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GSI GROUP INC  
Form 10-K405  
March 05, 2002

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
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FORM 10-K

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

For the Fiscal Year Ended December 31, 2001

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)

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.

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, 1,775,000 shares outstanding as of March 1, 2002.

Documents Incorporated by Reference: None

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PART I

ITEM 1. BUSINESS.

Note on Forward-Looking Statements

This report contains certain forward-looking statements within the meaning of the federal securities laws. Forward-looking statements are statements other than historical information or statements of current condition. Some forward-looking statements may be identified by use of terms such as "believes," "anticipates," "intends" or "expects." These forward-looking statements relate to the plans, objectives and expectations of The GSI Group, Inc. (the "Company") for future operations. In light of the risks and uncertainties inherent in all future projections, the inclusion of forward-looking statements in this report should not be regarded as a representation by the Company or any other person that the objectives, plans or expectations of the Company will be achieved. The Company's objectives, plans and expectations are difficult to forecast and could differ materially from those projected in the forward-looking statements.

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### General

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

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

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

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

### Company Strengths

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

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

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

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

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

Flexible Manufacturing Facilities. The Company's facilities are designed to be easily reconfigured to adapt to demand changes for any or all of the Company's products. The Company's primary manufacturing facility, located in Assumption, Illinois, consists of approximately 900,000 square feet and operates on a 24-hour basis during peak production periods. The Company's facilities employ state-of-the-art machines that have enhanced production efficiency.

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

market opportunities.

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#### Business Strategy

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

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

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

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

#### Industry Overview

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

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

Demand for the Company's swine and poultry feeding equipment and feed storage and delivery systems is impacted by the rate of economic and population growth occurring in international markets. As disposable incomes increase in these international markets, consumers have in the past and should in the future devote larger portions of their income to improved and higher protein-based diets. In the past, this trend has stimulated stronger demand for meat, specifically poultry and pork, as these meats provide more cost-effective sources of animal protein than beef.

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

### Products

The Company manufactures and markets (i) grain storage bins and related drying and handling equipment systems, (ii) swine feed storage, feed delivery, confinement and ventilation systems and (iii) poultry feed storage, feed delivery, watering, ventilation and nesting systems. The Company offers a broad range of products that permits customers to purchase their grain, swine and poultry production equipment needs from one supplier. The Company

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believes that its ability to offer integrated systems provides it with a competitive advantage by enabling producers to purchase complete, integrated production systems from a single distributor who can offer high-quality installation and service.

### Grain Product Line

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

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

**Grain Conditioning Equipment.** To meet the need to dry grain for storage, the Company manufactures and markets a complete line of over 100 models of grain drying devices with capacities of up to 10,000 bushels per hour. The Company markets its grain drying equipment to both farm and commercial end users under its GSI/R/, DMC/TM/, Zimmerman/TM/, FFI/TM/, and Airstream/R/ 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

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

### Swine Product Line

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

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

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

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

### Poultry Product Line

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

**Feeding Systems.** The Company manufactures and markets its poultry feeding systems under its Cumberland/R/ brand name. The Company manufactures feeding systems that are custom tailored to both the general industry needs of different

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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/R/ pan feeder is superior to competitor products due to its unique ability to adjust from floor feeding for young chicks to regulated feed levels for older birds.

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

**Ventilation Systems.** The Company manufactures and markets ventilation systems for poultry producers under its Cumberland/R/ brand name. Equipment utilized in such systems include fiberglass and galvanized fans, the Komfort Kooler evaporative cooling systems, manual and automated curtains, heating systems and automated controls for complete ventilation, cooling and heating management. The Company believes its poultry ventilation products are reliable and easy to assemble in the field, permit energy-efficient airflow management and are well-suited for international sales because they ship compactly and inexpensively and assemble with little hardware and few tools.

**Nesting Systems.** The Company manufactures and markets nesting systems for poultry producers under its Cumberland/R/ 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 2001, 2000 and 1999, no single customer represented more than 10% of the Company's sales.

### Product Distribution

The Company distributes its products primarily through a network of U.S. and international independent dealers who offer targeted geographic coverage in key grain, swine and poultry producing markets throughout the world. The Company's dealers sell products to grain, swine and poultry producers, agricultural companies and various other farm and commercial end-users. The Company believes that its distribution network is one of the strongest in the



industry, providing its customers with high levels of service. Since its inception, the Company has experienced a very low turnover rate of its dealers. The Company believes this has resulted in a reputation of consistency in its products and stability with its customers. The Company further believes that the high level of commitment its dealers have to the Company is evidenced by the fact that many of the Company's dealers choose not to sell products of the Company's competitors.

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

For information regarding the Company's sales by geographic region, see Note 15 to the Consolidated Financial Statements included in Item 8 hereof.

#### Competition

The market for the Company's products is competitive. Domestically and internationally, the Company competes with a variety of manufacturers and suppliers that offer only a limited number of the products offered by the Company. The Company believes that only one of its competitors, CTB International Corp., offers products across most of the Company's product lines.

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

#### New Product Development

The Company has a product development and design engineering staff, most of whom are located in Assumption, Illinois. Expenditures by the Company for product research and development were approximately \$2.8 million, \$2.3 million and \$2.1 million for the years ended December 31, 2001, 2000 and 1999, respectively. The Company charges research and development costs to operations as incurred.

#### Raw Materials

The primary raw materials used by the Company to manufacture its products are steel and polymer materials, including PVC pipe, polypropylene and polyethylene. The Company also purchases various component parts that are integrated into the Company's products. The Company is not dependent on any one of its suppliers and in the past has not experienced difficulty in obtaining materials or components. In addition, materials and components purchased by the

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Company are readily available from alternative suppliers. The Company has no long-term supply contracts for materials or components.

### Regulatory and Environmental Matters

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

### Backlog

Backlog is not a significant factor in the Company's business because most of the Company's products are delivered within a few weeks of their order. The Company's backlog at December 31, 2001 was \$28.3 million

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compared to \$28.8 million at December 31, 2000. The Company believes that all such backlog will be filled by the end of 2002.

### Patents and Trademarks

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

### Employees

As of December 31, 2001, the Company had 1,516 employees of which 1,184 were permanent and 332 were seasonal. The Company's employees are not represented by a union. Management believes that its relationships with the Company's employees are good.

### ITEM 2. PROPERTIES.

The principal properties of The GSI Group as of March 1, 2002, were as follows:

Location -----	Description of Property -----
Assumption, Illinois.....	Manufacturing/Sales
Paris, Illinois.....	Manufacturing/Assembly
Newton, Illinois.....	Manufacturing/Assembly
Vandalia, Illinois.....	Manufacturing/Assembly
Mason City, Iowa.....	Sales/Warehouse
Sioux City, Iowa.....	Sales/Warehouse
Geneva, Indiana.....	Sales/Warehouse
Watertown, South Dakota.....	Sales/Warehouse
Garrett, Indiana.....	Sales/Warehouse

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Oakland, Illinois.....	Sales/Warehouse
West Memphis, Arkansas.....	Sales/Warehouse
Hampton, Nebraska.....	Sales/Warehouse/Research
Marau, Brazil .....	Manufacturing/Sales
Penang, Malaysia.....	Manufacturing/Sales/Warehouse
Queretero, Mexico.....	Sales/Warehouse
Fourways, South Africa.....	Sales/Warehouse
Sambeek, The Netherlands.....	Sales/Warehouse
Shanghai, China .....	Sales/Warehouse

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

During 2001, the Company re-arranged its manufacturing processes which enabled it to close its Duquoin, Illinois and Mason City, Iowa manufacturing facilities and re-open its Vandalia, Illinois facility in connection with the Company's consolidation efforts. The Company also closed its Indianapolis, Indiana facility.

The Company's owned facilities are subject to mortgages. The Company's leased facilities are leased through operating lease agreements with varying expiration dates. For information on operating leases, see Note 14 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.

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### ITEM 3. LEGAL PROCEEDINGS.

There are no material 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 if determined adversely.

### 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, 2001.

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## PART II

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

There is no established public trading market for any class of the Company's Common Stock. As of March 1, 2002, the Company had 11 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

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its stockholders to pay taxes resulting from the Company's status as a subchapter S corporation. During the year ended December 31, 2001 and December 31, 2000, the Company declared dividends totaling \$1.2 million and \$1.9 million, respectively. The Company is subject to certain restrictions on the payment of dividends contained in the indenture governing the Company's 10 1/4 % Senior Subordinated Notes due 2007 (the "Notes") and in the Company's credit facility with LaSalle National Bank (the "Credit Facility"). Future dividends, if any, will depend upon, among other things, the Company's operations, capital requirements, surplus, general financial condition, contractual restrictions and such other factors as the Board of Directors may deem relevant.

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ITEM 6. SELECTED FINANCIAL DATA.

Set forth below is certain selected historical consolidated financial data for the Company as of and for the years ended December 31, 1997, 1998, 1999, 2000 and 2001. The selected historical consolidated financial data for the years indicated were derived from the consolidated financial statements of the Company, which were audited by Arthur Andersen LLP. 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.

	Years Ended December 31,			
	1997	1998	1999	2000*
<b>Income Statement (000's):</b>				
Sales.....	\$ 225,987	\$ 270,127	\$ 229,210	\$ 243,961
Cost of sales.....	170,636	209,236	179,927	184,622
Gross profit.....	55,351	60,891	49,283	59,339
Operating expenses.....	35,189	50,245	38,669	40,070
Operating income.....	20,162	10,646	10,614	19,269
Interest expense.....	(6,174)	(12,946)	(14,768)	(14,997)
Other income.....	943	1,117	477	439
Income (loss) from continuing operations...	14,931	(1,183)	(3,677)	4,711
Extraordinary gain on extinguishment of debt.....	2,119	--	--	--
Provision (benefit) for income taxes .....	288	(260)	(336)	(568)
Net income (loss).....	\$ 16,762	\$ (923)	\$ (3,341)	\$ 5,279
<b>Basic and Diluted Earnings Per Share:</b>				
Continuing operations.....	\$ 7.32	\$ (0.46)	\$ (1.67)	\$ 2.82
Extraordinary item.....	1.06	--	--	--
Net income (loss).....	\$ 8.38	\$ (0.46)	\$ (1.67)	\$ 2.82

\* Restated for a change in the method of accounting for DMC inventories. The

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effect of the change was to increase the 2000 net income by \$82. See Note 4 of Notes to Consolidated Financial Statements for additional information.

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

The following discussion of the financial condition and results of operations of the Company should be read in conjunction with the Consolidated Financial Statements and the notes included in Item 8 hereof.

#### General

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

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

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

The Company's international sales have historically comprised a significant portion of net sales. In 2001, 2000 and 1999, the Company's international sales accounted for 32.3%, 36.2% and 34.3% of net sales, respectively. International operations generally are subject to various risks that are not present in domestic operations, including restrictions on dividends, restrictions on repatriation of funds, unexpected changes in tariffs and other trade barriers, difficulties in staffing and managing foreign operations, political instability, fluctuations in currency exchange rates, reduced protection for intellectual property rights in some countries, seasonal reductions in business activity and potentially adverse tax consequences, any of which could adversely impact the Company's international operations.

The primary raw materials used by the Company to manufacture its products are steel and polymers. Fluctuations in the prices of steel and, to a lesser extent, polymer materials can impact the Company's cost of sales. There can be

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no assurances that prices for these materials will not increase in the future.

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

### Results of Operations

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

Sales decreased 5.8% or \$14.0 million to \$229.9 million in 2001 compared to \$244.0 million in 2000. The decrease was primarily driven by weaker domestic demand for grain storage and conditioning equipment. Brazilian and domestic poultry sales were also lower due to weaker demand. This decrease was partially offset by increased swine equipment sales which were higher due to strengthening demand.

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Gross profit decreased to \$55.7 million in 2001 or 24.2% of sales from \$59.3 million or 24.3% of net sales in 2000. This decrease was caused by decreased sales and restructuring expenses incurred at the end of the year to consolidate manufacturing operations.

Operating expenses increased 2.6% or \$1.0 million to \$41.1 million in 2001 from \$40.1 million in 2000. This increase was primarily the result of integration costs necessary to support the sales volume resulting from the FFI acquisition. Restructuring charges incurred during the period were offset by cost reduction and consolidation actions. As a percentage of sales, operating expenses increased to 17.9% in 2001 from 16.4% in 2000.

Operating income decreased to \$14.6 million in 2001 from \$19.3 million in 2000. Operating income margins decreased to 6.3% of sales in 2001 from 7.9% in 2000. This decrease was attributable to the decrease in sales and increased operating expenses.

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

Net income decreased to \$1.1 million in 2001 from \$5.3 million in 2000. The decrease was primarily attributable to the factors discussed above relating to operating expenses and operating income.

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

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

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

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containment measures related to plant closures at the end of 1999.

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

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

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

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

Year Ended December 31, 1999 Compared to Year Ended December 31, 1998

Sales decreased 15.1% or \$40.9 million to \$229.2 million in 1999 compared to \$270.1 million in 1998. The decrease was primarily driven by the reduced demand for swine equipment, which was caused by low swine prices and environmental regulations.

Gross profit decreased to \$49.3 million in 1999 or 21.5% of sales from \$60.9 million or 22.5% of sales in 1998. This decrease in the gross profit as a percentage of net sales was caused by overhead expenses that were not eliminated in anticipation of lower revenues and capacity needs.

Operating expenses decreased 23% or \$11.6 million to \$38.7 million in 1999 from \$50.2 million in 1998. This decrease resulted from savings from the restructuring program that was implemented toward the end of the first quarter of 1999. As a percentage of sales, operating expenses decreased to 16.9% in 1999 from 18.6% in 1998.

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Operating income remained consistent between 1999 and 1998 at \$10.6 million. Operating income margins increased to 4.6% of sales in 1999 from 3.9% in 1998. This increase was attributable to the decreased selling, general and administrative expenses primarily offset by lower sales volume and reduced margins.

Interest expense increased \$1.8 million for 1999. This increase was primarily due to the interest expense on the term note portion of the Credit Facility issued to finance, among other things, the acquisition of the Company's Brazilian operation.

Net loss increased from \$0.9 million in 1998 to \$3.3 million in 1999.

### Liquidity and Capital Resources

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

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The Company's working capital requirements for its operations are seasonal, with investments in working capital typically building in the second and third quarters and then declining in the first and fourth quarters. The Company defines working capital as current assets less current liabilities. As of December 31, 2001, the Company had \$61.5 million of working capital, an increase of \$11.7 million as compared to its working capital as of December 31, 2000. This increase in working capital was primarily due to increases in cash and other current assets, and decreases in accounts payable, billings in excess of costs, accrued expenses, customer deposits and current maturities of long-term debt.

Operating activities generated \$5.0 million, \$9.5 million and \$9.8 million of cash in 2001, 2000 and 1999, respectively. The decrease in cash flow from operating activities from 2000 to 2001 of \$4.5 million was primarily the result of decreased net income, and changes in deferred taxes, other current assets, accounts payable, accrued expenses and customer deposits of \$20.3 million offset by decreases in inventory and changes in accounts receivable of \$15.8 million.

The Company's capital expenditures totaled \$4.4 million, \$6.3 million and \$7.7 million in 2001, 2000 and 1999, respectively. Capital expenditures have primarily been for machinery and equipment and the expansion of facilities. In 2001 and 2000, capital expenditures were primarily for enhancements of equipment. In 1999, approximately \$5.5 million was primarily for the purchase of machinery and equipment and \$2.2 million was the impact of the Brazilian Real devaluation on property, plant and equipment. The Company anticipates that its capital expenditures in 2002 will be similar to that of 2001.

Cash used in financing activities in 2001 consisted primarily of \$6.7 million of payments of long-term debt, a \$1.2 million dividend for taxes, and a \$2.2 million payment of shareholder loans offset by \$8.0 million of increased borrowings under the Credit Facility and a \$1.0 million shareholder loan. Cash used in financing activities in 2000 consisted primarily of \$4.9 million of payments on long-term debt, a \$1.9 million dividend for taxes, and a \$1.4 million purchase of treasury shares offset by \$2.6 million of increased borrowings under the Credit Facility and a \$1.2 million shareholder loan net of payments. Cash used by financing activities in 1999 consisted of \$5.1 million of payments on long-term debt offset by \$2.8 million of borrowings under the Credit Facility and additional long-term debt and \$0.5 million of contributed capital.

During the third quarter of 2001, the Credit Facility was amended to provide for a \$43.1 million revolving loan facility and a \$16.9 million term loan. LaSalle Bank N.A. and the Company further amended the Credit Facility to modify certain covenants for the remainder of 2001 and for the year 2002 as well as to provide a seasonal over-advance facility for the third and fourth quarters of 2001. The Company was in compliance with all covenants under the Credit Facility as of December 31, 2001. The Company does not anticipate any future defaults in any of its financial covenants. For a more detailed description of the Credit Facility, see Note 11 to the Consolidated Financial Statements included in Item 8 hereof.

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



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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is subject to market risk associated with adverse changes in interest rates and foreign currency exchange rates. The Company does not hold any market risk sensitive instruments for trading purposes. At December 31, 2001, principle exposed to interest rate risk was limited to \$38.3 million in variable rate debt. The interest rates on the various debt instruments range from 5.34% to 19.63%. The Company measures its interest rate risk by estimating the net amount by which potential future net earnings would be impacted by hypothetical changes in market interest rates related to all interest rate sensitive assets and liabilities. Therefore, a change in the interest rate of 1% will change earnings by \$0.4 million.

At December 31, 2001, approximately 14.8% of net 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 further 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 fluctuations of intercompany account balances, balance sheet accounts and the existing economic uncertainty and future economic conditions in the international marketplace.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

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

Report of Independent Public Accountants.....	
Consolidated Balance Sheets as of December 31, 2001 and 2000.....	
Consolidated Statements of Operations for the years ended December 31, 2001, 2000 and 1999.....	
Consolidated Statements of Stockholders' Deficit for the years ended December 31, 1999, 2000 and 2001.....	
Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2000 and 1999.....	
Notes to Consolidated Financial Statements.....	

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

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

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

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

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

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

ARTHUR ANDERSEN LLP

Chicago, Illinois  
February 25, 2002

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THE GSI GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
December 31, 2001 and 2000  
(In thousands, except share and per share data)

ASSETS	2001	2000
Current Assets:		Restat
Cash and cash equivalents .....	\$ 2,828	\$ 2,
Accounts receivable, net .....	28,887	29,
Inventories, net .....	55,294	55,
Prepays .....	2,245	2,
Deferred income taxes .....	--	
Other .....	4,816	3,
Total current assets .....	94,070	93,
Notes Receivable .....	59	
Long-Term Retainage .....	95	3,
Property, Plant and Equipment, net .....	42,116	47,
Other Assets:		
Goodwill, net .....	10,578	10,
Other intangible assets, net .....	4,483	5,
Deferred financing costs, net .....	2,532	2,
Other .....	808	
Total other assets .....	18,401	19,
Total assets .....	\$ 154,741	\$ 164,
Liabilities and Stockholders' Deficit		
Current Liabilities:		
Accounts payable .....	\$ 12,247	\$ 15,
Payroll and payroll related expenses .....	4,234	3,
Deferred income taxes .....	14	
Billings in excess of costs .....	257	2,
Accrued warranty .....	2,031	2,
Other accrued expenses .....	4,855	6,
Customer deposits .....	6,204	7,
Current maturities of long-term debt .....	2,707	6,
Total current liabilities .....	32,549	43,
Long-Term Debt, less current maturities .....	136,211	130,
Deferred Income Taxes .....	582	1,
Commitments and Contingencies		
Stockholders' Deficit:		
Common stock, \$.01 par value, voting (authorized 6,900,000 shares; issued 6,633,652 shares; outstanding 1,575,000 shares) .....	16	
Common stock, \$.01 par value, nonvoting (authorized 1,100,000 shares; issued 1,059,316 shares; outstanding 200,000 shares) .....	2	

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Additional paid-in capital .....	3,006	3,
Accumulated other comprehensive loss .....	(10,216)	(8,
Retained earnings .....	19,550	19,
Treasury stock, at cost, voting (5,058,652 shares) .....	(26,950)	(26,
Treasury stock, at cost, nonvoting (859,316 shares) .....	(9)	
	-----	-----
Total stockholders' deficit .....	(14,601)	(12,
	-----	-----
Total liabilities and stockholders' deficit .....	\$ 154,741	\$ 164,
	=====	=====

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

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THE GSI GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2001, 2000 and 1999  
(In thousands, except share and per share data)

	2001	2000	1999
	-----	Restated	-----
		-----	
Sales .....	\$ 229,921	\$ 243,961	\$ 229,210
Cost of Sales .....	174,254	184,622	179,679
Cost of Sales - restructuring charges .....	--	--	248
	-----	-----	-----
Total cost of sales .....	174,254	184,622	179,927
	-----	-----	-----
Gross profit .....	55,667	59,339	49,283
Selling, General and Administrative Expenses .	39,386	38,492	36,411
Amortization Expense .....	1,728	1,578	1,589
Restructuring Charges .....	--	--	669
	-----	-----	-----
Total operating expenses .....	41,114	40,070	38,669
	-----	-----	-----
Operating income .....	14,553	19,269	10,614
Other Income (Expense):			
Interest expense .....	(14,397)	(14,997)	(14,768)
Interest income .....	485	152	147
Gain (loss) on sale of fixed assets .....	(350)	(155)	232
Foreign currency transaction gain .....	33	247	42
Other, net .....	74	195	56
	-----	-----	-----
Income (loss) before income tax benefit	398	4,711	(3,677)
	-----	-----	-----

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Income Tax Benefit .....	(656)	(568)	(336)
	-----	-----	-----
Net income (loss) .....	\$ 1,054	\$ 5,279	\$ (3,341)
	=====	=====	=====
Basic and Diluted Earnings (Loss) Per Share ..	\$ 0.59	\$ 2.82	\$ (1.67)
	-----	-----	-----
Weighted Average Common Shares Outstanding ...	1,775,000	1,872,397	2,000,000
	=====	=====	=====

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

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THE GSI GROUP, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' DEFICIT  
For the Years Ended December 31, 1999, 2000 and 2001  
(In thousands, except share data)

	Common Stock			
	Voting		Nonvoting	
	Shares Outstanding	Amount	Shares Outstanding	Amount
	-----	-----	-----	-----
Balance, December 31, 1998 .....	1,800,000	\$ 18	200,000	\$ 2
Net loss .....	--	--	--	--
Capital contributions .....	--	--	--	--
Other comprehensive loss - foreign currency translation adjustments .....	--	--	--	--
Balance, December 31, 1999 .....	1,800,000	18	200,000	2
Restated net income .....	--	--	--	--
Capital contributions .....	--	--	--	--
Purchase of treasury shares.....	(225,000)	(2)		
Other comprehensive loss- foreign currency translation adjustments .....	--	--	--	--
Dividends .....	--	--	--	--
Restated balance, December 31, 2000	1,575,000	16	200,000	2
Net income .....	--	--	--	--
Other comprehensive loss- foreign currency translation adjustments.....	--	--	--	--
Dividends .....	--	--	--	--
Balance, December 31, 2001 .....	1,575,000	\$ 16	200,000	\$ 2

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	Retained Earnings	Treasury Stock			
		Voting		Nonvoting	
		Shares	Amount	Shares	Amount
Balance, December 31, 1998 .....	\$19,578	4,833,652	\$(25,524)	859,316	\$ (9)
Net loss .....	(3,341)	--	--	--	--
Capital contributions .....	--	--	--	--	--
Other comprehensive loss- foreign currency translation adjustments	--	--	--	--	--
Comprehensive loss	-----	-----	-----	-----	-----
Balance, December 31, 1999	16,237	4,833,652	(25,524)	859,316	(9)
Restated net income .....	5,279	--	--	--	--
Capital contributions .....	--	--	--	--	--
Purchase of treasury shares.....	--	225,000	(1,426)	--	--
Other comprehensive loss- foreign currency translation adjustments	--	--	--	--	--
Comprehensive income					
Dividends .....	(1,862)	--	--	--	--
Restated balance, December 31, 2000 .....	19,654	5,058,652	(26,950)	859,316	(9)
Net income .....	1,054	--	--	--	--
Other comprehensive loss- foreign currency translation adjustments .....	--	--	--	--	--
Comprehensive loss .....					
Dividends .....	(1,158)	--	--	--	--
Balance, December 31, 2001 .....	\$19,550	5,058,652	\$(26,950)	859,316	\$ (9)

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

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For the Years Ended December 31, 2001, 2000 and 1999  
(In thousands)

	2001	2000	1999
		Restated	
<b>Cash Flows From Operating Activities:</b>			
Net income (loss) .....	\$ 1,054	\$ 5,279	\$ (3,341)
Adjustments to reconcile net income (loss) to cash provided by operating activities:			
Depreciation and amortization .....	8,775	8,744	8,160
Amortization of deferred financing costs and debt discount .....	725	730	715
Loss (Gain) on sale of assets .....	350	155	(232)
Deferred taxes .....	(973)	(829)	(329)
Changes in assets and liabilities, net of acquisitions:			
Accounts receivable, net .....	3,621	(2,643)	7,689
Inventories, net .....	568	(8,855)	1,448
Other current assets .....	(1,069)	142	1,124
Accounts payable .....	(3,437)	5,223	(450)
Payroll and payroll related expenses .....	287	1,005	(2,008)
Billings in excess of costs .....	(1,777)	(642)	(2,307)
Accrued warranty .....	(409)	55	(142)
Other accrued expenses .....	(1,931)	801	(918)
Customer deposits .....	(814)	351	389
	4,970	9,516	9,798
<b>Cash Flows From Investing Activities:</b>			
Capital expenditures .....	(4,387)	(6,251)	(7,728)
Proceeds from sale of fixed assets .....	1,523	360	801
Payments received on notes receivable .....	--	--	1,025
Acquisition of FFI Corp., net of cash acquired .....	(1,457)	--	--
Other .....	25	5	(310)
	(4,296)	(5,886)	(6,212)
<b>Cash Flows From Financing Activities:</b>			
Payments on shareholder loans .....	(2,182)	(335)	--
Proceeds from shareholder loans .....	1,017	1,500	--
Proceeds from issuance of debt .....	--	--	643
Payments on debt .....	(6,690)	(4,905)	(5,075)
Payments of deferred financing costs .....	--	--	(28)
Net borrowings under line-of-credit agreement .....	8,000	2,600	2,800
Contributed capital .....	--	65	466
Purchase of treasury shares .....	--	(1,426)	--
Dividends .....	(1,158)	(1,862)	--
Other .....	541	298	499
	(472)	(4,065)	(695)
Effect of Exchange Rate Changes on Cash .....	(53)	(126)	(843)
Increase (decrease) in Cash and Cash Equivalents .....	\$ 149	\$ (561)	\$ 2,048
Cash and Cash Equivalents, beginning of period .....	2,679	3,240	1,192

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Cash and Cash Equivalents, end of period .....	\$ 2,828	\$ 2,679	\$ 3,240
	=====	=====	=====

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

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

#### 1. Nature of Operations

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

#### 2. Summary of Significant Accounting Policies

##### Basis of Consolidation

The accompanying financial statements reflect the consolidated results of The GSI Group, Inc. and its subsidiaries. All intercompany transactions and balances have been eliminated.

##### Use of Estimates

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

##### Cash and Cash Equivalents

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

##### Concentration of Credit Risk

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



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Company grants unsecured credit to its customers. In doing so, the Company reviews a customer's credit history before extending credit. In addition, the Company routinely assesses the financial strength of its customers, and, as a consequence, believes that its trade accounts receivable risk is limited.

### Fair Value of Financial Instruments

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

### Inventories

Inventories are stated at the lower of cost or market. Cost includes the cost of materials, labor and factory overhead. The cost of all domestic and international inventories were determined using the first-in-first-out ("FIFO") method. As explained in Note 4 the Company has given retroactive effect to the change in accounting principle for

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all of the Company's domestic inventory except that of David Manufacturing Company ("DMC"), a wholly owned subsidiary of The GSI Group, Inc., from the last-in-first-out ("LIFO") method to the first-in-first-out ("FIFO") method effective October 1, 2000. The Company has also given retroactive effect to the change in accounting principle for DMC inventories from the LIFO method to the FIFO method effective October 1, 2001. Inventories and cost of sales are based in part on accounting estimates relating to differences resulting from periodic physical inventories.

### Property, Plant and Equipment

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

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

Repairs and maintenance are charged to expense as incurred. Gains or losses resulting from sales or retirements are recorded as incurred, at which time related costs and accumulated depreciation are removed from accounts.

Property, plant and equipment under capital leases are amortized over the shorter of the estimated useful life of the asset or the term of the lease.

### Research and Development

Costs associated with research and development are expensed as incurred. Such costs incurred were \$2.8 million, \$2.3 million and \$2.1 million for the years ended December 31, 2001, 2000 and 1999, respectively.

#### Intangible Assets

The excess of purchase costs over amounts allocated to identifiable assets and liabilities of businesses acquired ("goodwill") is amortized on the straight-line basis over periods ranging from 15 to 40 years. Goodwill is recorded net of accumulated amortization. Should events or circumstances occur subsequent to the acquisition of a business which bring into question the realizable value or impairment of the related goodwill, the Company will evaluate the remaining useful life and balance of goodwill and make appropriate adjustments. The Company's principal considerations in determining impairment include the strategic benefit to the Company of the particular business as measured by undiscounted current and expected future operating cash flows of that particular business. Should an impairment be identified, a loss would be reported to the extent that the carrying value of the related goodwill exceeds the fair value. Other intangible assets, which consist of patents and non-compete agreements, are recorded net of accumulated amortization and are being amortized on a straight-line basis over periods ranging from 3 to 17 years.

#### Deferred Financing Costs

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

#### Revenue Recognition

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

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

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Revenue earned in excess of billings is comprised of revenue recognized on certain contracts in excess of contractual billings on such contracts. Billings in excess of costs are classified as a current liability.

#### Shipping and Handling Fees

As a result of adopting Emerging Issues Task Force ("EITF") EITF-00-10, "Accounting for Shipping and Handling Fees and Costs" in 2000, the Company reclassified freight expense from sales to cost of goods sold. In 2000, the amounts reclassified were approximately \$8.2 million and \$8.0 million for the years ending December 31, 2000 and 1999, respectively. Freight expense for 2001 was approximately \$8.3 million, which is included in cost of goods sold.

#### Translation of Foreign Currency

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

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the local currency and translated to U.S. dollars. The balance sheets of the Company's foreign operations are translated at the exchange rate in effect at the end of the periods presented. The revenues and expenses of the Company's foreign operations are translated at the average rates in effect during the period. Exchange losses resulting from translations for the years ended December 31, 2001, 2000 and 1999 have been recorded in the accompanying Consolidated Statements of Stockholders' Deficit.

### Income Taxes

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

### Earnings Per Share

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

### Reclassification

Certain reclassifications have been made to prior-year amounts to conform to the current-year presentation.

### Thirteen Week Fiscal Periods

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

### 3. New Accounting Pronouncements

On June 30, 2001, the Financial Accounting Standards Board issued Statement No. 141, "Business Combinations" ("Statement No. 141"). Under Statement No. 141, all business combinations initiated after June 30, 2001 must be accounted for using the purchase method of accounting. The use of the pooling-of-interests method is prohibited. Additionally, Statement No. 141 requires that certain intangible assets that can be identified and named be recognized as assets apart from goodwill. Statement No. 141 is effective for all business combinations initiated after June 30, 2001.

On June 30, 2001, the Financial Accounting Standards Board issued Statement No. 142, "Goodwill and Other Intangible Assets" ("Statement No. 142"). Under Statement No. 142, goodwill and intangible assets that have indefinite useful lives will not be amortized but rather will be tested at least annually for impairment. Intangible assets that have finite useful lives will continue to be amortized over their useful lives. The Company will adopt Statement 142 as of January 1, 2002. As of December 31, 2001, goodwill, net of accumulated amortization, is \$10.6 million and amortization expense for the year ended December 31, 2001 was \$0.6 million. As a result of Statement

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No. 142, this goodwill will no longer be subject to amortization. The Company has not yet determined the impact that the adoption of Statement No. 142 will have on the Company's financial condition and results of operations.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", which supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of". SFAS No. 144 created one accounting model for long-lived assets to be disposed of by sale that applies to all long-lived assets, including discontinued operations, and replaces the provisions of APB Opinion No. 30, "Reporting Results of Operations--Reporting the Effects of Disposal of a Segment of a Business", for the disposal of segments of a business. SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reporting in continuing operations or in discontinued operations. Discontinued operations will no longer include amounts for operating losses that have not yet occurred. SFAS No. 144 also broadens the reporting of discontinued operations to include all components of an entity with operations that can be distinguished from the rest of the entity and that will be eliminated from the ongoing operations of the entity in a disposal transaction. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally are to be applied prospectively. The Company has not yet determined the impact that the adoption of Statement No. 144 will have on the Company's financial condition and results of operations.

#### 4. Accounting Change

Effective October 1, 2001, the Company has given retroactive effect to the change in accounting principle for DMC's inventory from the LIFO method to the FIFO method. The Company recently moved DMC manufacturing operations from Mason City, Iowa to other domestic locations, which resulted in reduced costs in most product categories resulting from reductions in the cost of their components. Therefore, management believes the FIFO method provides a better measurement of operating results. The combined effect of the change on the Company's net income and retained earnings for the year ended December 31, 2000 was an increase of \$0.1 million (\$0.04 per share).

Effective October 1, 2000, the Company has given retroactive effect to the change in accounting principle for all of the Company's domestic inventory except that of DMC from the LIFO method to the FIFO method. The Company has been experiencing reduced costs in most domestic product categories (other than DMC products) resulting from reductions in the cost of their components. Therefore, management believes the FIFO method provides a better measurement of operating results. The effect of the change on the Company's net income (loss) and retained earnings for the years ended December 31, 1999 and December 31, 1998 was a decrease of \$1.0 million (\$0.65 per share) and \$1.2 million (\$0.60 per share), respectively.

#### 5. Restructuring Charges

During the third quarter of 2001, the Company incurred restructuring charges of approximately \$1.0 million related to work force reductions. The charges associated with the reduction in work force are primarily severance costs for several employees, which have been included in operating expenses in the accompanying consolidated statements of operations. Approximately 8.0% of these costs have been paid as of December 31, 2001

During the first quarter of 1999, the Company recorded a restructuring charge of approximately \$1.0 million related to cost-cutting measures, including

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primarily work force reductions and facility closures. During the second quarter of 1999, the Company changed its restructuring plan to allow its Nova Odessa, Brazil facility to remain open for one more quarter. This change resulted in a reduction of the restructuring charge of approximately \$0.1 million. The charges associated with the reduction in work force included severance costs for 155 employees, of whom 52% affected cost of goods sold and 48% affected operating expenses. The charges associated with facility closures consisted of remaining lease obligations and related expenses for the Company's facility in Lenni, Pennsylvania, which was closed during the first quarter of 1999. The charges associated with the lease obligation and related expenses totaling \$48,000 have been included in cost of goods sold and were paid out during the second quarter of 1999. Of the \$0.9 million charge, \$0.7 million was paid out in the second quarter of 1999 and \$0.2 million was paid out in the third quarter of 1999. As of December 31, 1999, the Company had terminated 155 employees who were paid severance of \$0.6 million in the second quarter of 1999 and \$0.2 million in the third quarter of 1999.

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### 6. Trade Receivables Allowance

The following summarizes trade receivables allowance activity for the years ended December 31, 1999, 2000 and 2001 (in thousands):

	Amount
	-----
Balance, December 31, 1999 .....	\$ 1,500
Increase to operating expense .....	1,765
Charge to allowance .....	(857)
	-----
Balance, December 31, 2000 .....	2,408
Increase to operating expense .....	169
Charge to allowance .....	(660)
	-----
Balance, December 31, 2001 .....	\$ 1,917
	=====

The Company has a \$5.0 million line of credit arrangement with LaSalle National Bank. Collateral for borrowings consist of certain insured foreign receivables that are not included in the Company's borrowing base. As of December 31, 2001, borrowings were \$1.1 million and are reflected as a reduction of trade receivables. There are no covenant requirements relating to this line of credit.

### 7. Business Segment

In January 1998, the Company adopted SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information." The Company has no separately reportable segments in accordance with this standard. Under the enterprise wide disclosure requirements of SFAS 131, the Company reports sales, in thousands, by each group of product lines. Amounts for the years ended December 31, 2001, 2000 and 1999 are as shown in the table below (in thousands):

	2001	December 31, 2000	1999
	-----	-----	-----
Grain product line	\$123,801	\$145,250	\$129,446
Swine product line	55,885	42,437	42,403
Poultry product line	50,235	56,274	57,361

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Sales	----- \$229,921 =====	----- \$243,961 =====	----- \$229,210 =====
-------	-----------------------------	-----------------------------	-----------------------------

For the years ended December 31, 2001, 2000 and 1999, sales in Brazil were \$17.0 million, \$20.1 million and \$17.8 million, respectively. Net income (loss) in Brazil was \$1.2 million, \$0.9 million and (\$3.6) million in 2001, 2000 and 1999, respectively. Long-lived assets in Brazil were \$3.1 million and \$3.9 million at December 31, 2001 and 2000, respectively.

8. Risks and Uncertainties

International operations generally are subject to various risks that are not present in domestic operations, including restrictions on dividends, restrictions on repatriation of funds, unexpected changes in tariffs and other trade barriers, difficulties in staffing and managing foreign operations, political instability, fluctuations in currency exchange rates, reduced protection for intellectual property rights in some countries, seasonal reductions in business activity and potentially adverse tax consequences, any of which could adversely impact the Company's international operations.

During 2001, the Brazilian Real experienced a devaluation (1.9501 Brazilian Reals/U.S. Dollar at December 31, 2000 as compared to 2.3105 Brazilian Reals/U.S. Dollar at December 31, 2001). Any further deterioration in Brazil's economy could have an adverse effect on the Company's results of operations and financial condition.

During 2001, the South African Rand experienced a devaluation (7.5653 South African Rand/U.S. Dollar at December 31, 2000 as compared to 11.9920 South African Rand/U.S. Dollar at December 31, 2001). Any further deterioration in South Africa's economy could have an adverse effect on the Company's results of operations and financial condition.

9. Detail of Certain Assets

	As of December 31	
	2001	2000
	(In thousands)	
	-----	-----
Accounts Receivable		
Trade receivables .....	\$ 30,804	\$ 31,000
Allowance for doubtful accounts .....	(1,917)	(2,000)
Total .....	\$ 28,887	\$ 29,000
	=====	=====
		Resta
		-----
Inventories		
Raw materials .....	\$ 13,341	20,000
Work-in-process .....	18,322	18,000
Finished goods .....	23,631	17,000
	-----	-----

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		55,294	55,
		=====	=====
Property, Plant and Equipment			
Land .....	\$ 974		\$
Buildings and improvements .....	24,764		22,
Machinery and equipment .....	50,624		51,
Office equipment and furniture .....	7,744		7,
Construction-in-progress .....	14		2,
	-----		-----
	84,120		85,
Accumulated depreciation .....	(42,004)		(38,
	-----		-----
Property, plant and equipment, net .....	\$ 42,116		\$ 47,
	=====		=====
Intangible Assets			
Goodwill .....	\$ 13,492		\$ 12,
Accumulated amortization .....	(2,914)		(1,
	-----		-----
Total .....	\$ 10,578		\$ 10,
	=====		=====
Non-compete agreements .....	\$ 8,227		\$ 8,
Accumulated amortization .....	(3,971)		(2,
	-----		-----
Total .....	\$ 4,256		\$ 5,
	=====		=====
Patents and other intangible assets .....	\$ 383		\$
Accumulated amortization .....	(156)		(1
	-----		-----
Total .....	\$ 227		\$
	=====		=====
Deferred Financing Costs			
Deferred financing costs .....	\$ 4,756		\$ 4,
Accumulated amortization .....	(2,224)		(1,
	-----		-----
Total .....	\$ 2,532		\$ 2,
	=====		=====

10. Supplemental Cash Flow Information

The Company paid approximately \$13.0 million, \$13.7 million and \$13.5 million in interest during the years ended December 31, 2001, 2000 and 1999, respectively. The Company paid income taxes of \$48,135, \$108,898 and \$64,343 during the years ended December 31, 2001, 2000 and 1999, respectively.

11. Long-Term Debt

Long-term debt at December 31, 2001 and 2000 consisted of the following (in thousands):

2001

Citizens National Bank IRB with variable interest at 6.5% until March, 2000, at which time the rate is subject to periodic adjustments based on U.S. Treasury Note rates, the rate at December 31, 2001 is 6.5%, due \$14 monthly

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plus interest with unpaid principal balance due April, 2010, secured by certain real estate and improvements in Paris, Illinois ..... \$ 1,376

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Various non-compete, license and patent agreements payable, noninterest-bearing and payable in varying amounts through 2003 .....	26
LaSalle Bank N. A. revolving line of credit .....	22,000
LaSalle Bank N. A. term note .....	16,311
Clark Products, Inc. promissory note bearing interest at 10%; due \$14 monthly through June, 2001, secured by certain equipment and intangibles .....	--
Shareholder Note, unsecured, payable on demand, under the same interest terms as the La Salle Bank N.A. revolving line of credit .....	--
10.25% senior subordinated notes payable, principal due November, 2007, net of Unamortized debt discount of \$1,071 and \$1,138 as of December 31, 2001 and 2000, respectively; amortization of debt discount was \$166 for the years ended December 31, 2001 and 2000; interest is payable semi-annually in May and November .....	98,929
Note payable to the former shareholders of Avemarau Equipamentos Agricolas Ltda., noninterest-bearing and payable in equal annual installments beginning December 1998 through December 2001; interest imputed at 8%, face amount of note is 4.0 million Brazilian Reals .....	--
Various notes payable, bearing interest at rates ranging from 14.63% to 19.63% and payable in varying amounts through 2002 .....	72
City of Assumption promissory note bearing interest at 5%; due \$9 monthly through December, 2003, secured by a \$495 letter of credit .....	204
	-----
Total .....	138,918
Less -	
Current maturities .....	(2,707)
	-----
Total long-term debt .....	\$ 136,211
	=====

Maturities of long-term debt during the next five years and thereafter are as follows (in thousands):

2002 .....	2,707
2003 .....	2,640
2004 .....	24,523
2005 .....	2,523
2006 .....	2,523
Thereafter .....	104,002
	-----
Total .....	\$138,918
	=====

In November 1997, the Company issued \$100 million of Senior Subordinated Notes ("Notes") which are due in 2007. The Notes represent unsecured senior subordinated obligations of the Company. Upon occurrence of a change in control (as defined), the Company is required to repurchase the Notes at a price equal to 101% of the principal amount thereof plus accrued and unpaid interest, if any, to the date of purchase. The indenture governing the Company's senior subordinated notes provides for certain restrictive covenants. The more significant of the covenants restrict the ability of the Company to dispose of



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assets, incur additional indebtedness, pay dividends or make distributions and other payments affecting subsidiaries. The Company was in compliance with the covenants contained in the indenture as of December 31, 2001.

In June 2000, a shareholder of the Company extended a loan to the Company for \$1.5 million, which is payable on demand. In 2001, a shareholder of the Company extended a loan to the Company for \$1.0 million that was paid off during the year. This loan has the same interest terms as the LaSalle Bank N.A. revolving line of credit. The balance of the loan was \$0.0 and \$1.2 million as of December 31, 2001 and December 31, 2000, respectively and is included in current maturities of long-term debt.

On July 25, 2001, LaSalle Bank National Association and the Company amended the Company's credit facility (the "Credit Facility") to provide for revolving loans up to a maximum of \$43.1 million (limited based on a borrowing base which includes accounts receivable, inventory, principal reductions of the LaSalle Bank National Association term loan, letters of credit and certain guaranteed debt) and a \$16.9 million term loan. The borrowings bear interest at a floating rate per annum equal to (at the Company's option) 1.75% to 3.25% over LIBOR or 0.25% to 0.75% over the bank's floating rate, both based on the senior debt to EBITDA ratio of the Company. The term loan is payable in quarterly principal installments of \$0.6 million plus interest over three years and matures on July 25, 2004. The Credit Facility expires on July 25, 2004. As the principal amount outstanding on the term loan, letters of credit, and certain guaranteed debt is reduced, the availability on the revolving loan is increased

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maintaining a total commitment of \$60.0 million under the Credit Facility. In addition, the Credit Facility provided for a \$5.0 million borrowing base over-advance which expired on September 1, 2001 and bore an interest rate of LIBOR plus 3.5%. The Credit Facility requires the Company to maintain a certain senior debt to EBITDA ratio, fixed charge coverage ratio, tangible net worth and certain levels of EBITDA and capital expenditures. In addition, the Credit Facility requires that a percentage of Excess Cash, as defined, be used to pay down the term loan on an annual basis. The Company was in compliance with the covenants under the Credit Facility as of December 31, 2001. Borrowings under the Credit Facility are secured by substantially all of the assets of the Company, including the capital stock of any existing or future subsidiaries. The term loan and revolving line of credit bore interest at rates ranging from 4.2% to 8.8% for the fiscal year 2001. The Company had \$22.0 million of revolving loans outstanding, \$6.2 million of standby letters of credit and \$5.0 million of guaranteed FarmPro debt which reduced the overall availability on the line to \$10.1 million as of December 31, 2001.

In September 2001, the Company purchased \$100,000 of Senior subordinated debt that was outstanding from a shareholder of the Company that is reflected as a reduction of debt. The bonds were purchased at fair market value.

### 12. Employee Benefit Plans

The Company has a defined contribution plan covering virtually all full-time employees. Under the plan, Company contributions are discretionary. During 2001, 2000 and the first quarter of 1999, the Company provided a 25% matching contribution up to 1% of the employees' compensation. Contributions to the plan were temporarily suspended for the last three quarters of 1999. Employer contributions to this plan were \$203,873, \$171,346 and \$59,425 during 2001, 2000 and 1999, respectively.

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### 13. Income Tax Matters

The GSI Group, Inc. ("GSI") has elected to be treated as an S corporation for income tax purposes. Accordingly, no provision for federal income taxes related to GSI has been recorded. Earnings or losses of GSI are reported on the personal income tax returns of the stockholders. At December 31, 2001, all of the Company's foreign subsidiaries are eligible foreign entities which have elected to be classified as a partnership or disregarded as a separate entity under U.S. Treasury Regulation Section 301.7701. As a result, earnings or losses of the foreign subsidiaries are not subject to U.S. tax except as reported on the personal income tax returns of the stockholders. Dividends sufficient to pay the resulting income taxes of the owners are declared and paid as needed. DMC is taxed pursuant to the C Corporation provisions of the Internal Revenue Code. Accordingly, provisions for federal taxes related to DMC have been recorded. Both GSI and DMC are subject to certain state taxes. All foreign entities are subject to local taxes. Accordingly, the provisions for foreign local taxes have been recorded.

The income tax benefit differs from the amount of income tax determined by applying the U.S. Federal income tax rate to pretax income for the years ended December 31, 2001, 2000 and 1999 (in thousands):

	2001	2000	1999
U.S. Federal statutory rate .....	\$ 135	\$ 1,574	\$(910)
Increase (decrease) in income taxes resulting from:			
Non-taxable S Corporation (income) losses .....	398	(1,466)	879
Foreign local taxes .....	295	(419)	--
Tax differences resulting from acquisition of DMC	(1,274)	(279)	(279)
Nondeductible goodwill amortization .....	33	33	33
Effective tax rate differences .....	(221)	(38)	11
State and other income taxes .....	(22)	27	(70)
	-----	-----	-----
	\$ (656)	\$ (568)	\$(336)
	=====	=====	=====

The following is a summary of the Company's benefit for income taxes (in thousands):

	Years Ended December 31,		
	2001	2000	1999
<b>Current</b>			
Federal .....	\$(113)	\$ 51	\$ 4
State and local .....	(24)	28	(11)
Foreign .....	454	182	--
	-----	-----	-----
	317	261	(7)
	-----	-----	-----
<b>Deferred</b>			
Federal .....	(555)	(154)	(224)
State and local .....	(259)	(75)	(105)

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Foreign .....	(159)	(600)	--
	-----	-----	-----
	(973)	(829)	(329)
	-----	-----	-----
Total benefit .....	\$ (656)	\$ (568)	\$ (336)
	-----	-----	-----

The components of deferred tax assets and liabilities at December 31, 2001 and 2000 are as follows (in thousands):

	2001	2000
	-----	-----
Deferred tax assets:		
Tax loss carryforwards - DMC .....	\$ 64	\$ 30
Tax loss carryforwards - Brazil .....	1,890	2,245
Tax loss carryforwards - Mexico .....	158	--
Allowance for doubtful accounts .....	18	18
Inventory reserves .....	21	21
Cash discount reserves .....	15	24
Estimated product liability .....	68	20
Accrued health insurance .....	13	--
Accrued vacations .....	1	54
	-----	-----
	\$ 2,248	\$ 2,412
	=====	=====
Deferred tax liabilities:		
Property and equipment .....	1,031	1,151
Inventory .....	445	1,185
	-----	-----
	1,476	2,336
	-----	-----
Valuation Allowance - Brazil	(1,368)	(1,645)
	-----	-----
Net Deferred tax liability .....	\$ 596	\$ 1,569
	=====	=====

DMC has tax loss carryforwards of approximately \$289,647, which begin to expire in the year 2018. Brazil has tax loss carryforwards of approximately \$5,250,000 that do not expire. Mexico has tax loss carryforwards of approximately \$782,093 that begin to expire in 2007.

Remaining realizable assets are supported by anticipated turnaround of deferred tax liabilities and future projected taxable income.

At December 31, 2001, if GSI's S Corporation election were terminated, a deferred income tax liability of approximately \$816,000 would be recorded.

14. Commitments and Contingencies

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

In June 1999, the employment of John Funk, the Company's General Counsel and Chief Financial Officer, was terminated. In June 2000, the Company entered into a settlement agreement with Mr. Funk concerning a dispute about the effect of the termination and his rights as a shareholder under various agreements between him, the Company and its other shareholders. Pursuant to the settlement agreement, the Company repurchased all of the shares of the Company held by Mr. Funk for their original basis of \$1.4 million. This purchase is reflected as

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treasury stock in the accompanying Consolidated Balance Sheets.

The Company has month to month leases for several buildings and paid rentals in 2001, 2000 and 1999 of \$0.8 million, \$0.7 million and \$0.7 million, respectively. The Company also leases equipment and vehicles under operating lease arrangements. Total lease expense related to the equipment and vehicle leases for the years ended December 31, 2001, 2000 and 1999 was \$1.2 million, \$1.4 million and \$1.5 million, respectively.

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Operating lease commitments are as follows (in thousands):

2002 .....	1,055	
2003 .....	769	
2004 .....	343	
	-----	
Total .....	\$2,167	=====

The Company has an operating lease agreement that requires the Company to maintain a certain senior debt to EBITDA ratio, tangible net worth and certain levels of capital expenditures and EBITDA. The Company was in compliance with these covenants under the operating lease agreement as of December 31, 2001. Certain lease agreements are collateralized by a letter of credit of \$2.0 million, which was renewed for another year, expiring on October 15, 2002.

The Company terminated employment agreements with certain executives as of November 15, 2001.

The Company has two contracts with the Syrian government and one with the Yemen Company for Industrial Development to manufacture and supervise the assembly of grain handling systems. Other current and long-term assets include \$2.5 million and \$4.7 million as of December 31, 2001 and 2000, respectively, of retainage withheld until completion of the projects and the meeting of certain performance criteria. These assets are secured by letters of credit totaling \$1.9 million and are expected to be collected during the year 2002.

### 15. Regional Information

The Company is engaged in the manufacture and sale of equipment for the agricultural industry. The Company's product lines include: grain storage bins and related drying and handling equipment systems and swine and poultry feed storage and delivery, ventilation, and watering systems. The Company's products are sold primarily to independent dealers and distributors and are marketed through the Company's sales personnel and network of independent dealers. Users of the Company's products include farmers, feed mills, grain elevators, grain processing plants and poultry/swine integrators. Sales by each major geographic region are as follows (in millions):

	2001	2000	1999
	-----	-----	-----
United States .....	\$ 155.6	\$ 155.7	\$ 150.7
Asia .....	17.3	18.1	11.8
Canada .....	17.5	23.2	19.1
Latin America .....	28.3	31.8	32.0
Mideast .....	3.3	3.7	6.5
Europe .....	5.6	6.4	6.4
All other .....	2.3	5.1	2.7

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-----	-----	-----
\$ 229.9	\$ 244.0	\$ 229.2
=====	=====	=====

### 16. Related-Party Transactions

The Company makes sales in the ordinary course of business to Sloan Implement Company, Inc., a supplier of agricultural equipment that is owned by certain family members of a shareholder of the Company. Such transactions generally consist of sales of grain equipment and amounted to \$243,849, \$221,235 and \$133,895 for 2001, 2000 and 1999, respectively.

The Company makes sales in the ordinary course of business to Larry Sloan, who is a family member of a certain shareholder of the Company. Such transactions generally consist of sales of grain equipment and amounted to \$65,203, \$27,393 and \$56,967 for 2001, 2000 and 1999, respectively.

The Company makes sales in the ordinary course of business to Resintech, which, as a result of a joint venture partnership, has a long-term supply agreement pursuant to which Resintech agreed to purchase 100% of its equipment requirements from the Company. Such transactions generally consist of sales of grain equipment and amounted to \$129,245, \$7,677 and \$93,039 for 2001, 2000 and 1999, respectively.

The Company makes sales in the ordinary course of business to FarmPRO, Inc., which has a long-term supply agreement pursuant to which FarmPRO agreed to purchase 90% of its equipment requirements from the Company.

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In connection with the agreement, the Company agreed to guarantee FarmPRO borrowings under a line of credit agreement limited to amounts borrowed up to \$5.0 million through 2006. In connection with such guarantee, the Company received an option to purchase up to 60% of the common stock of FarmPRO at a formula price which approximates fair market value. The stock of FarmPRO serves as collateral for the guarantee. In addition, the Company holds two positions on the Board of Directors of FarmPRO. The amount of the guaranteed borrowings at December 31, 2001 and 2000 were \$4.8 million and \$4.4 million, respectively. Sales to FarmPRO were \$2.9 million, \$2.5 million and \$3.4 million in 2001, 2000 and 1999, respectively.

The Company makes sales in the ordinary course of business to Covell Bros., a distributor of poultry equipment, that is owned by an employee of the Company. Such transactions generally consist of sales of poultry equipment and amounted to \$178,432, \$197,223 and \$404,249 for 2001, 2000 and 1999, respectively.

The Company makes purchases in the ordinary course of business from the Segatt family, some of whom are current employees of the Company. Such transactions generally consist of purchases of materials, freight payments, and commissions that amounted to \$195,000, \$90,000 and \$43,000 for 2001, 2000 and 1999, respectively and sales of poultry equipment that amounted to \$9,000, \$38,000 and \$12,000 for 2001, 2000 and 1999, respectively.

The Company makes sales and purchases in the ordinary course of business from Reliance, a supplier of poultry equipment, which is owned by an employee of the Company. Such transactions generally consist of purchases of materials for poultry equipment that amounted to \$149,070, \$7,289 and \$135,686 from 2001, 2000 and 1999, respectively and sales of poultry equipment that amounted to \$19,263, \$19,700 and \$94,075 from 2001, 2000 and 1999, respectively.

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The Company makes sales in the ordinary course of business to Mayland Enterprises, a distributor of grain equipment, that is owned by an employee of the Company. Such transactions generally consist of sales of grain equipment and amounted to \$22,464, \$57,519 and \$23,010 for 2001, 2000 and 1999, respectively.

In August, 2001, Cathy Sloan was elected as a director of the Company, replacing a director who resigned. Cathy Sloan is the wife of Craig Sloan.

The Company and its stockholders entered into certain agreements relating to the rights of the stockholders with respect to their ownership of the Company's shares (the "Stockholder Agreements"). These agreements generally (i) provide that the holders of a majority of the stock may sell all of their shares at any time if the other stockholders are entitled to participate in such sale on the same terms and conditions, and that the holders of a majority of the stock may require the other stockholders to sell all their stock at the same time on the same terms and conditions, (ii) establish that the stockholders are restricted in their ability to sell, pledge or transfer such shares, (iii) grant rights of first refusal, first to the Company and then to all non-transferring stockholders, with respect to the transfer of any share, (iv) require that an affirmative vote by a majority of the Company's voting stockholders is required to approve certain corporate matters and (v) establish procedures for the optional purchase of shares by the Company (subject to compliance with the terms of the Indenture) or any remaining voting stockholders upon the death, permanent disability or termination of employment of any stockholder. The Stockholder Agreements also (i) provide that the holders of a majority of the Company's shares may cause the Company to register their shares in an underwritten public offering and (ii) grant piggy-back registration rights to the stockholders in the event of an underwritten public offering.

### 17. Unaudited Quarterly Information

	First Quarter -----	Second Quarter -----	Third Quarter -----	Fourth Quarter -----
	(In thousands, except per share date)			
2001:				
Sales .....	\$ 44,969	\$65,498	\$ 71,834	\$ 47,620
Gross profit .....	11,254	15,154	18,984	10,275
Net income (loss) .....	(2,370)	1,133	4,617	(2,326)
Basic and diluted earnings per share	(1.34)	.64	2.60	(1.31)
	=====	=====	=====	=====

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2000:				
Sales .....	\$ 49,016	\$66,057	\$ 83,391	\$ 45,497
Gross profit .....	10,350	15,098	24,007	9,802
Net income (loss) .....	(2,150)	1,914	9,042	(3,609)
Basic and diluted earnings per share .....	(1.08)	.96	5.09	(2.03)
	=====	=====	=====	=====

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1999:

Sales .....	\$ 46,371	\$60,356	\$ 79,839	\$ 42,644
Restated Gross profit .....	8,003	12,374	17,653	11,253
Restated Net income (loss) .....	(7,157)	861	4,656	(1,701)
Restated Basic and diluted earnings per share .....	(3.58)	.43	2.33	(.85)
	=====	=====	=====	=====

The change in accounting principle from LIFO to FIFO did not materially effect the quarterly data for the year 2001 and 2000; thus it was not restated.

### 18. Acquisitions

On January 2, 2001, the Company purchased certain assets including inventory, specialized equipment, patents, trademarks, goodwill and customer lists of the FFI Corporation ("FFI") for approximately \$6.2 million. FFI was a manufacturer of grain drying equipment located in Indianapolis, Indiana. The transaction was recorded in accordance with the purchase method of accounting and, accordingly, the acquired assets have been recorded at their estimated fair market values at the date of acquisition. The intangible assets totaling \$1.3 million, including patents, trademarks, goodwill and customer lists, are being amortized on a straight line basis over the assets estimated useful life ranging from 10-20 years. The purchase price allocation is based on fair values.

### 19. Dispositions

On December 30, 2001, the Company sold the inventory, intellectual property, and specialized equipment relating to one of its minor product lines. The sale amount ranges from a minimum of \$775,000 to a maximum of \$1,267,000 contingent on inventory utilization and subsequent product sales by the buyer. The Company has retained a security interest in the equipment and has a five year non-compete covenant. The Company received \$100,000 upon closing and will receive \$200,000 upon delivery of the inventory with the remaining amount to be paid upon resolution of the above mentioned contingencies.

### 20. Guarantor Subsidiaries

The Company's payment obligation under the Notes are fully and unconditionally guaranteed on a joint and several basis by DMC, GSI/Cumberland de Mexico S. de R.L. de C.V., GSI/Cumberland BV, GSI/Cumberland SA (Pty) Ltd., GSI Group (Asia) Sdn. Bhd. and Agromarau Industria E Comercio Ltda., GSI Agricultural Equipment Shanghai Co. Ltd., and the GSI Group (Canada) Inc. (the "Guarantor Subsidiaries"). The Guarantor Subsidiaries are direct wholly owned subsidiaries of the Company. The obligations of the Guarantor Subsidiaries under their guarantees are subordinated to such subsidiaries' obligations under their guarantee of the LaSalle National Bank credit facility.

Presented below is unaudited condensed consolidating financial information for The GSI Group, Inc. ("Parent Company") and the Guarantor Subsidiaries. In the Company's opinion, separate financial statements and other disclosures concerning the Guarantor Subsidiaries would not provide additional information that is material to investors.

Investments in subsidiaries are accounted for by the Parent Company using the equity method of accounting. Earnings of subsidiaries are, therefore, reflected in the Parent Company's investments in and advances to/from subsidiaries account and earnings. The elimination entries eliminate investments in subsidiaries and intercompany balances and transactions.

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20. Guarantor Subsidiaries (Continued)

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET  
DECEMBER 31, 2001  
(In thousands)

	Parent Company	Guarantor Subsidiaries	Elim
	-----	-----	-----
ASSETS			
Current assets:			
Cash and cash equivalents .....	\$ 1,482	\$ 1,346	\$
Accounts receivable, net .....	23,320	10,762	
Inventories, net .....	43,805	13,939	
Other current assets .....	5,454	1,607	
	-----	-----	-----
Total current assets .....	74,061	27,654	
Property, plant and equipment, net .....	33,071	9,045	
Goodwill and other intangibles, net .....	2,929	12,132	
Investment in and advances to/from Subsidiaries .....	42,532	(6,513)	(
Other long-term assets .....	3,481	13	
	-----	-----	-----
Total assets .....	\$ 156,074	\$ 42,331	\$ (
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Current portion of long-term debt .....	\$ 2,635	\$ 72	\$
Accounts payable .....	11,609	7,750	
Accrued liabilities .....	15,059	2,536	
	-----	-----	-----
Total current liabilities .....	29,303	10,358	
Long-term debt .....	131,865	9,201	
Other long-term liabilities .....	(225)	807	
	-----	-----	-----
Total liabilities .....	160,943	20,366	(
Stockholders' equity (deficit):			
Common stock .....	18	23,539	(
Additional paid-in capital .....	3,006	305	
Accumulated other comprehensive loss .....	--	(10,216)	
Retained earnings .....	19,066	8,337	
Treasury stock, at cost .....	(26,959)	--	
	-----	-----	-----
Total stockholders' equity (deficit) .....	(4,869)	21,965	(
	-----	-----	-----
Total liabilities and stockholders' equity .....	\$ 156,074	\$ 42,331	\$ (
	=====	=====	=====



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20. Guarantor Subsidiaries (Continued)

SUPPLEMENTAL CONDENSED CONSOLIDATING BALANCE SHEET  
DECEMBER 31, 2000, Restated  
(In thousands)

	Parent Company	Guarantor Subsidiaries	Elim
	-----	-----	-----
ASSETS			
Current assets:			
Cash and cash equivalents .....	\$ 20	\$ 2,659	\$
Accounts receivable, net .....	23,990	10,478	
Inventories, net .....	40,741	15,990	
Other current assets .....	3,792	2,369	
	-----	-----	-----
Total current assets .....	68,543	31,496	
Property, plant and equipment, net .....	35,870	11,193	
Goodwill and other intangibles, net .....	4,396	14,363	
Investment in and advances to/from			
Subsidiaries .....	40,966	(4,906)	(
Other long-term assets .....	4,505	56	
	-----	-----	-----
Total assets .....	\$ 154,280	\$ 52,202	\$ (
	=====	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)			
Current liabilities:			
Current portion of long-term debt .....	\$ 3,877	\$ 2,197	\$
Accounts payable .....	14,173	6,862	
Accrued liabilities .....	17,877	4,347	
	-----	-----	-----
Total current liabilities .....	35,927	13,406	
Long-term debt .....	128,613	11,651	
Other long-term liabilities .....	--	1,736	
	-----	-----	-----
Total liabilities .....	164,540	26,793	(
Stockholders' equity (deficit):			
Common stock .....	18	23,526	(
Additional paid-in capital .....	3,006	305	
Accumulated other comprehensive loss .....	--	(8,105)	
Retained earnings .....	13,675	9,683	
Treasury stock, at cost .....	(26,959)	--	
	-----	-----	-----
Total stockholders' equity (deficit) .....	(10,260)	25,409	(
Total liabilities and stockholders' equity .....	\$ 154,280	\$ 52,202	\$ (
	=====	=====	=====

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20. Guarantor Subsidiaries (Continued)

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
YEAR ENDED DECEMBER 31, 2001  
(In thousands)

	Parent Company	Guarantor Subsidiaries	Eliminations	Consolidated
	-----	-----	-----	-----
Sales	\$ 190,509	\$ 58,515	\$ (19,103)	
Cost of sales .....	147,983	42,194	(15,923)	
	-----	-----	-----	
Gross profit .....	42,526	16,321	(3,180)	
Selling, general and administrative expenses ....	26,227	14,887	--	
	-----	-----	-----	
Operating income (loss) .....	16,299	1,434	(3,180)	
Interest expense .....	(13,755)	(642)	--	
Other (expense) income .....	(218)	460	--	
	-----	-----	-----	
Income before income taxes .....	2,326	1,252	(3,180)	
Provision (Benefit) for income taxes .....	68	(724)	--	
	-----	-----	-----	
Income before equity in income of Consolidated subsidiaries .....	2,258	1,976	(3,180)	
Equity in income of consolidated subsidiaries ...	1,976	--	1,976	
	-----	-----	-----	
Net income .....	\$ 4,234	\$ 1,976	\$ (5,156)	
	=====	=====	=====	

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20. Guarantor Subsidiaries (Continued)

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
YEAR ENDED DECEMBER 31, 2000, Restated  
(In thousands)

	Parent Company	Guarantor Subsidiaries	Eliminations	Consolidated
	-----	-----	-----	-----
Sales .....	\$ 195,718	\$ 63,090	\$ (14,847)	\$ 243,961
Cost of sales .....	151,691	48,810	(15,879)	184,622
	-----	-----	-----	-----
Gross profit .....	44,027	14,280	1,032	59,339
Selling, general and administrative expenses	26,116	13,954	--	40,070

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Operating income .....	17,911	326	1,032	19,
Interest expense .....	(14,626)	(371)	--	(14,
Other income .....	135	304	--	
Income before income taxes .....	3,420	259	1,032	4,
Provision (benefit) for income taxes .....	3	(571)	--	(
Income before equity in income of Consolidated subsidiaries .....	3,417	830	1,032	5,
Equity in income of consolidated subsidiaries	830	--	(830)	
Net income .....	\$ 4,247	\$ 830	\$ 202	\$ 5,

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20. Guarantor Subsidiaries (Continued)

SUPPLEMENTAL CONDENSED CONSOLIDATING STATEMENT OF OPERATIONS  
YEAR ENDED DECEMBER 31, 1999  
(In thousands)

	Parent Company	Guarantor Subsidiaries	Eliminations	C
Sales	\$ 185,612	\$ 57,019	\$ (13,421)	
Cost of sales .....	144,395	46,101	(10,569)	
Gross profit .....	41,217	10,918	(2,852)	
Selling, general and administrative expenses .....	23,571	15,098	--	
Operating income (loss) .....	17,646	(4,180)	(2,852)	
Interest expense .....	(14,378)	(390)	--	
Other income (expense) .....	494	(17)	--	
Income (loss) before income taxes .....	3,762	(4,587)	(2,852)	
Benefit for income taxes .....	(27)	(309)	--	
Income (loss) before equity in income of Consolidated subsidiaries .....	3,789	(4,278)	(2,852)	
Equity in income of consolidated subsidiaries .....	(4,278)	--	4,278	
Net loss .....	\$ (489)	\$ (4,278)	\$ 1,426	

20. Guarantor Subsidiaries (Continued)

SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
 YEAR ENDED DECEMBER 31, 2001  
 (In thousands)

	Parent Company	Guarantor Subsidiaries	Eliminations	C
	-----	-----	-----	-----
Cash flows from operating activities .....	\$ 2,285	\$ 2,685	\$ --	
	-----	-----	-----	
Cash flows from investing activities:				
Capital expenditures .....	(3,918)	(469)	--	
Other .....	(2,751)	2,842	--	
	-----	-----	-----	
Net cash provided by (used in) investing Activities .....	(6,669)	2,373	--	
	-----	-----	-----	
Cash flows from financing activities:				
Net borrowings (payments) on debt .....	4,720	(4,575)	--	
Other .....	1,126	(1,743)	--	
	-----	-----	-----	
Net cash provided by (used in) financing Activities .....	5,846	(6,318)	--	
	-----	-----	-----	
Effect of exchange rate changes on cash .....	--	(53)	--	
	-----	-----	-----	
Change in cash and cash equivalents .....	1,462	(1,313)	--	
Cash and cash equivalents, beginning of period ...	20	2,659	--	
	-----	-----	-----	
Cash and cash equivalents, end of period .....	\$ 1,482	\$ 1,346	--	
	=====	=====	=====	

20. Guarantor Subsidiaries (Continued)

SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
 YEAR ENDED DECEMBER 31, 2000, Restated  
 (In thousands)

Parent Guarantor

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	Company	Subsidiaries	Eliminations	Consolidated
	-----	-----	-----	-----
Cash flows from operating activities .....	\$ 4,611	\$ 4,905	\$ --	\$ 9,516
Cash flows from investing activities:				
Capital expenditures .....	(5,747)	(504)	--	(6,251)
Other .....	283	82	--	365
Net cash used in investing Activities .....	(5,464)	(422)	--	(5,886)
Cash flows from financing activities:				
Net borrowings (payments) on debt .....	2,195	(3,335)	--	(1,140)
Other .....	(1,537)	(1,388)	--	(2,925)
Net cash provided by (used in) financing Activities .....	658	(4,723)	--	(4,065)
Effect of exchange rate changes on cash .....	--	(126)	--	(126)
Change in cash and cash equivalents .....	(195)	(366)	--	(561)
Cash and cash equivalents, beginning of period..	1,058	2,182	--	3,240
Cash and cash equivalents, end of period .....	\$ 863	\$ 1,816	--	\$ 2,679
	=====	=====	=====	=====

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20. Guarantor Subsidiaries (Continued)

SUPPLEMENTAL CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED DECEMBER 31, 1999  
(In thousands)

	Parent Company	Guarantor Subsidiaries	Eliminations	Consolidated
	-----	-----	-----	-----
Cash flows provided by (used in) operating activities .....	\$ 11,413	\$ (1,615)	\$ --	\$ 9,798
Cash flows from investing activities:				
Capital expenditures .....	(7,728)	--	--	(7,728)
Other .....	1,182	334	--	1,516
	-----	-----	-----	-----

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Net cash provided by (used in) investing Activities .....	(6,546)	334	--	(6)
	-----	-----	----	----
Cash flows from financing activities:				
Advances (to) from affiliates .....	(4,354)	4,354	--	(1)
Net payments on debt .....	(472)	(1,160)	--	(1)
Other .....	638	299	--	
	-----	-----	----	----
Net cash provided by (used in) financing Activities .....	(4,188)	3,493	--	
	-----	-----	----	----
Effect of exchange rate changes on cash .....	--	(843)	--	
	-----	-----	----	----
Change in cash and cash equivalents .....	679	1,369	--	2
Cash and cash equivalents, beginning of period .	379	813	--	1
	-----	-----	----	----
Cash and cash equivalents, end of period .....	\$ 1,058	\$ 2,182	--	\$ 3
	=====	=====	=====	=====

21. Subsequent Events

On January 31, 2002, the Company sold its Mason City, Iowa manufacturing facility for \$1.2 million. The Company maintained its distribution facility in Mason City with a leased facility.

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

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

The following table sets forth certain information concerning the executive officers and directors of the Company:

Name	Age	Office
----	---	-----
Craig Sloan .....	51	Chief Executive Officer and Director
Russell C. Mello .....	40	Chief Financial Officer, Treasurer and
Eugene A. Wiseman .....	52	President of GSI Division
Allen A. Deutsch.....	51	President of AP/Cumberland Division
Timothy K. Tribbett .....	32	President of International Operations
David L. Vettel .....	43	President of GSI International Division
Kevin Sloan .....	43	Senior Vice-President-Director of Manuf
Cathy Sloan .....	51	Director

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Craig Sloan joined the Company in November 1971. Mr. Sloan has been Chief Executive Officer since December 1993. From December 1974 to December 1993, he served as President of Grain Systems, Inc., a former subsidiary of the Company. Mr. Sloan has been a Director of the Company since December 1972.

Russell C. Mello joined the Company in March 1995. Mr. Mello has been the Chief Financial Officer, Secretary and Treasurer since September 2001. From June 1999 to September 2001, he served as Senior Vice President, Finance and Secretary and Treasurer. From September 1996 to June 1999, he served as Vice President, Finance and Assistant Secretary and Assistant Treasurer. From March 1995 to September 1996, he served as the Controller of the GSI Division. From October 1984 to March 1995, he held various management and finance positions with Emerson Electric Company, a manufacturer of electrical equipment.

Eugene A. Wiseman joined the Company in October 1978. Mr. Wiseman has been President of the GSI Division since December 1996. From December 1994 to December 1996, he served as Vice President of the GSI Division. From March 1990 to December 1994, he served as Division Manager of the GSI Division. Prior thereto, Mr. Wiseman held various sales and management positions.

Allen A. Deutsch joined the Company in January 1993. Mr. Deutsch has been President of the Livestock Division since September 2001. From June 1996 to September 2001, he served as President of the AP Division. From April 1995 to June 1996, he served as Vice President of the AP Division. From January 1993 to April 1995, he served as National Sales Manager of the AP Division. From August 1983 to January 1993, he served as Sales Manager of AAA Associates, Incorporated, a manufacturer and marketer of livestock ventilation systems, which business was acquired by the Company in January 1993.

Timothy K. Tribbett joined the Company in March 1998. Mr. Tribbett has been President of International Operations, Assistant Secretary and Assistant Treasurer since September 2001. From March 1999 to September 2001, he served as Vice President of International Finance. From March 1998 to March 1999, he served as the Manager of International Finance. From April 1994 to March 1998, he held various finance positions with Federal-Mogul Corporation, a manufacturer of automobile components.

David L. Vettel joined the Company in November 1993. Mr. Vettel has been President of the GSI International Division since December 1995. From November 1993 to December 1995, he served as Vice President of the GSI International Division. From November 1991 to November 1993, he served as International Sales Manager of Chief Industries, Inc., a manufacturer of steel buildings and grain storage bins.

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Kevin Sloan joined the Company in March 1977. Mr. Sloan has been Senior Vice-President - Director of Manufacturing since January 1996. From December 1993 to January 1996, he served as Vice-President of the Heritage Vinyl Division. From February 1987 to December 1993, he served as General Manager of the Heritage Vinyl Division. Prior thereto, Mr. Sloan has held various manufacturing positions.

Cathy Sloan has been a director of the Company since September 2001. Ms. Sloan is the wife of Craig Sloan and is a homemaker.

The Company's bylaws provide that the number of directors shall be two.

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Each director is elected to serve until the next annual meeting and until his or her successor has been elected and qualified or until his or her earlier resignation or removal. Executive officers are elected by the Board of Directors and serve until their successors have been elected and qualified or until their earlier resignation or removal.

### ITEM 11. EXECUTIVE COMPENSATION.

The following table sets forth in summary form all compensation for all services rendered in all capacities to the Company for the year ended December 31, 2000 of the Company's Chief Executive Officer and the other five most highly compensated executive officers of the Company (the "Named Executives"), plus two former employees who would have been named if they were still employed by the Company.

SUMMARY COMPENSATION TABLE

Name & Principal Position -----	Year ----	Annual Compensation -----		All Other Compensation (1) -----
		Salary -----	Bonus -----	
Craig Sloan ..... Chief Executive Officer and Director	2001	\$407,515	\$ --	\$11,702
	2000	\$407,515	\$ --	\$ 6,680
	1999	\$391,000	\$ --	\$14,784
Eugene A. Wiseman ..... President of GSI Division	2001	\$130,000	\$19,000	\$ --
	2000	\$130,000	\$14,387	\$ --
	1999	\$100,000	\$28,159	\$ --
Allen A. Deutsch ..... President of AP Division	2001	\$130,000	\$26,000	\$ --
	2000	\$130,000	\$10,532	\$ --
	1999	\$130,000	\$23,812	\$ --
David L. Vettel ..... President of GSI International Division	2001	\$120,000	\$19,000	\$ --
	2000	\$120,000	\$14,387	\$ --
	1999	\$120,000	\$ 9,723	\$ --
Kevin Sloan ..... Vice-President of Manufacturing	2001	\$120,000	\$30,000	\$ --
	2000	\$120,000	\$25,000	\$ --
	1999	\$120,000	\$ --	\$ --
Jorge Andrade ..... Former employee	2001	\$292,000	\$ --	\$ 9,043
	2000	\$316,515	\$ --	\$ 6,268
	1999	\$300,000	\$ --	\$ 6,513
Howard Buffett ..... Former employee	2001	\$292,000	\$ --	\$20,145
	2000	\$316,515	\$ --	\$ 5,838
	1999	\$300,000	\$ --	\$ 4,832

-----  
/1/ Consists of group insurance and other miscellaneous benefits.



Compensation Committee Interlocks and Insider Participation

The Company did not have a Compensation Committee during 2001. All members of the Company's Board of Directors participated in deliberations regarding executive officer compensation during 2001. See "Certain Relationships and Related Transactions." During 2001, no member of the Company's Board of Directors served as a director or a member of the compensation committee of any other company of which any executive officer served as a member of the Company's Board of Directors during 2001.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

The following table sets forth certain information as of March 1, 2001 with respect to the shares of the Company's voting common stock and non-voting common stock beneficially owned by (i) each person or group that is known by the Company to beneficially own more than 5% of the outstanding Common Stock, (ii) each director of the Company, (iii) each Named Executive and (iv) all directors and executive officers of the Company as a group.

Name and Address of Beneficial Owner -----	Voting Common Stock		No
	Number of Shares	Percentage of Voting	Comm Number o Shares
-----	-----	-----	-----
Craig Sloan (1) .....	1,575,000	100.00%	93,567
Russell C. Mello (1) .....	--	--	11,830
Eugene A. Wiseman (1) .....	--	--	15,773
Allen A. Deutsch (1) .....	--	--	11,198
David L. Vettel (1) .....	--	--	13,798
Kevin Sloan (1) .....	--	--	11,830
Directors and executive officers as a group			
(6 persons in group) .....	1,575,000	100.00%	157,996

(1) The address of each stockholder is c/o The GSI Group, Inc., 1004 East Illinois Street, Assumption, Illinois 62510, (217) 226-4421.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

The Company, the voting stockholder and each of the holders of the Company's non-voting common stock have entered into an agreement that (i) provides that the holders of non-voting common stock are entitled to sell their shares on the same terms and conditions in the event the voting stockholders transfer a majority of the voting stock, (ii) provides that the holders of the non-voting common stock must under certain circumstances agree to sell their shares on the terms and conditions approved by the Company's Board of Directors, (iii) established that the holders of the non-voting common stock are restricted in their ability to sell, pledge or transfer such shares, (iv) grants rights of first refusal to Craig Sloan with respect to the transfer of any non-voting common stock to other non-voting stockholders and (v) establishes procedures for the optional purchase of shares by Mr. Sloan and the Company (subject to compliance with the terms of the indenture) upon the death, permanent disability or termination of employment of any holder of non-voting common stock. The

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agreement also grants piggy-back registration rights to the holders of non-voting common stock in the event of an underwritten public offering.

The Company makes sales in the ordinary course of business to Sloan Implement Company, Inc., a supplier of agricultural equipment that is owned by certain family members of a shareholder of the Company. Such transactions generally consist of sales of grain equipment and amounted to \$243,849, \$221,235 and \$133,895 for 2001, 2000 and 1999, respectively.

The Company makes sales in the ordinary course of business to Larry Sloan, who is a family member of a certain shareholder of the Company. Such transactions generally consist of sales of grain equipment and amounted to \$65,203, \$27,393 and \$56,967 for 2001, 2000 and 1999, respectively.

The Company makes sales in the ordinary course of business to Resintech, which, as a result of a joint venture partnership, has a long-term supply agreement pursuant to which Resintech agreed to purchase 100% of its equipment requirements from the Company. Such transactions generally consist of sales of grain equipment and amounted to \$129,245, \$7,677 and \$93,039 for 2001, 2000 and 1999, respectively.

The Company makes sales in the ordinary course of business to FarmPRO, Inc., which has a long-term supply agreement pursuant to which FarmPRO agreed to purchase 90% of its equipment requirements from the Company.

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In connection with the agreement, the Company agreed to guarantee FarmPRO borrowings under a line of credit agreement limited to amounts borrowed up to \$5.0 million through 2006. In connection with such guarantee, the Company received an option to purchase up to 60% of the common stock of FarmPRO at a formula price which approximates fair market value. The stock of FarmPRO serves as collateral for the guarantee. In addition, the Company holds two positions on the Board of Directors of FarmPRO. The amount of the guaranteed borrowings at December 31, 2001 and 2000 were \$4.8 million and \$4.4 million, respectively. Sales to FarmPRO were \$2.9 million, \$2.5 million and \$3.4 million in 2001, 2000 and 1999, respectively.

The Company makes sales in the ordinary course of business to Covell Bros., a distributor of poultry equipment, that is owned by an employee of the Company. Such transactions generally consist of sales of poultry equipment and amounted to \$178,432, \$197,223 and \$404,249 for 2001, 2000 and 1999, respectively.

The Company makes purchases in the ordinary course of business from the Segatt family, some of whom are current employees of the Company. Such transactions generally consist of purchases of materials, freight payments, and commissions that amounted to \$195,000, \$90,000 and \$43,000 for 2001, 2000 and 1999, respectively and sales of poultry equipment that amounted to \$9,000, \$38,000 and \$12,000 for 2001, 2000 and 1999, respectively.

The Company makes sales and purchases in the ordinary course of business from Reliance, a supplier of poultry equipment, which is owned by an employee of the Company. Such transactions generally consist of purchases of materials for poultry equipment that amounted to \$149,070, \$7,289 and \$135,686 from 2001, 2000 and 1999, respectively and sales of poultry equipment that amounted to \$19,263, \$19,700 and \$94,075 from 2001, 2000 and 1999, respectively.

The Company makes sales in the ordinary course of business to Mayland Enterprises, a distributor of grain equipment, that is owned by an employee of

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the Company. Such transactions generally consist of sales of grain equipment and amounted to \$22,464, \$57,519 and \$23,010 for 2001, 2000 and 1999, respectively.

In August, 2001, Cathy Sloan was elected as a director of the Company, replacing a director who resigned. Cathy Sloan is the wife of Craig Sloan.

The Company believes that these transactions were, and future transactions with Sloan Implement Company, Inc., Larry Sloan, Resintech, FarmPRO, Covell Bros., the Segatt family, Reliance and Mayland Enterprises will be, on terms no less favorable to the Company than could have been obtained from an independent third party in arm's length transactions.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(a) (1) Financial Statements:

See "Index to Consolidated Financial Statements of The GSI Group, Inc. and Subsidiaries" set forth in Item 8 hereof.

(a) (2) Financial Statement Schedules:

Schedules not listed above have been omitted because they are inapplicable or the information required to be set forth therein is provided in the Consolidated Financial Statements or the notes thereto.

(a) (3) Exhibits:

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

(b) Reports on Form 8-K:

The GSI Group, Inc. did not file any Current Reports on Form 8-K during its fiscal quarter ended December 31, 2001.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, The GSI Group, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in Assumption, Illinois on March 1, 2002.

The GSI Group, Inc.

By: /s/ Craig Sloan

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Craig Sloan  
Director and Chief Executive Officer

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of Registrant in the capacities indicated on March 1, 2002.

Signature -----	Title -----
<p style="margin-left: 40px;">/s/ Craig Sloan ----- Craig Sloan</p>	<p>Director and Chief Executive Officer (Principal Executive Officer)</p>
<p style="margin-left: 40px;">/s/ Cathy Sloan ----- Cathy Sloan</p>	<p>Director</p>
<p style="margin-left: 40px;">/s/ Russell C. Mello ----- Russell C. Mello</p>	<p>Chief Financial Officer, Secretary and Treasurer (Principal Financial Officer)</p>

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### INDEX TO EXHIBITS

Exhibit No. -----	Document Description -----
1.1**	Stock Purchase Agreement, dated June 30, 1998, by and among Cumberland do Brasil Ltda., Avemarau Equipamentos Agricolas Ltda. And the stockholders of Avemarau Equipamentos Agricolas Ltda.
1.2**	Agreement for Non-Competition, dated June 30, 1998, by and among the stockholders of Avemarau Equipamentos Agricolas Ltda. And The GSI Group, Inc.
2.1*	Amended and Restated Articles of Incorporation of The GSI Group, Inc., as amended as of October 23, 1997
2.2*	By-Laws of The GSI Group, Inc.
3.1*	Indenture, dated November 1, 1997, between The GSI Group, Inc. and LaSalle National Bank as Trustee, including forms of the Old Notes and the New Notes issued pursuant to such Indenture.
3.2*	First Supplemental Indenture, dated December 19, 1997, between The GSI Group, Inc. and LaSalle National Bank, as Trustee, amending Indenture dated November 1, 1997, between The GSI Group, Inc. and LaSalle National Bank, as Trustee, to qualify such Indenture under Trust Indenture Act of 1939.
3.3*	Second Supplemental Indenture, dated December 19, 1997, executed by David Manufacturing amending Indenture dated November 1, 1997, between The GSI Group, Inc. and LaSalle National Bank, as Trustee, to add David Manufacturing Co. as a Guarantor under such Indenture.
3.5*	Agreement of The GSI Group, Inc. to furnish the Securities and Exchange Commission with

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- copy of certain instruments relating to long-term debt of The GSI Group, Inc. upon request.
- 4.1\*\*\* Fourth Amended and Restated Loan and Security Agreement, dated February 4, 1999, between GSI Group, Inc., as borrower, and LaSalle National Bank, as lender.
  - 4.2\* First Amendment to Stock Restriction and Cross-Purchase Agreement, dated July 15, 1996, among John C. Sloan, Jorge Andrade, John Funk and Howard Buffett.
  - 4.3\* Second Amendment to Stock Restriction and Cross-Purchase Agreement, dated as of October 1997, among John C. Sloan, Jorge Andrade, John Funk and Howard Buffett.
  - 4.4+++ Letter Agreement dated as of October 27, 1999 among John C. Sloan, Jorge Andrade and Howard Buffett.
  - 4.5+++ Amendment to Addendum dated September 30, 1999 by and between The GSI Group and Fleet Capital Corporation relating to a certain Master Lease Agreement for machinery and equipment.
  - 4.6+++ Letter of Credit Amendment to the Master Lease Agreement by and between The GSI Group, Inc. and Fleet Capital Corporation.
  - 4.7\* Lease with Option to Purchase, dated July 12, 1996, between The GSI Group, Inc. and Edgemoor County Bank & Trust Company, as Trustee for Trust No. 455-232 relating to property located in Paris, Illinois.
  - 4.8\* Agreement, dated April 9, 1997, between GSI/Cumberland Sdn. Bhd. and Ban Leng Fibre Sdn. Bhd. relating to property located in Penang, Malaysia.
  - 4.9++ First Amendment to Fourth Amended and Restated Loan and Security Agreement dated as of October 6, 1999 by and among The GSI Group, Inc. and LaSalle Bank National Association.
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- 4.10+ Amended and Restated Employment Agreement, dated as of March 18, 1999, between The GSI Group, Inc. and John Funk.
  - 4.11+ Amended and Restated Stock Restriction and Buy-Sell Agreement, dated March 18, 1999, by and among Jorge Andrade, Howard Buffett, John Funk, John C. Sloan and The GSI Group, Inc.
  - 4.12+ Stockholder Agreement dated March 18, 1999 between The GSI Group, Inc., Jorge Andrade, Howard Buffett, John Funk and John C. Sloan.
  - 4.13+ Amended and Restated Stock Restriction and Buy Sell Agreement - Non Voting dated as of March 31, 1999 by and among The GSI Group, Inc., Jorge Andrade, Howard Buffett, John Funk, John C. Sloan and the nonvoting shareholders of The GSI Group, Inc.
  - 4.14\* Stock Restriction and Cross-Purchase Agreement, dated June 6, 1996, among John C. Sloan, Jorge Andrade, John Funk and Howard Buffett.
  - 4.15\* Guaranty, dated November 26, 1997, executed by The GSI Group, Inc. in favor of Mercantile Bank National Association.
  - 5.1# Amended and Restated Employment Agreement, dated as of August 30, 2000, between The GSI Group, Inc. and John C. Sloan.
  - 5.2# Amended and Restated Employment Agreement, dated as August 30, 2000, between The GSI Group, Inc. and John C. Sloan.

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Inc. and Jorge Andrade.

- 5.3# Amended and Restated Employment Agreement, dated as of August 30, 2000, between The GSI Group, Inc. and Howard Buffett.
- 6.1+ Asset Purchase Agreement, dated December 19, 2000, between The GSI Group, Inc. and FFI Corporation.
- 7.1++ By-Laws of The GSI Group, Inc., as amended.
- 8.1++ Amended and Restated Stock Restriction and Buy Sell Agreement - Non Voting, dated as of March 3, 2001, by and among The GSI Group, Inc., John C. Sloan, Jorge Andrade, and Howard Buffett and the nonvoting shareholders of The GSI Group, Inc.
- 8.2++ Amended and Restated Stock Restriction and Buy Sell Agreement - Voting, dated as of March 3, 2001, by and among John C. Sloan, Jorge Andrade, and Howard Buffett and The GSI Group, Inc.
- 8.3++ Fifth Amended and Restated Loan and Security Agreement, dated July 25, 2001, between The GSI Group, Inc., as borrower, and LaSalle National Bank, as lender.
- 8.4++ Indemnification Agreement, dated July 1, 2001, by and among The GSI Group, Inc. and John C. Sloan, Howard Buffett, Jorge Andrade, and Russell C. Mello.
- 8.5+++ Separation Agreement, dated August 30, 2001, by and among The GSI Group, Inc. and Howard Buffett.
- 8.6+++ Separation Agreement, dated August 30, 2001, by and among The GSI Group, Inc. and Jorge Andrade.
- 12.1 Computation of Ratio of Earnings to Fixed Charges.
- 13.1 Preferability Letter
- 21.1 List of Subsidiaries of The GSI Group, Inc.

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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.

\*\* Incorporated by reference from the Company's Form 8-K filed with the Commission on July 27, 1998 pursuant to the Securities Act of 1934, as amended.

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\*\*\* Incorporated by reference from the Company's Form 10-K filed with the Commission on March 31, 1999 pursuant to the Securities Act of 1934.

+ Incorporated by reference from the Company's Form 10-Q filed with the Commission on May 17, 1999 pursuant to the Securities Act of 1934.

++ Incorporated by reference from the Company's Form 10-Q filed with the Commission on August 11, 1999 pursuant to the Securities Act of 1934.

+++ Incorporated by reference from the Company's Form 10-Q filed with the Commission on November 12, 1999 pursuant to the Securities Act of 1934.

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- # Incorporated by reference from the Company's Form 10-K filed with the Commission on March 1, 2001 pursuant to the Securities Act of 1934.
- + Incorporated by reference from the Company's Form 10-Q filed with the Commission on May 4, 2001 pursuant to the Securities Act of 1934.
- ++ Incorporated by reference from the Company's Form 10-Q filed with the Commission on August 3, 2001 pursuant to the Securities Act of 1934.
- +++ Incorporated by reference from the Company's Form 10-Q filed with the Commission on November 12, 2001 pursuant to the Securities Act of 1934.

SUPPLEMENTAL INFORMATION TO BE FURNISHED WITH REPORTS FILED PURSUANT TO SECTION 15(D) OF THE ACT BY REGISTRANT WHICH HAVE NOT REGISTERED SECURITIES PURSUANT TO SECTION 12 OF THE ACT.

The Company did not send an annual report or proxy statement to security holders covering 2001.