GSI GROUP INC
Form 10-Q/A
August 25, 2005

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

FORM 10-Q/A

AMENDMENT NO. 1

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

For the Quarterly Period Ended July 1, 2005

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)

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act. [ ] Yes [X] No

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 August 15, 2005.

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TABLE OF CONTENTS

* No response to this item is included herein for the reason that it is inapplicable.

EXPLANATORY NOTE

This Amendment No. 1 to The GSI Group Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended July 1, 2005 is to correct formatting errors which occurred in the original filing.

FORWARD-LOOKING STATEMENTS

Certain statements contained in this report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are statements other than historical information or statements of current condition. Some forward-looking statements may be identified by the use of terms such as "believes," "anticipates," "intends," or "expects." Forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results to differ materially from future results expressed or implied by such statements, and such statements should not be regarded as a representation that the stated objectives will be achieved.

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS
THE GSI GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	SUCCESSO
	(UNAUDIT
ASSETS	JULY 1 2005
Current Assets:	
Cash and cash equivalents	$3,107
Accounts receivable (net of reserve for bad debts of $3,103 in 2005 And $3,402 in 2004)	39,309
Inventories(net of reserve for obsolescence of $2,820 in 2005 and $2,333 in 2004)	53,219
Prepaid expenses	1,499
Deferred tax current asset	8,197
Other	312
Total current assets	105,643
Property, Plant and Equipment (net of accumulated depreciation of $755 In 2005 and $53,258 in 2004)	33,557
Other Assets:	
Goodwill	40,067
Other intangible assets(net of amortization of $963 in 2005 and $7,114 in 2004)	56,817
Deferred tax asset	--
Deferred financing costs	5,284
Other	140
Total other assets	102,308
Total assets	$241,50

LIABILITIES AND STOCKHOLDERS' DEFICIT	
Current Liabilities:	
Accounts payable.	$ 20,22
Accrued interest.	1,77
Payroll and payroll related expenses.	8,38
Income taxes payable.	55
Accrued warranty.	2,20
Other accrued expenses.	4,70
Customer deposits	4,83
Current maturities of long-term debt.	15
Total current liabilities	42,84
Long-Term Debt, less current maturities	134,78
Deferred Tax Liability.	1,40
Minority Interest	2,30
Stockholders' Equity (Deficit):	

Common stock, $.01 par value (authorized 6,900,000 shares; issued 6,633,652 shares; outstanding 626,948 shares)	1
Common stock, $.01 par value, nonvoting (authorized 1,100,000 shares; issued 1,059,316 shares; outstanding 200,000 shares)	
Paid-in capital	97,88
Accumulated other comprehensive loss (cumulative currency translation adjustment)	58
Retained earnings (deficit)	3,24
Treasury stock, at cost, voting (6,006,704 shares)	(41,55
Treasury stock, at cost, nonvoting (859,316 shares)	(
Total stockholders' equity (deficit)	60,17
Total liabilities and stockholders' equity (deficit)	$ 241,50

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

5

THE GSI GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)
(UNAUDITED)

	SUCCESSOR	PREDECESSOR		
	MAY 17, 2005 THROUGH JULY 1, 2005	APRIL 2, 2005 THROUGH MAY 16, 2005	RESTATED THREE FISCAL MONTHS ENDED JULY 2, 2004	JANUARY 1, 2005 THROUGH MAY 16, 2005
Sales	$ 48,178	$ 41,961	$ 79,623	$114,635
Cost of sales	40,282	28,389	63,808	83,733
Gross profit	7,896	13,572	15,815	30,902
Selling, general and administrative expenses	6,885	15,575	11,048	25,049
Amortization expense	962	4	162	166
Total operating expenses	7,847	15,579	11,210	25,215
Operating income (loss)	49	(2,007)	4,605	5,687
Other income (expense):				
Interest expense	(1,975)	(1,657)	(3,438)	(5,238)
Other, net	87	178	(317)	707

Income (loss) from continuing operations before income tax expense and minority interest.	(1,839)	(3,486)	850	1,156
Minority interest in net income of subsidiary . .	(55)	(50)	(23)	(105)
Income tax expense (benefit).	(5,142)	501	221	1,115
Income (loss) from continuing operations.	3,248	(4,037)	606	(64)
Gain from discontinued operations, net of income tax expense taxes.	--	--	26	--
Net income (loss)	$ 3,248	$ (4,037)	$ 632	$ (64)
Basic and diluted earnings (loss) per share . . .	$ 3.93	$ (4.88)	$ 0.36	$ (0.08)
Weighted average common shares outstanding. . . .	826,948	826,948	1,775,000	826,948
COMPREHENSIVE INCOME				
Net income (loss)	$ 3,248	$ (4,037)	$ 632	$ (64)
Cumulative currency translation adjustment. . .	584	1,086	(1,244)	536
Comprehensive income (loss)	$ 3,832	$ (2,951)	$ (612)	$ 472

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

6

THE GSI GROUP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	SUCCESSOR	PREDEC
	MAY17, 2005 THROUGH JULY 1, 2005	JANUARY 1, 2005 THROUGH MAY 16, 2005
Cash Flows From Operating Activities:		
Net income (loss).	$ 3,248	$ (64)
Adjustments to reconcile net income (loss) to cash provided By operating activities:		
Depreciation and amortization.	1,616	2,070

Amortization of deferred financing costs and debt discount	94	572
(Gain)loss on sale of property and equipment	(23)	(84)
Non-cash charges related to inventory fair value adjustment	2,644	--
Deferred taxes	(5,642)	(69)
Minority interest in net income of subsidiaries	55	105
Minority interest compensation expense	--	779
Stock-based compensation	--	2,842
Changes in:		
Accounts receivable	(3,265)	(11,388)
Inventories	5,047	(6,968)
Other current assets	669	5,159
Accounts payable	(1,788)	5,388
Accrued expenses and payroll and payroll related expenses	4,100	3,130
Customer deposits	(810)	(1,449)
Net cash flows provided by operating activities	5,945	23
Cash Flows From Investing Activities:		
Capital expenditures	(647)	(2,046)
Proceeds from sale of property and equipment	47	268
Other	8	(48)
Net cash flows used in investing activities	(592)	(1,826)
Cash Flows From Financing Activities:		
Proceeds from stockholder loan	--	12
Payments on stockholder loan	(5,012)	--
Proceeds from issuance of long-term debt	110,000	--
Payments on long-term debt	(100,000)	(90)
Proceeds under line of credit agreement	29,530	10,369
Payments under line of credit agreement	(49,786)	--
Net proceeds of equity contributed	15,326	--
Payment of deferred financing costs	(5,378)	(485)
Dividends paid	--	(7,913)
Other	670	50
Net cash flows provided by (used in) financing activities	(4,650)	1,943
Effect of Exchange Rate Changes on Cash	(33)	(7)
Increase (decrease) In Cash and Cash Equivalents	$ 670	$ 133
Cash and Cash Equivalents, beginning of period	2,437	2,304
Cash and Cash Equivalents, end of period	$ 3,107	$ 2,437

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

7

THE GSI GROUP, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared by The GSI Group, Inc.

(the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information not misleading. The condensed and restated consolidated balance sheet of the Company as of December 31, 2004 has been derived from the audited restated consolidated balance sheet of the Company as of that date. Certain information and note disclosures normally included in the Company's annual financial statements in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and related notes contained in the Company's December 31, 2004 Form 10-K/A as filed with the Securities and Exchange Commission. Other than as indicated herein, there have been no significant changes from the data presented in the Company's 2004 Form 10-K/A.

In the opinion of management, the financial statements contain all adjustments necessary to present fairly the financial position of the Company as of July 1, 2005 and the results of operations and cash flows for the successor period of May 17 through July 1, 2005 and the predecessor periods of April 2 through May 16, 2005, three months ended July 2, 2004, January 1 through May 16, 2005 and six months ended July 2, 2004. Those adjustments consist only of normal recurring adjustments.

The results of operations for the successor period of May 17 through July 1, 2005 and the predecessor periods of April 2 through May 16, 2005, three months ended July 2, 2004, January 1 through May 16, 2005 and six months ended July 2, 2004 are not necessarily indicative of the operating results for the full year.

The accompanying combined financial statements are presented under two different ("Predecessor" and "Successor") bases of accounting. The predecessor and successor financial statements are consolidated and include all of the accounts of GSI Group, Inc. and its subsidiaries. All intercompany transactions and balances have been eliminated.

2. ACQUISITION AND FINANCING TRANSACTIONS (THE TRANSACTION)

The Acquisition

On April 6, 2005, all of the Company's stockholders entered into a stock purchase agreement with GSI Holdings, Inc. ("GSI Holdings"), a newly formed holding company owned primarily by entities affiliated with Charlesbank Equity Fund V, Limited Partnership, pursuant to which GSI Holdings purchased for cash all of the issued and outstanding shares of the Company's common stock. On May 16, 2005, under the "successor" basis of accounting, the closing of that stock purchase ("the Acquisition") occurred. Upon the closing of that stock purchase, the Company became a direct, wholly owned subsidiary of GSI Holdings. The cash costs of the Acquisition together with the fees and expenses necessary to consummate the transaction were financed by equity contributions of $56,340,000, issuance of $110,000,000 million of senior subordinated notes (the "Notes") due May 15, 2013, and a five year $60,000,000 revolving credit facility.

Immediately following the closing, the Company converted from a subchapter "S" corporation to a subchapter "C" corporation, which means that it became a taxable entity for federal and state income tax purposes. For the portion of the 2005 fiscal year preceding the closing date, the Company made tax distributions to its selling stockholders at the closing in an amount sufficient to allow them to pay income taxes relating to such period.

The Acquisition of the Company has been accounted for in accordance with SFAS No. 141 "Business Combinations" and reflects the "push down" of GSI Holdings' basis into our financial statements. The purchase price is being allocated to the assets acquired and the liabilities assumed based on the estimates of respective fair values at the date of acquisition. The fair values are being determined by management estimates and by independent third party valuations.

The following table summarizes the estimated fair value of the assets acquired and of the liabilities assumed at the date of the Acquisition. The Company is in the process of finalizing the third party valuations of the assets acquired and liabilities assumed; accordingly the preliminary allocation of the purchase price is likely to change.

Cash	$ 2.4
Accounts receivable, net	36.0
Inventories, net	60.9
Property, plant and equipment	33.4
Other intangible assets	57.8
Goodwill	40.0
Other assets	2.8
Total assets acquired	233.3
Accounts payable and accrued expenses	38.0
Customer deposits	5.6
Long-term debt	150.0
Minority interest	2.2
Deferred income taxes	0.2
Total liabilities assumed	196.0
Purchase price	$ 37.3

ACQUISITION AND FINANCING	MAY 17, 2005
Cash paid upon acquisition	$ 34,934
Repay old indebtedness	149,864
Bond repayment penalty	1,729
Repayment of interest	1,252
Estimate of acquisition expenses	2,371
Acquisition Consideration	$ 190,150

Historical net book value of tangible assets acquired	86,678
Excess purchase price to be allocated	103,472
Inventory step-up	(5,288)
Property, plant and equipment step-up	(561)
Other intangibles	(57,780)
Deferred tax liability.	224
Goodwill.	(40,067)
	$ 0

The aggregate amortization expense for the period May 17, 2005 through July 1, 2005 for the identified intangible assets was $1.0 million. The identified intangible assets are being amortized on a straight-line basis over their individual estimated useful lives.

9

The carrying value of inventory was increased by approximately $5.3 million to reflect the inventory fair value at May 16, 2005. The effect of the fair value adjustment is to increase the cost of goods sold and thereby reduce gross profit in future periods when this inventory is sold. The Company expects to sell most of that inventory by the end of September and sell all of that inventory by the end of the year. During the period May 17, 2005 through July 1, 2005, cost of goods sold included $2.6 million of this fair value adjustment.

The carrying value of property, plant and equipment was increased by approximately $0.6 million to reflect the fair value at May 16, 2005. The effect of the fair value adjustment is to increase costs and expenses for additional depreciation in future periods over the useful lives of the assets.

The following schedule explains the changes in Stockholder's Equity as a result of the purchase:

	Common Voting Voting	Common Non- hensive	Paid-in Capital Voting	Other Compre	Retained Earnings	Treasury Voting	Treasury Non-
Predecessor as of December 31, 2004 as restated. .	$ 16	$ 2	$ 5,821	$(10,124)	$ (991)	$ (41,550)	$ (9)
Predecessor Income (loss) Jan 1-May 16, 2005				536	(64)		
Change in Equity due to Acquisition On May 16, 2005 . .			92,060	9,588	1,055		
Successor Income. .				584	3,248		

Successor Equity at July 1, 2005 . .	$ 16	$ 2	$ 97,881	$ 584	$ 3,248	$ (41,550)	$ (9)

The Financing Transactions

In connection with the closing of the Acquisition on May 16, 2005, the Company entered into the following financing transactions, each of which occurred prior to or concurrently with the closing of the Acquisition:

- the closing of the issuance of the Notes;
- the closing of our refinanced senior secured credit facility, consisting of a $60.0 million revolving credit facility. Approximately $29.5 million was drawn on the revolving credit facility on the closing date, with additional availability of approximately $22.5 million under the revolving credit facility on the closing date;
- the call for redemption of all of our existing 10 1/4% senior subordinated notes due 2007, the deposit of all amounts necessary to redeem those notes with the trustee, and the subsequent retirement of all of those notes upon completion of the redemption;
- the repayment in full of all amounts outstanding under our existing credit facility;
- the repayment in full of all amounts outstanding under loans made to us by our founder and selling majority stockholder; and
- the cash equity contribution to GSI Holdings by our equity sponsor, Charlesbank Equity Fund V, Limited Partnership (a small amount of which was made by nonaffiliated funds) of $56.3 million, of which approximately $43.8 million (less certain expenses and other amounts) was paid to our selling stockholders, and approximately $12.5 million was contributed to our common equity.

Pro Forma Information

The unaudited, supplemental pro forma information reflects the Transaction as if it had occurred on January 1, 2004. Included in these pro forma adjustments are the consideration of the fair value of the property, plant and equipment; intangibles; fair value assigned to inventory; amortization of the deferred financing fees and the interest expense related to the new debt.

	Three months Ended July 1, 2005	Three months Ended July 2, 2004	Six months Ended July 1, 2005	Six months Ended July 2, 2004
Pro Forma Net Sales	$ 90,139	$ 79,623	$ 162,813	$ 138,067
Pro Forma Net Income (Loss)	$ 832	$ (368)	$ (1,625)	$ (1,158)
Earnings (loss) per share .	$ 1.01	$ (0.21)	$ (1.97)	$ (0.65)

3. RESTATEMENTS

First Restatement

During the Company's 2004 year-end closing process, the Company discovered unintentional accounting errors in prior years' financial statements. The errors were corrected in the 2004 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 $6,470,000. 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 $2,206,000 in 2003 and $4,264,000 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. This adjustment increased the previously reported net income by $534,000 in the second quarter of 2004 and $894,000 for the first six months of 2004.

In 1997, the Company's majority stockholder began selling non-voting shares to certain employees. The Company's majority stockholder helped finance each employee's purchase with a loan to each employee with the shares as the only collateral for 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 previously followed. Treatment of the transaction as a variable stock award requires the Company to recognize as compensation expense the extent to which the fair market value of the underlying shares exceeds the original purchase price for such shares. 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 by $709,000 in the second quarter of 2004 and $1,157,000 for the first six months of 2004.

In 2002, the Company entered into an agreement with the manager of its Brazilian subsidiary whereby the Company agreed to issue him shares of the Brazilian subsidiary's stock primarily based on the financial performance of the Brazilian subsidiary. This agreement constitutes a stock compensation arrangement for which the Company did not previously recognize compensation expense. The effect of recording compensation expense related to this arrangement reduced previously reported net income by $187,000 in the second quarter of 2004 and $312,000 for the first six months of 2004.

11

Prior to the 2004 closing process, the Company had been using Mexican Pesos as the functional currency of its Mexican subsidiary. During the 2004 closing process, the Company determined that the correct functional currency of its Mexican subsidiary should be U.S. Dollars rather than Mexican Pesos. The effect of this change reduced previously reported net income by $10,000 in the second quarter of 2004 and $16,000 for the first six months of 2004.

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 a liability for claims incurred but not reported. The effect of accruing for such claims in 2004 reduced previously reported net income by $82,000 in the second quarter of 2004 and $137,000 for the first six months of 2004.

The Company also made adjustments in 2004 to correct previous reporting of overhead adjustments in overseas inventories and gain on inter-company sales.

Second Restatement

Subsequent to the sale of all of the stock of the Company on May 16, 2005, the new management appointed by the new owner of the Company discovered additional accounting errors in prior years' financial statements. The errors have been corrected in the accompanying 2005 and 2004 financial statements. A description of the errors and related impact on each of the financial statements follows. Amounts are stated in whole dollars.

The Company made adjustments in the first fiscal quarter of 2005 and the first and second fiscal quarters of 2004 to correct its allowance for obsolete inventory to conform to the Company's historical policy. The effect of these changes reduced net income by $243,000 in the first six months of 2005 and $140,000 and $280,000 in the second fiscal quarter and first six months of 2004, respectively.

The Company made adjustments in 2004 to expense warranty and research and development costs, which were erroneously included in inventory. The effect of these changes increased quarterly net income by $164,000 in the second fiscal quarter of 2004 and $327,000 in the first six months of 2004. The Company reclassified warranty and research and development costs out of cost of sales and into operating expenses for 2005 and 2004, which had no effect on net income.

The Company made adjustments in 2005 and 2004 to correct the amount of overhead that was included in inventory. The previous inventory included an excessive amount of overhead. The effect of these changes reduced net income by $998,000 in the first six months of 2005 and increased net income by $547,000 and $1,094,000 in the second fiscal quarter and first six months of 2004, respectively.

The combined effect of these changes reduced net income by $1,241,000 in the first six months of 2005 and increased net income by $570,000 and $1,140,000 in the second fiscal quarter and first six months of 2004, respectively.

The impact of the above noted adjustments on the Company's financial statements for the first six months of 2005 and 2004 and for the second fiscal quarter of 2004 are summarized in the table below. Amounts are stated in thousands of dollars except for per share line items.

	AS PREVIOUSLY REPORTED	FIRST RESTATEMENT	AS RESTATED	SECOND RESTATEMENT	AS RESTATE
FIRST SIX MONTHS OF 2005					
Consolidated Balance Sheet:					
Inventory	$ 58,608		$ 58,608	$ (5,389)	$ 53,219
Retained earnings	8,637		8,637	(5,389)	3,248
Consolidated Statement of Income:					
Cost of sales	124,283		124,283	(268)	124,015
Warranty and R&D expenses . . .	--		--	1,508	1,508
Operating income.	6,976		6,976	(1,240)	5,736
Net income (loss)	451		451	(1,240)	(789
Basic and diluted income (loss) per share	$ 0.55		$ 0.55	$ (1.50)	$ (0.95

	AS PREVIOUSLY REPORTED	FIRST RESTATEMENT	AS RESTATED	SECOND RESTATEMENT	RES
FIRST SIX MONTHS OF 2004					
Consolidated Balance Sheet:					
Inventory	$ 55,986	$	55,986	$ (2,466)	$ 53
Retained earnings	12,437		12,437	(2,466)	9
Consolidated Statement of Income:					
Cost of sales	113,339	(884)	112,455	(3,877)	1
Selling, general and administrative expenses	17,053	1,336	18,389	--	
Warranty and R&D expenses	--	--	--	2,737	
Operating income.	7,773	(874)	6,899	1,140	
Other, net.	(509)	(189)	(698)		
Net income (loss)	406	(809)	(403)	1,140	
Basic and diluted loss per share.	$ 0.23	$ (0.46)	$ (0.23)	$ 0.65	$

	AS PREVIOUSLY REPORTED	FIRST RESTATEMENT	AS RESTATED	SECOND RESTATEMENT	A RES
SECOND FISCAL QUARTER OF 2004					
Consolidated Balance Sheet:					
Inventory	$ 55,986	$	55,986	$ (2,466)	$ 5
Retained earnings	12,437		12,437	(2,466)	
Consolidated Statement of Income:					
Cost of sales	66,235	(493)	65,742	(1,934)	6
Selling, general and administrative expenses	8,892	792	9,684		
Warranty and R&D expenses	--	--	--	1,364	
Operating income.	4,566	(531)	4,035	570	
Other, net.	(330)	(279)	(609)		
Net income (loss)	565	(503)	62	570	
Basic and diluted loss per share.	$ 0.32	$ (0.29)	$ 0.03	$ 0.33	$

4. DETAIL OF CERTAIN ASSETS

	SUCCESSOR (UNAUDITED)	PREDECESSOR (RESTATED)

	JULY 1, 2005	DEC. 31, 2004
(IN THOUSANDS)		
Inventories		
Raw materials. .	$ 19,563	$ 21,396
Work-in-process.	9,517	8,049
Finished goods .	24,139	19,208
Total . . .	$ 53,219	$ 48,653

Inventory at July 1, 2005 contains $2,645 of the fair value step-up recorded at the date the Company was purchased by GSI Holdings.

13

5. SUPPLEMENTAL CASH FLOW INFORMATION

The Company paid approximately $0.2 million, , $6.0 million and $6.1 million in interest during the successor period of May 17 through July 1, 2005 and the predecessor periods of January 1 through May 16, 2005 and six months ended July 2, 2004, respectively. The Company paid $0.0 million, $0.2 million and $0.0 million in income taxes during the successor period of May 17 through July 1, 2005 and the predecessor periods of January 1 through May 16, 2005 and six months ended July 2, 2004, respectively.

6. DEBT

REVOLVING CREDIT FACILITY

On May 16, 2005, concurrently with the issuance of $110,000,000 of 12% Senior Notes due 2013 and the closing of the acquisition of The GSI Group, Inc. (the "Company") by GSI Holdings Corp. ("GSI Holdings"), an affiliate of Charlesbank Equity Fund V, Limited Partnership, the Company refinanced its existing credit facility with a five-year asset-backed revolving credit facility provided by lenders led by Wachovia Capital Finance Corporation (Central) ("Wachovia"), as the agent. The maximum amount of revolving credit available under the Company's refinanced credit facility (the "Credit Facility") is $60.0 million and the Company has the option to increase the facility in increments of $5.0 million up to a maximum of $75.0 million (subject to compliance with the covenants in the indenture). Up to $15 million of the facility is available for issuances of letters of credit.

The Credit Facility provides floating rate revolving loans bearing interest at a rate equal to 0.0% to 0.5% over Wachovia's prime rate or 1.50% to 2.00% over LIBOR, in each case based on the excess availability under the borrowing base from time to time.

The Company's obligations under its Credit Facility are secured by a first priority lien on, and pledge of, substantially all of its and any subsidiary guarantors' current and future assets. In addition, GSI Holdings pledged all of its shares of the Company's common stock, as well as any rights that it may have under the stock purchase agreement with the Company's selling stockholders, as additional collateral security.

The Credit Facility contains certain covenants that are substantially similar to, but generally no more restrictive than, the covenants under the Company's existing credit facility. The Company's ability to make borrowings under the Credit Facility is subject to customary representations, warranties and covenants. The Credit Facility also contains various customary events of default.

SENIOR NOTES DUE 2013

On May 16, 2005, concurrently with the refinancing of its existing revolving credit facility with Wachovia Capital Finance Corporation and the closing of the acquisition of The GSI Group, Inc. (the "Company") by GSI Holdings Corp. ("GSI Holdings"), an affiliate of Charlesbank Equity Fund V, Limited Partnership, the Company issued and sold $110,000,000 aggregate principal amount of Senior Notes due 2013 (the "Notes"). Payment on the Notes is guaranteed on an unsecured basis by GSI Holdings and by all of the Company's domestic material subsidiaries. None of the Company's domestic subsidiaries are currently material subsidiaries. The Notes were issued under an Indenture among the Company, the Guarantors and U.S. Bank National Association, as trustee (the "Indenture").

The Notes have a fixed annual interest rate of 12%, which will be paid semiannually in arrears on May 15 and November 15, commencing on November 15, 2005.

Prior to May 15, 2008, the Company may redeem up to 35% of the Notes at a redemption price of 112.000% of the principal amount, plus accrued and unpaid interest from the proceeds of certain equity offerings; provided that: (i) at least 65% of the aggregate principal amount of Notes originally issued under the Indenture (excluding Notes held by the Company and its subsidiaries) remains outstanding immediately after the occurrence of such redemption and (ii) the redemption occurs within 90 days of the date of the closing of such equity offering. Except pursuant to the preceding sentence, the Notes will not be redeemable at the Company's option prior to May 15, 2009.

14

On or after May 15, 2009, the Company may redeem all or a part of the Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) listed below plus accrued and unpaid interest and liquidated damages, if any, on the Notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on May 15 of the years indicated below, subject to the rights of holders of Notes on the relevant record date to receive interest on the relevant interest payment date: 2009 at a redemption price of 106.000%; 2010 at a redemption price of 103.000%; and 2011 and thereafter at a redemption price of 100.000%.

Upon a change of control, as defined in the Indenture, the Company is required to offer to purchase all of the Notes then outstanding for cash at 101% of the aggregate principal amount thereof plus accrued and unpaid interest and liquidated damages, if any, on the Notes repurchased to the date of purchase, subject to the rights of holders of Notes on the relevant record date to receive interest due on the relevant interest payment date.

Also on May 16, 2005, the Company issued a call for redemption for all $100 million principal amount of its existing 10-1/4% senior subordinated notes due 2007 at a price of 101.729% plus accrued interest from May 1, 2005 to the date of redemption. These notes were redeemed on June 15, 2005.

7. INCOME TAXES

Upon conversion from a subchapter "S" corporation to a subchapter "C" corporation, the Company recorded a net deferred tax asset of $4,560 on May 17,

2005. The following table represents the successor and predecessor income taxes for the first six months of 2005 and the first six months of 2004.

	SUCCESSOR		PREDECESSOR		
	May 17,2005 - July 1,2005		Jan 1,2005 - May16,2005		Six months
	Income/(Loss) Before Income Taxes	Income Tax Expense/ (Benefit)	Income/(Loss) Before Income Taxes	Income Tax Expense/ (Benefit)	Income/(Lo Before Income Ta
U.S.	$ (2,811)	$ (689)	$ (564)	$ 495	$ (1
Brazil	493	143	1,051	336	1
Malaysia	132	1	(317)	(10)	
Mexico	218	--	432	256	
China.	19	--	242	--	
Poland	(12)	--	(2)	--	
South Africa	67	(37)	209	38	
Total.	$ (1,894)	$ (582)	$ 1,051	$ 1,115	$

	SUCCESSOR	PREDECESSOR	
Current income taxes	$ 500	$ 1,184	$
Deferred income taxes.	(5,642)	(69)	
Total.	$ (5,142)	$ 1,115	$

	Successor	Predecessor	
	May 17,2005 - July 1,2005.	Jan 1,2005 - May16,2005	As of Ju
Income taxes at U.S. statutory rate	$ (663)	$ 368	$
Effect of conversion to a "C: corporation.	(4,560)	--	
State income taxes	(138)	77	
Foreign rate differential and other.	219	670	
Total.	$ (5,142)	$ 1,115	$

15

The following table represents the successor and predecessor income taxes for the second quarter of 2005 and the second quarter of 2004.

SUCCESSOR		PREDECESSOR		
				Thre
May 17, 2005 - July 1, 2005		April 2, 2005 - May16, 2005		
Income/(Loss) Before	Income Tax Expense/	Income/(Loss) Before	Income Tax Expense/	Inco B

	Income Taxes	(Benefit)	Income Taxes	(Benefit)	Inco
U.S.	$ (2,811)	$ (689)	$ (3,953)	$ 255	$
Brazil	493	143	220	55	
Malaysia	132	1	(196)	(30)	
Mexico	218	--	310	183	
China.	19	--	240	--	
Poland	(12)	--	29	--	
South Africa	67	(37)	(186)	38	
Total.	$ (1,894)	$ (582)	$ (3,536)	$ 501	$

Current income taxes	$ 500	$ 625
Deferred income taxes.	(5,642)	(124)
Total.	$ (5,142)	$ 501

	Successor May 17,2005 - July 1,2005. .	Predecessor Jan 1,2005 - May16,2005
Income taxes at U.S. statutory rate .	$ (663)	$ (1,238)
Effect of conversion to a "C" corporation.	(4,560)	--
State income taxes	(138)	(258)
Foreign rate differential and other.	219	1,997
Total.	$ (5,142)	$ 501

8. COMMITMENTS AND CONTINGENCIES

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.

16

9. BUSINESS SEGMENT

The Company has no separately reportable segments in accordance with Statement of Financial Accounting Standard ("SFAS") No. 131, "Disclosure About Segments of an Enterprise and Related Information." Under the enterprise wide disclosure requirements of SFAS 131, the Company reports sales by each product line. Amounts for the first six months of 2005 and 2004, based on the aggregation of historical and successor accounting, are as shown in the table below (in thousands).

	(UNAUDITED) SUCCESSOR	(UNAUDITED) PREDECESSOR	(UNAUDITED)	(UNAUDITED)	(RESTATED)
	MAY 17 - JULY 1, 2005	APRIL 2 - MAY 16, 2005	THREE MONTHS ENDED JULY 2, 2004	JAN 1, - MAY 16, 2005	SIX MONTHS ENDED JULY 2, 2004
Grain product line. . .	$ 29,027	$ 24,320	$ 54,411	$ 67,234	$ 86,875
Swine product line. . .	9,411	7,929	11,500	20,789	21,424
Poultry product line. .	9,740	9,712	13,944	26,612	30,190
Discontinued operations	--	--	(232)	--	(422)
Sales.	$ 48,178	$ 41,961	$ 79,623	$ 114,635	$ 138,067

For the first six months of 2005 and 2004, sales in Brazil were $17.0 million and $13.8 million, respectively. Long-lived assets in Brazil were $5.4 million at July 1, 2005.

17

ITEM 2. 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 1 hereof.

GENERAL

The Company is a major worldwide manufacturer of agricultural equipment. The Company's grain, swine and poultry products are used by producers and purchasers of grain, and by producers of swine and poultry. Demand for our agricultural equipment is driven by the overall level of grain, swine and poultry production, the level of net farm income, agricultural real estate values and producers' increasing focus on improving productivity in their operations. In addition, fluctuations in grain and feed prices affect our sales, with sustained increases in grain and feed prices increasing demand for our grain equipment and decreasing demand for our swine and poultry equipment. We believe that our diversified product offerings mitigate the effects of fluctuations in the price of grain. Sales of our swine and poultry equipment are also affected by long-term trends in consumer demand for pork and poultry both domestically and internationally.

Sales of agricultural equipment are seasonal, with farmers traditionally purchasing grain storage bins and grain conditioning 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, operating income and net income have historically been lower during the first and fourth fiscal quarters as compared to the second and third quarters. Traditionally, this has caused the Company to have increased working capital needs during the second and third quarters as material is purchased and converted to inventory during the year.

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 operation), the production costs, profit margins and competitive position 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 our total sales. In the first six months of 2005 and 2004, the Company's international sales accounted for 26% and 27% of total 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 our international operations.

The primary raw materials we use to manufacture our products are steel and polymers. Fluctuations in the prices of steel and, to a lesser extent, polymer materials can impact our cost of sales.

On May 16, 2005, in connection with the closing of the purchase of all of the issued and outstanding shares of the Company's common stock by GSI Holdings Corp., the Company was converted from a subchapter "S" corporation to a subchapter "C" corporation, which means that it will now be a taxable entity for federal and state income tax purposes. For the portion of the Company's fiscal year preceding that date, the Company has made a tax distribution to its stockholders in an amount sufficient to allow them to pay their resulting income taxes for such period.

ITEMS AFFECTING COMPARABILITY

On April 6, 2005, all of the Company's stockholders entered into a stock purchase agreement with GSI Holdings, Inc. (GSI Holdings), a newly formed holding company owned primarily by an affiliate of Charlesbank Equity Fund V, Limited Partnership, pursuant to which GSI Holdings purchased for cash all of the issued and outstanding shares of the Company's common stock. On May 16, 2005, under the "successor" basis of accounting, the closing of the Acquisition occurred. Consequently, our financial statements shown in Item 1 of this 10Q have been presented under two different bases of accounting, with all historical Company activity up to and including May 16, 2005 under the predecessor basis, and all Company activity from May 17, 2005 to July 1, 2005 under the successor basis. The following discussion and analysis is based upon the aggregation of these two bases of accounting for the 3 months and six months ended July 1, 2005, and our review of the business and operations during such periods as compared to the same periods of 2004.

18

As a result of the Acquisition, our assets and liabilities have been adjusted to their fair value as of the closing date. Depreciation and amortization expenses are higher in successor accounting due to the fair value assessments resulting in increases to the carrying value of our property, plant and equipment and intangible assets. The financial statements for the 3 months and six months ended July 1, 2005 include the following expenses related to purchase accounting: cost of goods sold includes $2.6 million non-cash purchase accounting charges related to inventory fair value adjustments. Approximately $1.8 million of inventory fair value adjustments will be charged to cost of sales in the third quarter of 2005.

We believe the discussion and analysis of The GSI Group, Inc.'s financial condition and combined results of operations set forth below are not indicative nor should they be relied upon as an indicator of our future performance. Senior management appointed by the board of directors of the purchaser in the Acquisition is relatively new to the Company, and is still engaged in an ongoing analysis of trends and operating indicators as they relate to future performance. Please refer to the footnotes to the Financial Statements included in Item 1 of this report, including "Summary of Significant Accounting Policies-Basis of Statement Presentation" for important additional information concerning the basis of presentation of financial information included in this report.

RESTATEMENTS

First Restatement

During the Company's 2004 year-end closing process, the Company discovered unintentional accounting errors in prior years' financial statements. The errors were corrected in the 2004 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 $6,470,000. 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 $2,206,000 in 2003 and $4,264,000 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. This adjustment increased the previously reported net income by $534,000 in the second quarter of 2004 and $894,000 for the first six months of 2004.

In 1997, the Company's majority stockholder began selling non-voting shares to certain employees. The Company's majority stockholder helped finance each employee's purchase with a loan to each employee with the shares as the only collateral for 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 previously followed. Treatment of the transaction as a variable stock award requires the Company to recognize as compensation expense the extent to which the fair market value of the underlying shares exceeds the original purchase price for such shares. 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 by $709,000 in the second quarter of 2004 and $1,157,000 for the first six months of 2004.

In 2002, the Company entered into an agreement with the manager of its Brazilian subsidiary whereby the Company agreed to issue him shares of the Brazilian subsidiary's stock primarily based on the financial performance of the Brazilian subsidiary. This agreement constitutes a stock compensation arrangement for which the Company did not previously recognize compensation expense. The effect of recording compensation expense related to this arrangement reduced previously reported net income by $187,000 in the second quarter of 2004 and $312,000 for the first six months of 2004.

Prior to the 2004 closing process, the Company had been using Mexican Pesos as the functional currency of its Mexican subsidiary. During the 2004 closing process, the Company determined that the correct functional currency of its Mexican subsidiary should be U.S. Dollars rather than Mexican Pesos. The effect of this change reduced previously reported net income by $10,000 in the second quarter of 2004 and $16,000 for the first six months of 2004.

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 a liability for claims incurred but not reported. The effect of accruing for such claims in 2004 reduced previously reported net income by $82,000 in the second quarter of 2004 and $137,000 for the first six months of 2004.

The Company also made adjustments in 2004 to correct previous reporting of overhead adjustments in overseas inventories and gain on inter-company sales.

The impact of the above noted adjustments on the Company's financial statements for the first fiscal quarter of 2004 is summarized in the table below. Amounts are stated in thousands of dollars except for per share line items.

Second Restatement

Subsequent to the sale of all of the stock of the Company on May 16, 2005, the new management appointed by the new owner of the Company discovered additional accounting errors in prior years' financial statements. The errors have been corrected in the accompanying 2005 and 2004 financial statements. A description of the errors and related impact on each of the financial statements follows. Amounts are stated in whole dollars.

The Company made adjustments in the first fiscal quarter of 2005 and the first and second fiscal quarters of 2004 to correct its allowance for obsolete inventory to conform to the Company's historical policy. The effect of these changes reduced net income by $243,000 in the first six months of 2005 and $140,000 and $280,000 in the second fiscal quarter and first six months of 2004, respectively.

The Company made adjustments in 2004 to expense warranty and research and development costs, which were erroneously included in inventory. The effect of these changes increased quarterly net income by $164,000 in the second fiscal quarter of 2004 and $327,000 in the first six months of 2004. The Company reclassified warranty and research and development costs out of cost of sales and into operating expenses for 2005 and 2004, which had no effect on net income.

The Company made adjustments in 2005 and 2004 to correct the amount of overhead that was included in inventory. The previous inventory included an excessive amount of overhead. The effect of these changes reduced net income by $998,000 in the first six months of 2005 and increased net income by $547,000 and $1,094,000 in the second fiscal quarter and first six months of 2004, respectively.

The combined effect of these changes reduced net income by $1,241,000 in the first six months of 2005 and increased net income by $570,000 and $1,140,000 in the second fiscal quarter and first six months of 2004, respectively.

The impact of the above noted adjustments on the Company's financial statements for the first fiscal quarter of 2005 and 2004 are summarized in the table below. Amounts are stated in thousands of dollars except for per share line items.

20

	AS PREVIOUSLY REPORTED	FIRST RESTATEMENT	AS RESTATED	SECOND RESTATEMENT	AS RESTATE
FIRST SIX MONTHS OF 2005					
Consolidated Balance Sheet:					
Inventory	$ 58,608		$ 58,608	$ (5,389)	$ 53,219
Retained earnings	8,637		8,637	(5,389)	3,248
Consolidated Statement of Income:					
Cost of sales	124,283		124,283	(268)	124,015
Warranty and R&D expenses . . .	--		--	1,508	1,508
Operating income.	6,976		6,976	(1,240)	5,736
Net income (loss)	451		451	(1,240)	(789
Basic and diluted income (loss) per share	$ 0.55		$ 0.55	$ (1.50)	$ (0.95

	AS PREVIOUSLY REPORTED	FIRST RESTATEMENT	AS RESTATED	SECOND RESTATEMENT	A RES
FIRST SIX MONTHS OF 2004					
Consolidated Balance Sheet:					
Inventory	$ 55,986		$ 55,986	$ (2,466)	$ 5
Retained earnings	12,437		12,437	(2,466)	
Consolidated Statement of Income:					
Cost of sales	113,339	(884)	112,455	(3,877)	1
Selling, general and administrative expenses	17,053	1,336	18,389	--	
Warranty and R&D expenses	--	--	--	2,737	
Operating income.	7,773	(874)	6,899	1,140	
Other, net.	(509)	(189)	(698)		
Net income (loss)	406	(809)	(403)	1,140	
Basic and diluted loss per share.	$ 0.23	$ (0.46)	$ (0.23)	$ 0.65	$

	AS PREVIOUSLY REPORTED	FIRST RESTATEMENT	AS RESTATED	SECOND RESTATEMENT	A RES
SECOND FISCAL QUARTER OF 2004					

Consolidated Balance Sheet:					
Inventory	$ 55,986	$	55,986	$ (2,466)	$ 53
Retained earnings	12,437		12,437	(2,466)	9
Consolidated Statement of Income:					
Cost of sales	66,235	(493)	65,742	(1,934)	
Selling, general and administrative expenses	8,892	792	9,684		
Warranty and R&D expenses	--	--	--	1,364	
Operating income.	4,566	(531)	4,035	570	
Other, net.	(330)	(279)	(609)		
Net income (loss)	565	(503)	62	570	
Basic and diluted loss per share.	$ 0.32	$ (0.29)	$ 0.03	$ 0.33	$

HISTORICAL PERFORMANCE

Our financial statements shown in Item 1 of this 10Q have been presented under two different bases of accounting, with all historical Company activity up to and including May 16, 2005 under the predecessor basis, and all Company activity from May 17, 2005 to July 1, 2005 under the successor basis. The following discussion and analysis is based upon the aggregation of these two bases of accounting for the 3 months and six months ended July 1, 2005, and our review of the business and operations during such periods as compared to the same periods of 2004.

RESULTS OF OPERATIONS (AFTER SECOND RESTATEMENT)

The following table sets forth a summary of the Company's operations and their percentages of total revenue for the periods indicated based on the aggregation of historical predecessor and successor accounting (dollars in thousands):

	THREE MONTHS ENDED,				SIX MONTHS ENDED		
	JULY 1, 2005 (UNAUDITED)		RESTATED JULY 2, 2004 (UNAUDITED)		JULY 1, 2005 (UNAUDITED)		RESTATE JULY 2, (UNAUDI
	AMOUNT	%	AMOUNT	%	AMOUNT	%	AMOUN
Sales.	$90,139	100.0	$79,623	100.0	$162,813	100.0	$138,0
Cost of sales.	68,671	76.2	63,808	80.1	124,015	76.2	108,5
Gross profit.	21,468	23.8	15,815	19.9	38,798	23.8	29,4
Selling, general and administrative expenses	21,599	24.0	9,684	12.2	30,426	18.7	18,3
Amortization expense	966	1.1	162	0.2	1,128	0.7	3
Warranty expense	21	0.0	483	0.6	(177)	(0.1)	9
R&D expense.	840	0.9	881	1.1	1,685	1.0	1,7
Total operating expenses.	23,426	26.0	11,210	14.1	33,062	20.3	21,4

Operating income (loss).	(1,958)	(2.2)	4,605	5.8	5,736	3.5	8,0
Other income (expense):							
Interest expense.	(3,632)	(4.0)	(3,438)	(4.3)	(7,213)	(4.4)	(6,5
Other, net.	265	0.3	(317)	(0.4)	794	0.5	(5
Income (loss) before income tax expense and minority interest.	(5,325)	(5.9)	850	1.1	(683)	(0.4)	9
Minority interest in net income of subsidiary	(105)	(0.1)	(23)	0.0	(160)	(0.1)	(
Income tax provision(benefit).	(4,641)	(5.1)	221	0.3	(4,027)	(2.5)	3
Income (loss) before discontinued operations	(789)	(0.9)	606	0.8	3,184	2.0	5
Gain (loss) from discontinued operations, net of income taxes.	--	0.0	26	0.0	--	0.0	1
Net income (loss).	$ (789)	(0.9)	$ 632	0.8	$ 3,184	2.0	$ 7
Basic and diluted earnings (loss) per share.	$ (0.95)		$ 0.36		$ 3.85		$ 0.
Weighted average common shares Outstanding.	826,948		1,775,000		826,948		1,775

Three Months Ended July 1, 2005 Compared to Three Months Ended July 2, 2004

Sales increased 13.2% or $10.5 million to $90.1 million in the second quarter of 2005 compared to $79.6 million in the second quarter of 2004. Grain equipment dollar sales decreased by 0.2% during the second quarter of 2005 as compared to the second quarter 2004 driven by lower volume offset by higher pricing. Swine equipment sales increased 50.8% to $17.3 million in the second quarter of 2005 compared to $11.5 million in the second quarter of 2004 due to an improved swine production market that allows producers to upgrade equipment. Poultry equipment sales increased 39.5% to $19.5 million in the second quarter of 2005 compared to $13.9 million in the second quarter of 2004 primarily due to increased volume in Brazil and South Africa.

Cost of goods sold increased 7.6% or $4.9 million to $68.7 million or 76.2% of sales in the second quarter of 2005 compared to $63.8 million or 80.1% of sales in the second quarter of 2004. This increase is due in part to the amortization of the inventory step up of fair value of $2.6 million. The improvement in margins is due to increased pricing and better product mix offset by higher material costs.

Gross profit increased to $21.5 million in the second quarter of 2005 or 23.8% of sales from $15.8 million or 19.9% of sales in the same period of 2004. This increase was primarily due to the reasons cited above.

Operating expenses increased 109.0% or $12.2 million to $23.4 million in the second quarter of 2005 from $11.2 million in the same period of 2004. The table below outlines the significant increases in operating expenses

	AMOUNT OF INCREASE
Selling expenses	$ 911
Non-cash compensation expense.	4,294
Minority interest compensation expense	585
Seller transaction expenses.	3,966
Bad debt expense for YCII.	627
Amortization	$ 804

The increase in selling expenses related to the increased revenue. The non-cash compensation expense relates to the dividends paid to non-voting stockholders and the change in the market value of the non-voting shares for the stock that was sold to members of management and is treated as a variable stock award. According to APB Opinion 25, this increase in market value must be recorded as compensation expense. The minority interest compensation expense is the market value of the portion of Brazil that is owned by a member of management. The seller transaction expenses relate to the sale of the Company on May 16, 2005 to GSI Holdings. All of the expenses so recorded related only to the predecessor period ending May 16, 2005.

Operating income decreased to a loss of $2.0 million in the second quarter of 2005 from income of $4.6 million in the second quarter of 2004. Operating income margins decreased to (2.2)% of sales in 2005 from 5.8% in 2004.

Interest expense increased $0.2 million in the second quarter of 2005 as compared to the second quarter of 2004 due to higher borrowing costs.

Upon conversion from a subchapter "S" corporation to a subchapter "C" corporation the Company recorded a net deferred tax asset of $4.6 million. The conversion of tax status significantly impacted net income for the second quarter of 2005

Net income decreased by $1.4 million to a loss of $0.8 million for the second quarter of 2005 from income of $0.6 million in the same period of 2004.

Six Months Ended July 1, 2005 Compared to Six Months Ended July 2, 2004

Sales increased 17.9% or $24.7 million to $162.8 million in the first six months of 2005 compared to $138.1 million in the first six months of 2004. Grain sales increased 10.8% in the first six months of 2005 to $96.3 million primarily as a result of pricing increases in grain storage products and market share penetration of new products such as grain transportation equipment offset by lower volumes in grain storage. Strong sales of grain equipment in our Brazilian subsidiary also contributed to the increase. Swine equipment sales increased 41% due to an improved swine production market that allows producers to upgrade equipment. Poultry equipment sales increased 39.5% primarily due to increased volume in Brazil and South Africa.

Cost of goods sold increased 14.2% or $15.4 million to $124.0 million or

76.2% of sales in the first six months of 2005 compared to $108.6 million or 78.6% of sales in the first six months of 2004. This increase is due in part to the amortization of the inventory step up of fair value of $2.6 million. The improvement in margins is due to increased pricing and better product mix offset by higher material costs.

Gross profit increased to $38.8 million in the first six months of 2005 or 23.8% of sales from $29.5 million or 21.4% of sales in the same period of 2004. This increase was primarily due to the reasons cited above

Operating expenses increased 54.1% or $11.6 million to $33.1 million in the first six months of 2005 from $21.5 million in the same period of 2004. The table below outlines the significant increases in operating expenses.

	AMOUNT OF INCREASE
Selling expenses	$ 1,181
Non-cash compensation expense.	4,756
Minority interest compensation expense	690
Seller transaction expenses.	3,966
Bad debt reserve for YCII.	627
Amortization	$ 804

The increase in selling expenses related to the increased revenue. The non-cash compensation expense relates to the dividends paid to non-voting stockholders and the change in the market value of the non-voting shares for the stock that was sold to members of management and is treated as a variable stock award. According to APB Opinion 25, this increase in market value must be recorded as compensation expense. The minority interest compensation expense is the market value of the portion of Brazil that is owned by a member of management. The seller transaction expenses relate to the sale of the Company on May 16, 2005 to GSI Holdings. All of the expenses so recorded related only to the predecessor period ending May 16, 2005.

Operating income decreased to $5.7 million in the first six months of 2005 from $8.0 million in the first six months of 2004. Operating income margins decreased to 3.5% of sales in 2005 from 5.8% in 2004.

Interest expense increased $0.7 million in the first six months of 2005 as compared to the first six months of 2004 due to higher borrowing costs.

Upon conversion from a subchapter "S" corporation to a subchapter "C" corporation the Company recorded a net deferred tax asset of $4.6 million. The conversion of tax status significantly impacted net income for the first six months of 2005

Net income increased by $2.5 million to $3.2 million for the first six months of 2005 from $ 0.7 million in the same period of 2004.

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 the Company's credit facility and the sale of the Company's 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 July 1, 2005, the Company had $62.8 million of working capital, an increase of $22.5 million from working capital as of December 31, 2004. The increase in working capital was primarily due to increases in accounts receivable, inventory and deferred taxes of $27.4 million, partially offset by decreases in prepaids and other current assets of $5.1 million.

Operating activities provided $6.0 million and $3.2 million in cash flow in the first six months of 2005 and 2004, respectively. This $2.8 million increase in cash flow was primarily the result of increase in net income, depreciation and amortization, non-cash charges related to inventory fair value, stock based compensation, minority interest compensation, accrued expenses, inventory and other current assets of $18.8 million, partially offset by decreases in deferred taxes, accounts receivable and accounts payable of $16.0 million compared to the first six months of 2004.

24

Investing activities used $2.4 million and $1.3 million in cash flow in the first six months of 2005 and 2004, respectively. The cash was used primarily for the purchase of property, plant and equipment.

Financing activities used $2.7 million and $2.4 million in cash flow in the first six months of 2005 and 2004, respectively. The cash was used primarily to pay down debt.

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

REVOLVING CREDIT FACILITY

On May 16, 2005, concurrently with the issuance of $110,000,000 of 12% Senior Notes due 2013 and the closing of the acquisition of The GSI Group, Inc. (the "Company") by GSI Holdings Corp. ("GSI Holdings"), an affiliate of Charlesbank Equity Fund V, Limited Partnership, the Company refinanced its existing credit facility with a five-year asset-backed revolving credit facility provided by lenders led by Wachovia Capital Finance Corporation (Central) ("Wachovia"), as the agent. The maximum amount of revolving credit available under the Company's refinanced credit facility (the "Credit Facility") is $60.0 million and the Company has the option to increase the facility in increments of $5.0 million up to a maximum of $75.0 million (subject to compliance with the covenants in the indenture). Up to $15 million of the facility is available for issuances of letters of credit.

The Credit Facility provides floating rate revolving loans bearing interest at a rate equal to 0.0% to 0.5% over Wachovia's prime rate or 1.50% to 2.00% over LIBOR, in each case based on the excess availability under the borrowing base from time to time.

The Company's obligations under its Credit Facility are secured by a first priority lien on, and pledge of, substantially all of its and any subsidiary guarantors' current and future assets. In addition, GSI Holdings pledged all of its shares of the Company's common stock, as well as any rights that it may have under the stock purchase agreement with the Company's selling stockholders, as additional collateral security.

The Credit Facility contains certain covenants that are substantially similar to, but generally no more restrictive than, the covenants under the Company's existing credit facility. The Company's ability to make borrowings under the Credit Facility is subject to customary representations, warranties and covenants. The Credit Facility also contains various customary events of default.

SENIOR NOTES DUE 2013

On May 16, 2005, concurrently with the refinancing of its existing revolving credit facility with Wachovia Capital Finance Corporation and the closing of the acquisition of The GSI Group, Inc. (the "Company") by GSI Holdings Corp. ("GSI Holdings"), an affiliate of Charlesbank Equity Fund V, Limited Partnership, the Company issued and sold $110,000,000 aggregate principal amount of Senior Notes due 2013 (the "Notes"). Payment on the Notes is guaranteed on an unsecured basis by GSI Holdings and by all of the Company's domestic material subsidiaries. None of the Company's domestic subsidiaries are currently material subsidiaries. The Notes were issued under an Indenture among the Company, the Guarantors and U.S. Bank National Association, as trustee (the "Indenture").

The Notes have a fixed annual interest rate of 12%, which will be paid semiannually in arrears on May 15 and November 15, commencing on November 15, 2005.

Prior to May 15, 2008, the Company may redeem up to 35% of the Notes at a redemption price of 112.000% of the principal amount, plus accrued and unpaid interest from the proceeds of certain equity offerings; provided that: (i) at least 65% of the aggregate principal amount of Notes originally issued under the Indenture (excluding Notes held by the Company and its subsidiaries) remains outstanding immediately after the occurrence of such redemption and (ii) the redemption occurs within 90 days of the date of the closing of such equity offering. Except pursuant to the preceding sentence, the Notes will not be redeemable at the Company's option prior to May 15, 2009.

25

On or after May 15, 2009, the Company may redeem all or a part of the Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) listed below plus accrued and unpaid interest and liquidated damages, if any, on the Notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on May 15 of the years indicated below, subject to the rights of holders of Notes on the relevant record date to receive interest on the relevant interest payment date: 2009 at a redemption price of 106.000%; 2010 at a redemption price of 103.000%; and 2011 and thereafter at a redemption price of 100.000%.

Upon a change of control, as defined in the Indenture, the Company is required to offer to purchase all of the Notes then outstanding for cash at 101% of the aggregate principal amount thereof plus accrued and unpaid interest and liquidated damages, if any, on the Notes repurchased to the date of purchase, subject to the rights of holders of Notes on the relevant record date to receive interest due on the relevant interest payment date.

Also on May 16, 2005, the Company issued a call for redemption for all $100 million principal amount of its existing 10-1/4% senior subordinated notes due 2007 at a price of 101.729% plus accrued interest from May 1, 2005 to the date of redemption.

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

There have been no material changes to the critical accounting policies since December 31, 2004.

ITEM 3. 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 July 1, 2005, principal exposed to interest rate risk was limited to $24.9 million in variable rate debt. The interest rates on the Company's various debt instruments range from 4.5% to 12.0%. 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. A 1% change in interest rates would have a $0.2 million impact on the Company's results of operations.

At July 1, 2005, approximately 12.1% 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 and South African subsidiaries. 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 devaluation of the Brazilian Real per U.S. dollar and the South African Rand per U.S. dollar. These amounts are difficult to accurately estimate due to factors such as the inherent fluctuation of inter-company account balances, balance sheet accounts and the existing economic uncertainty and future economic conditions in the international marketplace.

ITEM 4. CONTROLS AND PROCEDURES

OVERVIEW

In connection with the preparation of its Annual Report on Form 10-K for the fiscal year ended December 31, 2004, the Company's management identified material weaknesses in the Company's internal controls over financial reporting. As defined by the Public Company Accounting Oversight Board ("PCAOB") in Auditing Standard No. 2, a material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected.

The identified material weaknesses in the Company's internal controls over financial reporting have resulted in insufficient controls relating to inventory accounting, the treatment of foreign currency matters, accounting matters relating to differences between U.S. and foreign accounting principles and practices, accounting for non-operating expenses, the accounting treatment of purchases and sales of the Company's debt securities, executive salary accrual methodology, the identification and treatment of relevant workers' compensation reserves and minority interest reserves and the treatment of stock based compensation expense issues. In addition, the Company has determined that the Company's control environment at December 31, 2004 lacked certain controls related to the prevention of improper accounting entries. These material weaknesses resulted in restatements being recorded in the Company's financial statements for the fiscal quarters ended July 2, 2004 and July 1, 2005. The Company's management has discussed the material weaknesses with its independent registered public accounting firm, BKD LLP, and the Company's Board of Directors, and more recently the Audit Committee of the Board of Directors, which was recently created. BKD LLP issued a "material weakness" letter in connection with its audit of the Company's financial statements for the fiscal year ended December 31, 2004.

DISCLOSURE CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the reports it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding disclosure. The Company's management, with the participation of its Chief Executive Officer and Chief Financial Officer, has performed an evaluation of the Company's disclosure controls and procedures as of July 1, 2005, the end of the period covered by this Quarterly Report on Form 10-Q/A. Based on that evaluation, which included a review of the matters discussed above, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were not effective as of the end of the period covered by this Quarterly Report on Form 10-Q/A, but they are working diligently to improve them.

27

CHANGES IN INTERNAL CONTROLS

During the period April 2, 2005 through May 16, 2005 there were no changes made to the Company's internal controls. On May 16, 2005, the Company was acquired by GSI Holdings, Inc. ("GSI Holdings"), a newly formed holding company owned primarily by entities affiliated with Charlesbank Equity Fund V, Limited Partnership. Subsequent to this acquisition, and during the period May 16, 2005 through July 1, 2005, the following changes were made to the Company's internal controls:

a) The Company employed a number of financial advisors to aid in financial statement preparation and the recording of unusual financial transactions.
b) The Company employed a number of operational advisors, primarily to aid in implementing operation efficiencies, but secondarily, to report to the Company's management any disclosable conditions in Company operations.
c) The Company's new management forced the adherence to Company accounting policy particularly in the area of inventory accounting.
d) The Company instituted an informal program of low-level management reporting to new top-level management.
e) The board of directors of the Company was in the process of appointing an audit committee, which will have improvement of the Company's internal controls as one of its primary goals.

In addition, the Company believes that the material weaknesses identified above resulted in part from inadequate staffing and training within the Company's finance and accounting group. The Company's new management continues in the process of reviewing whether additional accounting and financial management staff should be retained, and continues to review the question of whether it should utilize additional, or different, outside resources. Although the Company believes that progress has been made in addressing the material weaknesses in its internal controls as discussed above, the Company's management believes that significant weaknesses remain and intends to continue to work to improve its internal controls.

28

PART II
OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

There are no legal proceedings pending against the Company, which, in the opinion of management, would have a material adverse affect on the Company's business, financial position or results of operations.

ITEM 6. EXHIBITS.

(a) EXHIBITS:

A list of the exhibits included as part of this Form 10-Q/A is set forth in the Index to Exhibits that immediately precedes such exhibits, which is incorporated herein by reference.

29

SIGNATURES

PURSUANT TO THE REQUIREMENTS OF THE SECURITIES EXCHANGE ACT OF 1934, THE REGISTRANT HAS DULY CAUSED THIS REPORT TO BE SIGNED ON ITS BEHALF BY THE UNDERSIGNED THEREUNTO DULY AUTHORIZED.

The GSI Group, Inc.

By:/s/ Randall Paulfus

Interim Chief Financial Officer

DATE: AUGUST 22, 2005

30

EXHIBIT 31.1

CERTIFICATIONS

I, William Branch, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q/A of The GSI Group, Inc.;

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

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

of, and for, the periods presented in this report;

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

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

b) [Paragraph omitted pursuant to SEC Release nos. 33-8392 and 34-49313.]

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 22, 2005

/s/ William Branch

Interim Chief Executive Officer, Chairman of the Board and President.

31

EXHIBIT 31.2

CERTIFICATIONS

I, Randall Paulfus, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q/A of The GSI Group, Inc.;

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

misleading with respect to the period covered by this report;

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

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

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

b) [Paragraph omitted pursuant to SEC Release nos. 33-8392 and 34-49313.]

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 22, 2005

/s/ Randall Paulfus

Interim Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO SECTION 906

OF THE SARBANES-OXLEY ACT OF 2002

In connection with the accompanying Quarterly Report on Form 10-Q/A of The GSI Group, Inc., a Delaware corporation (the "Company"), for the quarter ended July 1, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), and pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, William Branch, as Interim Chief Executive Officer of the Company, and Randall Paulfus, as Interim Chief Financial Officer of the Company, hereby certify that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 22, 2005

/s/ WILLIAM BRANCH

William Branch
Interim Chief Executive Officer, Chairman of the Board and President.

/s/ RANDALL PAULFUS

Randall Paulfus
Interim Chief Financial Officer

This certification shall not be deemed "filed" by the Company for purposes of Section 18 of the Securities Exchange Act of 1934. In addition, this certification shall not be deemed to be incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

33

INDEX TO EXHIBITS

EXHIBIT NO.	DOCUMENT DESCRIPTION
3.1*	Amended and Restated Articles of Incorporation of The GSI Group, Inc., as amended as o
3.2*	By-Laws of The GSI Group, Inc, as adopted on September 4, 2001.

31.1 Certification of Interim Chief Executive Officer, Chairman of the Board and President

31.2 Certification of Chief Financial Officer.

32.1 Section 906 Certification.

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* Incorporated by reference from the Company's Registration Statement of Form S-4 (Reg. No. 333-43089) filed with the Commission pursuant to the Securities Act of 1933, as amended.