
Machinery and Equipment. . . .	3-10
Office Equipment and Furniture	3-10

Repairs and maintenance are charged to expense as incurred. Gains or losses resulting from sales or retirements are recorded as incurred, at which

time related costs and accumulated depreciation are removed from accounts.

Research and Development

Costs associated with research and development are expensed as incurred. Such costs incurred were $2.7 million, $2.8 million and $2.3 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Intangible Assets

Goodwill is recorded net of accumulated amortization and currency fluctuations. Should events or circumstances occur subsequent to the acquisition of a business which bring into question the realizable value or impairment of the related goodwill, the Company will evaluate the remaining useful life and balance of goodwill and make appropriate adjustments. The Company's principal considerations in determining impairment include the strategic benefit to the Company of the particular business as measured by undiscounted current and expected future operating cash flows of that particular business. Should an impairment be identified, a loss would be reported to the extent that the carrying value of the related goodwill exceeds the fair value. Other intangible assets, which consist of patents and non-compete agreements, are recorded net of accumulated amortization and are being amortized on a straight-line basis over periods ranging from 3 to 17 years.

Deferred Financing Costs

Costs incurred in connection with obtaining financing are capitalized and amortized to the maturity period of the debt.

Revenue Recognition

Revenue is recorded when products are shipped, collection is reasonably assured, the price is fixed and determinable and there is persuasive evidence of an arrangement. Provisions are made at that time, when applicable, for warranty costs to be incurred.

Revenues on long term fixed price contracts are recognized using the percentage of completion method. Percentage of completion is determined by relating the actual costs incurred to date to the total estimated cost for each contract. If the estimate indicates a loss on a particular contract, a provision is made for the entire estimated loss. Retainages are included as current and noncurrent assets in the accompanying consolidated balance sheets. Revenue earned in excess of billings is comprised of revenue recognized on certain contracts in excess of contractual billings on such contracts. Billings in excess of costs are classified as a current liability.

Shipping and Handling Fees

As a result of adopting Emerging Issues Task Force ("EITF") EITF-00-10, "Accounting for Shipping and Handling Fees and Costs" in 2000, and the Company reclassified freight expense from sales to cost of goods sold. In 2000, the amounts reclassified were approximately $8.2 million for the year ending December 31, 2000. Freight expense for 2002 and 2001 was approximately $7.6 and $8.3 million, respectively, which is included in cost of goods sold.

Translation of Foreign Currency

The Company translates the financial statements of its foreign subsidiaries in accordance with Statement of Financial Accounting Standards ("SFAS") No. 52, "Foreign Currency Translation." The Company's foreign operations are reported

in the local currency and translated to U.S. dollars, with the exception of Mexico, whose functional currency is the U.S. dollar. The balance sheets of the Company's foreign operations are translated at the exchange rate in effect at the end of the periods presented. The revenues and expenses of the Company's foreign operations are translated at the average rates in effect during the period. For locations where the U.S. dollar is not the functional currency, exchange losses resulting from translations for the years ended December 31, 2002, 2001 and 2000 have been recorded in the accompanying Consolidated Statements of Stockholders' Deficit. For Mexico, exchange losses from translations for the years ended December 31, 2002 and 2001 have been recorded in the accompanying Consolidated Statements of Operations.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes". Such approach results in the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the book carrying amounts and the tax basis of assets and liabilities.

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Earnings Per Share

The Company computes earnings per share in accordance with SFAS No. 128, "Earnings Per Share." Under the provisions of SFAS No. 128, basic net income per share is computed by dividing the net income for the period by the weighted average number of common shares outstanding during the period. Diluted net income per share is computed by dividing the net income for the period by the weighted average number of common and common equivalent shares outstanding during the period. Diluted earnings per share equals basic earnings per share for all periods presented.

Self Insurance

The Company has elected to self-insure certain costs related to health insurance, worker's compensation and general liability. Costs resulting from noninsured losses are charged to income when incurred. The Company has reserves of $2.0 million, $1.6 million and $1.6 million at December 31, 2002, 2001 and 2000, respectively. The Company has purchased insurance that limits its exposure for individual claims and that limits its aggregate exposure to aproximately $3.4 million.

Thirteen Week Fiscal Periods

The Company uses thirteen-week fiscal quarter periods for operational and financial reporting purposes. The Company's year-end will continue to be December 31.

Change in Accounting Principle

On January 1, 2002, the Company adopted Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangible Assets" ("Statement No. 142"). Under Statement No. 142, goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives. The adoption of Statement No. 142 had the affect of increasing 2002 net income by $0.3 million.

3. NEW ACCOUNTING PRONOUNCEMENTS

During 2002, the Financial Accounting Standards Board issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This

statement provides financial accounting and reporting standards for costs associated with exit or disposal activities. This section requires that a liability for a cost associated with an exit or disposal activity is recognized when the liability is incurred and establishes that fair value is the objective for initial measurement of the liability. The Company has not yet determined the impact that the adoption of Statement No. 146 will have on the Company's financial condition and results of operation.

In November 2002, the Financial Accounting Standards Board issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This Interpretation addresses the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees. This Interpretation also clarifies the requirements relate