

GSI GROUP INC
Form 10-K/A
January 30, 2006
Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(AMENDMENT NO. 2)

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

For the Fiscal Year Ended December 31, 2004

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
(State or other jurisdiction of
incorporation or organization)

37-0856587
(I.R.S. Employer
Identification No.)

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

62510
(Zip Code)

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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 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.

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

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

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 15, 2005.

Documents Incorporated by Reference: None

Table of Contents

EXPLANATORY NOTE AMENDMENT NO. 2

This Amendment No. 2 to The GSI Group, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2004 corrects a computational error regarding earnings per share. The calculation of earnings per share has been corrected in Item 6 - Selected Financial Data; Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations; the consolidated financial statements as of December 31, 2004; and Note 18 to the consolidated financial statements - Restatements. In addition, we have added a new note to our restated audited financial statements for the year ended December 31, 2004 describing the correction to the computational error in the earnings per share as reported for such fiscal year, and our independent auditors, BKD, LLP, have included an updated audit opinion that refers to this new note.

Except as described above, this Form 10-K/A does not update or otherwise amend our 2004 10-K as previously filed for changes in events, estimates or other developments subsequent to April 15, 2005 (the date of the original filing of the Annual Report on Form 10-K for our fiscal year ended December 31, 2004). For a discussion of subsequent events and developments that may be material to investors, please refer to our filings with the Securities and Exchange Commission subsequent to April 15, 2005.

EXPLANATORY NOTE AMENDMENT NO. 1

Amendment No. 1 to The GSI Group Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2004 included restated consolidated financial statements as of December 31, 2004, 2003 and 2002, and related changes to Item 6 - Selected Financial Data, Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and Exhibit 12.1 - Computation of Ratio of Earnings to Fixed Charges (Unaudited). The accompanying restated consolidated financial statements, including the notes thereto, were also revised to reflect the restatement adjustments. The restatements of our consolidated financial statements as of December 31, 2003 and 2002 contained herein are in addition to the restatement of those financial statements set forth in Amendment No. 1 to our Annual Report on Form 10-K for the fiscal year ended December 31, 2003, which was filed on April 26, 2005.

In addition, Amendment No. 1 included changes to Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations and Item 9A - Controls and Procedures - Changes in Internal Controls, which changes were made in response to comments from the staff of the Securities and Exchange Commission on this Item in the 2004 Form 10-K as initially filed and certain other immaterial changes to correct inaccurate information contained in the Form 10-K for the fiscal year ended December 31, 2004 as originally filed.

On May 16, 2005, as reported in our Current Report on Form 8-K dated May 20, 2005, we were acquired by GSI Holdings Corp. Following consummation of this transaction, new management commenced a review of our historical financial condition and results of operations. On July 12, 2005, as reported in our Current Report on Form 8-K of that date, we announced that management, in consultation with our independent auditors, BKD, LLP, had determined that our previously issued consolidated financial statements for the 2004, 2003 and 2002 fiscal years may contain errors and thus should not be relied upon until we were able to ascertain whether a restatement would in fact be required. We determined that it was necessary to restate these financial statements, and included that information in Amendment No. 1.

We, in consultation with our independent auditors, BKD, LLP, determined that it was necessary to restate to correct for historical errors in inventory accounting. The identified errors related to three separate issues:

1) capitalization rates of overhead expense in inventory, which were inconsistent with actual spending;

- 2) the capitalization of warranty and R&D costs in inventory, which management believes should be expensed in their entirety; and

- 3) improper application of our policy for establishing reserves for slow moving inventory, which resulted in inadequate historical reserve levels.

Except as described above, Amendment No. 1 did not update or otherwise amend our 2004 10-K for changes in events, estimates or other developments subsequent to April 15, 2005 (the date of the original filing of the Annual Report on Form 10-K for our fiscal year ended December 31, 2004). For a discussion of subsequent events and developments that may be material to investors, please refer to our filings with the Securities and Exchange Commission subsequent to April 15, 2005.

Table of Contents

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 GSI Group, Inc. (the Company) and business strategies for our 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, we caution that, while we believe such assumptions or bases to be reasonable and make 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, we or our management expresses an expectation or belief as to future results, we express that expectation or belief in good faith and believe it has a reasonable basis, but we can give no assurance that the statement of expectation or belief will result or be achieved or accomplished.

Our actual results may differ significantly from the results discussed in the forward-looking statements.

Table of Contents**TABLE OF CONTENTS**

| | PAGE |
|---|--------------|
| | _____ |
| PART I | |
| Item 1. <u>Business</u> | 5 |
| Item 2. <u>Properties</u> | 11 |
| Item 3. <u>Legal Proceedings</u> | 12 |
| Item 4. <u>Submission of Matters to a Vote of Security Holders</u> | 12 |
| PART II | |
| Item 5. <u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | 13 |
| Item 6. <u>Selected Financial Data</u> | 14 |
| Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 15 |
| Item 7A. <u>Quantitative and Qualitative Disclosure About Market Risk</u> | 23 |
| Item 8. <u>Financial Statements and Supplementary Data</u> | 24 |
| Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> | 48 |
| Item 9A. <u>Controls and Procedures</u> | 48 |
| Item 9B. <u>Other Information</u> | 49 |
| PART III | |
| Item 10. <u>Directors and Executive Officers of the Registrant</u> | 50 |
| Item 11. <u>Executive Compensation</u> | 51 |
| Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | 52 |
| Item 13. <u>Certain Relationships and Related Transactions</u> | 52 |
| Item 14. <u>Principal Accountant Fees and Services</u> | 53 |
| PART IV | |
| Item 15. <u>Exhibits and Financial Statement Schedules</u> | 54 |

Table of Contents

PART I

ITEM 1. BUSINESS.

GENERAL

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

Through the Company's distribution network of independent dealers, the Company markets and sells a broad range of fully integrated grain storage, conditioning and handling products to farm operators and commercial businesses, such as the Archer-Daniels-Midland Company and Cargill, Inc. The end users of the Company's equipment operate grain farms, feed mills, grain elevators, port storage facilities and commercial grain processing facilities. The Company believes that its grain storage, conditioning 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 markets and sells its feeding and ventilation systems to swine and poultry growers, who purchase equipment through the Company's distribution network of independent dealers. The Company also markets its products to large integrators, such as Pilgrim's Pride Corporation, Tyson Foods, Inc. and Smithfield Foods, Inc., who purchase swine and poultry from growers pursuant to contracts that specify that particular agricultural equipment be used in the growing process. The Company believes that its swine and poultry systems are the most effective in the industry in minimizing the feed-to-meat ratio, a key measure of operational efficiency. The Company also believes that its swine and poultry systems are superior to those of its principal competitors due to its proprietary, patented designs and its broad range of fully integrated products and systems.

On April 6, 2005, the Company's stockholders entered into an agreement to sell all of the issued and outstanding shares of voting and non-voting equity of the Company to an affiliate of Charlesbank Equity Fund V, Limited Partnership. In connection with the consummation of the transaction, it is expected that the Company will refinance or amend its senior credit facility and its 10-1/4% senior subordinated notes due 2007. The consummation of the transaction, which is expected to occur in May 2005, is subject to customary conditions, including the receipt of financing.

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 COMPETITIVE STRENGTHS

The Company believes that its competitive strengths include the following:

Leading Market Positions. The Company believes that it is the largest global manufacturer of both (i) grain storage bins and related conditioning and handling systems and (ii) swine feed storage and delivery, ventilation and confinement systems. The Company is also one of the largest global providers of equipment to the poultry producing industry, providing feed storage and delivery, watering, ventilation and nesting systems. The Company believes that it has achieved its leading market position due to the breadth, quality and reliability of its products, its commitment to customer service and the effectiveness of its distribution network of independent dealers.

Table of Contents

Provider of Fully Integrated Systems with Strong Brand Names. The Company offers a broad range of integrated products and systems that permits customers to purchase all of their grain, swine and poultry production equipment needs through its distribution network of independent dealers. Through the Company's manufacturing expertise and experience, its GSI, DMC, FFI, Zimmerman, AP and Cumberland brand names have achieved strong recognition in its markets. The Company designs its fully integrated systems to help its end-user customers achieve operational efficiencies and maximize operating results by lowering their total production costs and enhancing their productivity. The Company also believes that its dealers benefit from purchasing fully integrated systems due to the strong after-market support for its end-user customers, lower administrative and shipping costs and the efficiencies they gain from dealing with a single supplier.

Effective Global Distribution Network. The Company believes that it has developed a highly effective global distribution network consisting of over 2,500 independent dealers that market the Company's products in approximately 75 countries. To ensure a high level of customer service, the Company carefully selects and trains its dealers. This approach to dealer selection and training has helped the Company to maintain a very low turnover rate within its dealer network, thereby providing its end-user customers with consistency and stability of equipment and system supply. As a result, over the last three fiscal years, no domestic dealer representing sales to the Company in excess of \$1 million per year has discontinued sales of any of the Company's principal products in favor of those of a competitor. The Company's distribution network is also the principal supplier of repair parts to the end users of its products, which enables the Company to maintain strong ongoing relationships with its end-user customers and dealers. These relationships often result in long-term brand loyalty to the Company's products on the part of end-user customers, and create a steady base of recurring revenues for the Company. For example, within each of the Company's three product lines (grain, swine and poultry), its 10 largest dealers have been purchasing the Company's equipment and systems for an average of over 10 years.

Highly Diversified Revenue Base. The Company is well diversified by product line, geography and customer base. The Company sells its products to customers in approximately 75 countries through a network of over 2,500 independent dealers. In each of the last three fiscal years, no single customer or product class represented more than 10% of the Company's sales.

Experienced Management Team. The Company is led by a management team with significant experience in the agricultural products industry. The Company's executive management team has an average of 23 years of industry experience, which the Company believes helps it to establish strong, credible customer relationships and identify and respond quickly to market opportunities. The Company's Chairman and senior management own 100% of the Company's outstanding common stock, and in the event the pending sale of the Company's stock is consummated, have committed to purchase a significant portion of the new parent company's common stock at the same price per share being paid by the purchaser.

BUSINESS STRATEGY

The Company is a major provider of agricultural equipment, and its objective is to continue to pursue profitable growth in its markets. The Company's business strategy includes the following principal elements:

Capitalize on Favorable Market Conditions and Trends. The Company intends to capitalize on the strong conditions and attractive market trends that exist in its industry. According to the United States Department of Agriculture, or USDA, from 2003 to 2004 U.S. net farm income increased 24% to \$74 billion. The Company believes this increase will lead to increased domestic demand for its equipment in 2005. In addition, the Company believes there are several trends that will continue to drive demand for its grain equipment. As described in more detail below under Industry Overview, these trends include (i) conversion of domestic cropland from soybeans to corn which continues to result in an increase in the aggregate volume of bushels produced, (ii) growth in demand for corn driven primarily by an increase in ethanol production in the United States, (iii) growth in genetically modified grains, which have greater storage and handling needs, (iv) continued increases in domestic corn yields and (v) continuing consolidation of the grain farm sector and the resulting increase in large scale on-farm grain storage. Demand for the Company's products is also being driven by producers' increasing focus on the efficiency of their agricultural equipment and by

the increased presence of protein (for example, poultry and pork) in the diets of consumers.

Leverage Extensive Global Distribution Network. The Company has developed a highly effective and established global distribution network, and it intends to continue to use its distribution network and strong brand names to deepen its relationships with existing customers as well as to attract new customers. Part of this strategy involves using its distribution network to introduce new products into the market. For example, in 1998 the Company introduced through its distribution network its grain handling equipment, including the Grain King line of transport products for the movement of grain, which has accounted for more than \$30 million of its sales.

Table of Contents

Capitalize on Growth in International Markets. The Company believes that it has leading market positions in key international growth markets for grain and livestock equipment, such as Brazil, China and Eastern Europe. The Company intends to continue to leverage its worldwide brand name recognition, leading market positions and international distribution network to capture the growing demand for its products that exists in the international marketplace. The Company also believes that the economic growth occurring in its international markets will result in consumers devoting larger portions of their income to improved and higher-protein diets, stimulating demand for poultry and pork and, in turn, the Company's products.

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 works closely with its customers and capitalizes on existing technology to improve existing products and develop new value-added products. For example, the Company's HI-LO pan feeder has the unique ability to adjust from floor feeding to regulated feed levels, thereby minimizing the feed-to-meat ratio and increasing growers' efficiency. The Company intends to continue to actively develop product improvements and innovations to more effectively serve its customers.

Focus on Improving Profitability and Cash Flow Generation. In 2002, the Company began to implement a lean manufacturing initiative, which is primarily responsible for reducing our labor expense as a percent of sales from 2002 to 2004. The Company believes that significant opportunity exists to continue to enhance its profitability and capital efficiency by further applying lean techniques to its manufacturing operations.

INDUSTRY OVERVIEW

The industry in which the Company operates is characterized both domestically and internationally by a few large companies with broad product offerings, such as the Company, CTB, Inc., a Berkshire Hathaway company, and Big Dutchman International GmbH, and numerous small manufacturers of single product lines. Competition is based on product value, reputation, quality, design and price as well as customer service. The Company believes that its leading brand names, diversified high-quality product lines and strong distribution network enable it to compete effectively.

Demand for agricultural equipment such as the Company's products 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. The USDA projects U.S. net farm income to average \$61 billion per year over the next 10 years as compared to an average of \$48 billion per year in the 1990s.

Demand for grain equipment is increasing, due in large part to the following factors:

Conversion of Domestic Cropland from Soybeans to Corn. U.S. farmers are increasingly converting cropland to corn production due to expanded applications for corn and the increased relative profitability of corn production as compared to soybean production. According to the USDA, 2004 corn yields averaged 160 bushels per acre, compared to an average yield of 43 bushels per acre of soybeans. In addition, the harvesting, processing and distribution of corn is more equipment intensive than that of soybeans, due principally to the greater conditioning needs of corn. These factors are driving demand for additional infrastructure for grain storage, conditioning and handling.

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Increase in Domestic Ethanol Production. Ethanol, produced from corn, is used as an additive to gasoline. According to the USDA, corn used in ethanol production grew at a compound annual growth rate of 14% from 1997 to 2004. Approximately 12% of 2004 domestic corn production was devoted to the production of ethanol. The USDA projects that demand for ethanol will continue to increase due to, among other factors, continued strong petroleum prices and regulatory bans on methyl tertiary butyl ether (MTBE) as an alternative fuel oxygenate.

Proliferation of Genetically Modified Organisms (GMOs). GMO acceptance among consumers has been growing, as has the breadth of GMO offerings. In order to ensure traceability, genetically modified grains must be separated during storage, transfer and conditioning, which requires that farmers and processors maintain multiple storage units and related conditioning and handling equipment.

Table of Contents

Long-term Increases in Corn Yields. The increase in grain production attributable to advancements in seed and fertilizer engineering necessitates additional storage and other equipment to keep pace with production. According to the USDA, from 1984 to 2004, domestic corn production increased from 107 bushels per acre to 160 bushels per acre, which the Company believes resulted, in part, from these engineering changes and other technological advancements.

Consolidation of Grain Farm Production. According to the USDA, the percentage of total cropland acreage managed by farms with more than \$1 million in annual revenue is projected to increase from 12% in 2004 to 26% in 2010. Larger grain farms are more likely to invest in large on-farm storage facilities due to their ability to afford greater capital goods purchases and their need for greater scale economies.

The Company's sales of swine and poultry equipment historically have been affected by the level of construction of new facilities undertaken by swine and poultry producers, which is affected by feed prices, environmental regulations and domestic and international demand for pork and poultry. Increases in feed and grain prices, which historically have supported sales of the Company's grain equipment and systems, have also historically resulted in a decline in sales of feeding, watering and ventilation systems to swine and poultry producers. Demand for the Company's swine and poultry equipment is also impacted by changes in consumers' dietary habits, as consumers in the U.S. increase their consumption of poultry and pork and as consumers in developing countries devote larger portions of their income to improved and higher protein-based diets.

PRODUCTS

The Company manufactures (i) grain storage bins and related conditioning and handling systems, (ii) swine feed storage and delivery, ventilation and confinement systems and (iii) poultry feed storage and 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 its customers to purchase complete, integrated production systems from a single supplier who can offer high-quality installation and service.

Grain Product Line

The Company manufactures the following grain production equipment and systems:

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 over 730,000 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 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 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 to dry 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 and FFI 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.

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 can be easily integrated into the Company's systems and those of its competitors and enables the Company to offer a fully integrated product line to grain producers.

Table of Contents

Swine Product Line

The Company manufactures the following swine production equipment and systems:

Feeding Systems. The Company manufactures 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 are typically used to transport feed from the bulk feed storage tanks located outside of the buildings to the inside of the structure. Once inside it is moved either by additional Flex-Flo equipment or is transferred to the Company's versatile Chain Disk System, which makes turns and changes in elevation much more easily. The feed is then delivered to the swine using a wide variety of ad lib feeders that are specifically designed to minimize feed waste by allowing a consistent setting to a predetermined level, provide the swine with a high degree of comfort and be user-friendly to the producer. The Company also manufactures and sells individual feed dispensers, which producers use at times to feed each animal an exact amount of feed daily. All of these systems are highly automated and are designed to address the continually changing, multifaceted production practices in the pork industry, such as wean to finish technology (where pigs are started on a feeder at a very young age, using special designs that allow them to feed without being injured) or sorting technology (where pigs are sorted by weight daily and fed in accordance with selective parameters).

Ventilation Systems. The Company manufactures 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 perform a critical role in minimizing the grower's feed-to-meat conversion ratio because they reduce stress caused by extreme temperature fluctuation, allowing for higher-density productions and facilitate 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 further specializes in designs that work with the new emerging production practices as they are being developed by producers so that the designs are market-ready when these production practices gain more widespread market acceptance.

Other Production Equipment. The Company manufactures and markets a wide array of equipment used in the balance of the swine production process, including plastic slated flooring, highly efficient watering devices, a wide variety of PVC extrusions used for construction applications in the facilities, 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 manufactures the following poultry production equipment and systems:

Feeding Systems. The Company manufactures 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 competitors' products due to its unique ability to adjust from floor feeding for young chicks to regulated feed levels for older birds, thereby lowering the feed-to-meat ratio.

Watering Systems. The Company manufactures 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, which units contain a regulator designed to provide different levels of 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 Company's watering nipples are also 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.

Table of Contents

Ventilation Systems. The Company manufactures ventilation systems for poultry producers under its Cumberland and Airstream brand names. 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 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 2004, 2003 and 2002, 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 among 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 its 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 those 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 few large companies with broad product offerings, such as CTB, Inc. a Berkshire Hathaway company and Big Dutchman International GmbH, and numerous small manufacturers of single product lines. Competition is based on product value, reputation, quality, design and price as well as customer service. The Company believes that its leading brand names, diversified high-quality product lines and strong distribution network 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 their total production costs and enhances their productivity, provides it with a competitive advantage versus competitors that do not provide integrated systems.

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 \$3.6 million, \$2.5 million and \$2.7 million for the years ended December 31, 2004, 2003 and 2002, respectively. The Company charges research and development costs to operations as incurred.

Table of Contents

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, such as motors, 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, except for steel.

REGULATORY AND ENVIRONMENTAL MATTERS

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, 2004 was \$29.9 million compared to \$23.4 million at December 31, 2003. The Company believes that the 2004 ending backlog will be filled by the end of 2005.

PATENTS AND TRADEMARKS

The Company protects its technological and proprietary developments through a combination of trade secrets, patents and trademarks. 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, 2004, the Company had 1,515 employees of whom 1,468 were permanent and 47 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.

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The principal properties of the Company as of April 15, 2005, were as follows:

| <u>Location</u> | <u>Owned/Leased</u> | <u>Description of Property</u> |
|------------------------|---------------------|--------------------------------|
| Assumption, Illinois | Own | Manufacturing/Sales |
| Paris, Illinois | Own | Manufacturing/Assembly |
| Newton, Illinois | Own | Manufacturing/Assembly |
| Vandalia, Illinois | Own | Manufacturing/Assembly |
| Flora, Illinois | Own | Manufacturing/Assembly |
| Clear Lake, Iowa | Own | Sales/Warehouse |
| Sioux City, Iowa | Lease | Sales/Warehouse |
| Marau, Brazil | Lease | Manufacturing/Sales |
| Penang, Malaysia | Lease | Manufacturing/Sales/Warehouse |
| Queretero, Mexico | Lease | Sales/Warehouse |
| Honeydew, South Africa | Lease | Sales/Warehouse |
| Poznan, Poland | Lease | Sales |
| Shanghai, China | Lease | Sales/Warehouse |

Table of Contents

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

The Company's owned facilities (other than its Brazil facility) are subject to mortgages held by Congress Financial Corporation. 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, are not expected to 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, 2004.

Table of Contents**PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUERS PURCHASES OF EQUITY SECURITIES.**

There is no established public trading market for any class of the Company's common stock. As of April 15, 2005, the Company had 19 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, 2004 and December 31, 2003, the Company declared dividends totaling \$1.6 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 the Company's credit facility with Congress Financial Corporation (Central) (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 of the Company, may deem relevant.

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

| | Total Number of Shares Purchased | Average Price Paid Per Share | Total Number of Shares Purchased as part of Publicly Announced Plan | Maximum Number of Shares that may yet be Purchased under the Plan |
|----------------|-------------------------------------|------------------------------------|---|---|
| 7/1/04-8/1/04* | 948,052 | \$ 15.40 | | |

* 948,052 shares purchased other than through publicly announced plan which was a transaction contemplated and provided by the Board of Directors.

Table of Contents**ITEM 6. SELECTED FINANCIAL DATA.**

Set forth below is certain selected historical consolidated financial data for the Company as of and for the years ended December 31, 2000, 2001, 2002, 2003 and 2004. The selected historical consolidated financial data for the years indicated were derived from the audited consolidated financial statements of the Company. The information set forth below should be read in conjunction with Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements and notes thereto included in Item 8 hereof.

As discussed in the Note 18 to the Consolidated Financial Statements, certain historical information in the Consolidated Financial Statements has been restated. Please read the Note 18 to the Consolidated Financial Statements for additional information about these restatements. The selected financial data set forth below has been adjusted to reflect these restatements for all periods.

| | YEARS ENDED DECEMBER 31, | | | | |
|--|--------------------------|------------------|------------------|------------------|------------------|
| | 2000 RESTATED | 2001 RESTATED | 2002 RESTATED | 2003 RESTATED | 2004 RESTATED |
| INCOME STATEMENT (000 \$): | | | | | |
| Sales | \$ 243,164 | \$ 228,938 | \$ 229,518 | \$ 236,868 | \$ 288,131 |
| Cost of sales | 186,847 | 176,195 | 187,528 | 188,197 | 224,027 |
| Gross profit | 56,317 | 52,743 | 41,990 | 48,671 | 64,104 |
| Operating expenses | 39,936 | 41,160 | 38,944 | 41,050 | 45,352 |
| Operating income | 16,381 | 11,583 | 3,046 | 7,621 | 18,752 |
| Interest expense | (14,997) | (14,397) | (13,010) | (13,215) | (14,104) |
| Other income (expense) | 439 | 310 | (610) | 256 | (90) |
| Income (loss) before income taxes | 1,823 | (2,504) | (10,574) | (5,338) | 4,558 |
| Provision (benefit) for income taxes | (657) | (762) | 106 | (995) | 499 |
| Income (loss) from continuing operations | 2,480 | (1,742) | (10,680) | (4,343) | |