LANCER CORP /TX/
Form 10-K/A
July 01, 2004

QuickLinks -- Click here to rapidly navigate through this document

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

Annual Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2002 **Commission file number 0-13875**

Lancer Corporation

(Exact name of registrant as specified in its charter)

Texas	**74-1591073**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
6655 Lancer Blvd., San Antonio, Texas	**78219**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code **(210) 310-7000**

Securities registered pursuant to Section 12 (b) of the Act:
NONE

Securities registered pursuant to Section 12 (g) of the Act:
Common Stock, par value $.01 per share
(Title of class)

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 o NO ý

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of 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. ý

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). YES o NO ý

On June 28, 2002, (the last business day of the registrant's most recently completed second fiscal quarter on which the common equity was traded) the aggregate market value of Common Stock held by non-affiliates (based on the closing market price) was $27,058,510. For purposes of this computation, all executive officers, directors and 5% beneficial owners of the registrant are deemed to be affiliates. Such determination should not be deemed to be an admission that such officers, directors or 5% beneficial owners are, in fact, affiliates of the Company.

The number of shares of the registrant's common stock outstanding as of March 6, 2003 was 9,345,931.

Reason for Amending the Annual Report on Form 10-K for the Year Ended December 31, 2002

On February 2, 2004, KPMG, LLP resigned as the independent auditors for Lancer Corporation (the "Company") and subsequently withdrew its December 31, 2002, 2001 and 2000 audit reports and advised the Company that the financial statements and related audit reports should no longer be relied upon. The Company subsequently engaged BDO Seidman, LLP to re-audit the financial statements referenced by such audit reports.

This amendment to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2002 (filed with the SEC on March 27, 2003) is being filed in order to (i) replace the Independent Auditors Report signed by KPMG, LLP and dated February 26, 2003 with the Report of Independent Registered Public Accounting Firm, signed by BDO Seidman, LLP and dated June 16, 2004, (ii) revise certain disclosure in the "Notes to the Consolidated Financial Statements" beginning on page F-8, and (iii) provide the consent of BDO Seidman, LLP to incorporate by reference the financial information contained herein into certain of the Company's registration statements.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Financial Statements required to be presented under Item 8 are hereby incorporated by reference to the Financial Statements beginning at page F-1 of this Form 10-K/A (the "Financial Statements").

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this amendment to the Annual Report on Form 10-K:

(1) Financial statements:

The financial statements filed as a part of this report are listed in the "Index to Consolidated Financial Statements and Schedule" referenced in Item 8.

(2) Financial statement schedule:

The financial statement schedule filed as a part of this report is listed in the "Index to Consolidated Financial Statements and Schedule" referenced in Item 8.

(3) Exhibits:

3.1*	Registrants Articles of Incorporation and amendments thereto.
3.2*	Bylaws of the Registrant.
4.1*	Specimen Common Stock Certificate, $0.01 par value, of Registrant.
10.1*	Lancer Corporation Profit Sharing Plan.
10.2*	1992 Non-Statutory Stock Option Plan.
10.4*	Master Development Agreement, dated January 12, 1984, between Lancer Corporation and The Coca-Cola Company.
10.5*	Net Lease Agreement, dated July 1, 1974, between Lancer Corporation and Lancer Properties dated as of June 3, 1977.
10.13*	Development and Manufacturing Agreement, dated April 13, 1993, between Lancer Corporation and Packaged Ice, Inc.
10.16*	Form of Nonstatutory Stock Option Agreement under the 1992 Non-Statutory Stock Option Plan.
10.28++	Term A Note, dated July 15,1996, between Lancer Corporation and The Frost National Bank and The Boatmen's National Bank of St. Louis.
10.29++	Term B Note, dated July 15,1996, between Lancer Corporation and The Frost National Bank and The Boatmen's National Bank of St. Louis.
10.30++	Revolving Note, dated July 15,1996, between Lancer Corporation and The Frost National Bank and The Boatmen's National Bank of St. Louis.
10.31++	Acquisition Note, dated July 15,1996, between Lancer Corporation and The Frost National Bank and The Boatmen's National Bank of St. Louis.
10.32++	Stock Pledge, dated July 15,1996, between Lancer Corporation and The Frost National Bank.
10.33++	Parent and Affiliate Guaranties, dated July 15,1996, between Lancer Corporation or its subsidiaries and The Frost National Bank.
10.34#	Lancer Corporation Stock Incentive Plan, Effective Date March 1, 1996.
10.40***	Seventh Amendment and Restated Credit Agreement dated October 26, 2000 between Lancer Corporation and The Frost National Bank, Harris Trust and Savings Bank, and Whitney National Bank.

10.41***	Security Agreement between Lancer Corporation and The Frost National Bank, Harris Trust and Savings Bank, and Whitney National Bank.
10.42+	First Amendment to Seventh Amendment and Restated Credit Agreement between Lancer Corporation and The Frost National Bank, Harris Trust and Savings Bank, and Whitney National Bank.
10.43+	Master Lease and Supplement between The Frost National Bank and Lancer Partnership, Ltd.
10.44+++	Second Amendment to Seventh Amendment and Restated Credit Agreement between Lancer Corporation and The Frost National Bank, Harris Trust and Savings Bank, and Whitney National Bank.
10.45+++	Lancer Corporation Stock Option Plan of 2002.
21.1+++	List of Significant Subsidiaries of the Registrant.
23.1	Consent of BDO Seidman, LLP.
31.1	Certification of Chief Executive Officer of Lancer Corporation Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer of Lancer Corporation Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer of Lancer Corporation Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer of Lancer Corporation Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

*	These exhibits are incorporated by reference to the same Exhibit to the Registrant's Registration Statement No. 33-82434 filed on Form S-1 with the Securities and Exchange Commission (the "Commission") on August 5, 1994, as amended by Amendment No. 1 to Form S-1 Registration Statement with the Commission on August 23, 1994.
++	These exhibits are incorporated by reference to the Exhibit to the Registrant's Form 10-Q for the quarter ended June 30, 1995, filed with the Commission on August 14, 1995.
#	This exhibit is incorporated by reference to the Exhibit to the Registrant's Proxy dated April 22, 1996, filed with the Commission on April 24, 1996.
##	These exhibits are incorporated by reference to the Exhibit to the Registrant's Form 10-K for the year ended December 31, 1997, filed with the Commission on March 31, 1998.
###	This exhibit is incorporated by reference to the Exhibit to the Registrant's Form 10-Q for the quarter ended June 30, 1998, filed with the Commission on August 17, 1998.
**	This exhibit is incorporated by reference to the Exhibit to the Registrant's Form 10-Q for the quarter ended June 30, 1999, filed with the Commission on August 13, 1999.
***	This exhibit is incorporated by reference to the Exhibit to the Registrant's Form 10-Q for the quarter ended September 30, 2000, filed with the Commission on November 13, 2000.
+	This exhibit is incorporated by reference to the Exhibit to the Registrant's Form 10-K for the year ended December 31, 2001, filed with the Commission on March 29, 2002.
+++	This exhibit is incorporated by reference to the Exhibit to the Registrant's Form 10-K for the year ended December 31, 2002, filed with the Commission on March 27, 2003.

(b) Reports on Form 8-K:

The Company filed a report on Form 8-K dated February 27, 2003. The report incorporated the Company's earnings release for the period ended December 31, 2002.

The Company filed a report on Form 8-K dated March 10, 2003. The report incorporated the Company's press release announcing a new Chief Financial Officer.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

LANCER CORPORATION

by: /s/ CHRISTOPHER D. HUGHES June 28, 2004

Christopher D. Hughes
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ CHRISTOPHER D. HUGHES	President and Chief Executive Officer	June 28, 2004
Christopher D. Hughes	(principal executive officer)	Date
/s/ MARK L. FREITAS	Chief Financial Officer	June 28, 2004
Mark L. Freitas	(principal financial officer, principal accounting officer)	Date
/s/ RICHARD C. OSBORNE	Chairman of the Board	June 28, 2004
Richard C. Osborne		Date
/s/ WALTER J. BIEGLER	Director	June 28, 2004
Walter J. Biegler		Date
/s/ JEAN M. BRALEY	Director	June 28, 2004
Jean M. Braley		Date
/s/ NORBORNE P. COLE, JR.	Director	June 28, 2004
Norborne P. Cole, Jr.		Date
/s/ OLIVIA F. KIRTLEY	Director	June 28, 2004
Olivia F. Kirtley		Date
/s/ ALFRED A. SCHROEDER	Director	June 28, 2004
Alfred A. Schroeder		Date
/s/ GEORGE F. SCHROEDER	Director	June 28, 2004
George F. Schroeder		Date

LANCER CORPORATION

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULE

LANCER CORPORATION

All other schedules for which provision is made in the applicable rules and regulations of the Securities and Exchange Commission have been omitted as the schedules are not required under the related instructions, are not applicable, or the information required thereby is set forth in the consolidated financial statements or notes thereto.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of
Lancer Corporation
San Antonio, Texas

We have audited the accompanying consolidated balance sheets of Lancer Corporation as of December 31, 2002 and 2001, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss), and cash flows for each of the three-years in the period ended December 31, 2002. We have also audited the schedule listed in Item 15(a)(2) of this Form 10-K. These consolidated financial statements and the schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements and schedule. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements and schedule. 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 Lancer Corporation as of December 31, 2002 and 2001 and the results of its operations and its cash flows for each of the three-years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

Also in our opinion, the schedule, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 1, the Company has adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and other Intangible Assets," effective January 1, 2002.

/s/ BDO Seidman, LLP

BDO Seidman, LLP
Dallas, Texas
June 16, 2004

LANCER CORPORATION

CONSOLIDATED BALANCE SHEETS
December 31, 2002 and 2001

(Amounts in thousands, except share data)

ASSETS

	2002	2001
Current assets:		
Cash	$ 3,241	$ 1,849
Receivables:		
Trade accounts and notes	17,265	17,781
Other	1,039	850
	18,304	18,631
Less allowance for doubtful accounts	(979)	(467)
Net receivables	17,325	18,164
Inventories, net	29,094	32,160
Prepaid expenses	264	655
Deferred income tax asset	285	211
Total current assets	50,209	53,039
Property, plant and equipment, at cost:		
Land	1,432	1,260
Buildings	21,837	21,840
Machinery and equipment	22,073	21,339
Tools and dies	12,137	11,256
Leaseholds, office equipment and vehicles	10,165	9,037
Assets in progress	1,455	1,194
	69,099	65,926
Less accumulated depreciation and amortization	(34,224)	(29,925)
Net property, plant and equipment	34,875	36,001
Long-term receivables ($106 and $407 due from officers, respectively)	127	612
Long-term investments	2,303	2,278
Intangibles and other assets, at cost, less accumulated amortization	5,241	4,674
	$ 92,755	$ 96,604

See accompanying notes to consolidated financial statements.

LANCER CORPORATION

CONSOLIDATED BALANCE SHEETS (Continued)
December 31, 2002 and 2001

(Amounts in thousands, except share data)

LIABILITIES AND SHAREHOLDERS' EQUITY

	2002	2001
Current liabilities:		
Accounts payable	$ 10,141	$ 7,911
Current installments of long-term debt	2,726	2,718
Line of credit with bank	5,000	15,600
Deferred licensing and maintenance fees	1,449	1,295
Accrued expenses and other liabilities	7,977	5,058
Taxes payable	182	1,507
Total current liabilities	27,475	34,089
Deferred income tax liability	2,342	1,421
Long-term debt, excluding current installments	9,808	11,872
Deferred licensing and maintenance fees	2,686	4,478
Other long-term liabilities	293	403
Total liabilities	42,604	52,263
Commitments and contingencies		
Minority interest		55
Shareholders' equity:		
Preferred stock, without par value:		
5,000,000 shares authorized; none issued		
Common stock, $.01 par value:		
50,000,000 shares authorized; 9,396,121 issued and 9,336,931 outstanding in 2002 and 9,127,757 issued and outstanding in 2001	93	91
Additional paid-in capital	12,710	11,943
Accumulated other comprehensive loss	(2,389)	(3,976)
Deferred compensation	(169)	
Retained earnings	40,234	36,228
Less common stock in treasury, at cost; 59,190 shares in 2002	(328)	
Total shareholders' equity	50,151	44,286
	$ 92,755	$ 96,604

See accompanying notes to consolidated financial statements.

LANCER CORPORATION

CONSOLIDATED STATEMENTS OF OPERATIONS
Years ended December 31, 2002, 2001 and 2000

(Amounts in thousands, except share data)

	2002	2001	2000
Net sales	$ 139,015	$ 122,745	$ 111,700
Cost of sales	101,925	95,877	86,642
Gross profit	37,090	26,868	25,058
Selling, general and administrative expenses	27,535	22,235	21,286
Operating income	9,555	4,633	3,772
Other (income) expense:			
Interest expense	1,318	3,128	3,243
Loss from joint ventures	653	296	82
Minority interest	(55)	(239)	(248)
Interest and other, net	(649)	(1,049)	(180)
	1,267	2,136	2,897
Income from continuing operations before income taxes	8,288	2,497	875
Income tax expense (benefit):			
Current	1,440	1,319	1,292
Deferred	1,229	(401)	(950)
Income tax expense	2,669	918	342
Income from continuing operations	5,619	1,579	533
Discontinued operations:			
Gain (loss) from operations of discontinued Brazilian subsidiary (including loss on disposal of $1,760)	(2,442)	(268)	38
Income tax benefit (expense)	829	91	(13)
Earnings (loss) from discontinued operations	(1,613)	(177)	25
Net earnings	$ 4,006	$ 1,402	$ 558
Common Shares and Equivalents Outstanding:			
Basic	9,326,529	9,127,062	9,124,857
Diluted	9,433,193	9,314,789	9,290,003
Earnings Per Share:			
Basic			
Earnings from continuing operations	$ 0.60	$ 0.17	$ 0.06
Loss from discontinued operations	$ (0.17)	$ (0.02)	$ 0.00
Net earnings	$ 0.43	$ 0.15	$ 0.06

	2002	2001	2000
Diluted			
Earnings from continuing operations	$ 0.60	$ 0.17	$ 0.06
Loss from discontinued operations	$ (0.17)	$ (0.02)	$ 0.00
Net earnings	$ 0.43	$ 0.15	$ 0.06

See accompanying notes to consolidated financial statements.

LANCER CORPORATION

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
Years ended December 31, 2002, 2001 and 2000

(Amounts in thousands, except share data)

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Deferred Compensation	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Balance December 31, 1999	$ 91	$ 11,933	$ (1,816)	$	$ 34,268	$	$ 44,476
Comprehensive loss:							
Net earnings					558		558
Cumulative translation adjustment			(1,393)				(1,393)
Unrealized loss on investment, net of tax			(108)				(108)
Total comprehensive loss:							(943)
Balance December 31, 2000	91	11,933	(3,317)		34,826		43,533
Comprehensive income:							
Net earnings					1,402		1,402
Cumulative translation adjustment			(817)				(817)
Reclassification adjustment for realized loss included in net income, net of tax			172				172
Unrealized loss on derivative instruments:							
Initial loss upon Adoption of SFAS No. 133			(51)				(51)
Reclassification adjustment for loss included in interest expense			37				37
Total comprehensive income:							743
Exercise of 2,900 stock options		10					10
Balance December 31, 2001	91	11,943	(3,976)		36,228		44,286
Comprehensive income:							
Net earnings					4,006		4,006
Cumulative translation adjustment			1,567				1,567
Unrealized gain on investment, net of tax			6				6
Unrealized loss on derivative instruments:							
Reclassification adjustment for loss included in interest expense			14				14

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Deferred Compensation	Retained Earnings	Treasury Stock	Total Shareholders' Equity
Total comprehensive income:							5,593
Exercise of 268,362 stock options for cash and by surrender of shares	2	372				(328)	46
Compensatory element of stock options granted		395		(395)			
Amortization of deferred compensation				226			226
Balance December 31, 2002	$ 93	$ 12,710	$ (2,389)	$ (169)	$ 40,234	$ (328)	$ 50,151

See accompanying notes to consolidated financial statements.

LANCER CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2002, 2001 and 2000

(Amounts in thousands)

	2002	2001	2000
Cash flow from operating activities:			
Net earnings	$ 4,006	$ 1,402	$ 558
Adjustments to reconcile net earnings to net cash (used in) provided by operating activities:			
Depreciation and amortization	4,959	4,816	4,205
Deferred licensing and maintenance fees	(1,638)	1,126	(472)
Deferred income taxes	844	(453)	(704)
(Gain) loss on sale and disposal of assets	(4)	(6)	10
Writedown of Brazilian assets, net of taxes	1,548		
Stock-based compensation expense	226		
Minority interest	(55)	(239)	(248)
Loss from joint ventures	653	296	82
Impairment of investment	30	279	
Change in assets and liabilities, net of effects from purchase of subsidiary:			
Receivables	1,167	(1,532)	635
Prepaid expenses	391	(13)	(177)
Income taxes receivable			3,505
Inventories	3,145	7,678	(4,646)
Other assets	(649)	(720)	(365)
Accounts payable	1,857	(868)	409
Accrued expenses	2,502	(239)	1,098
Income taxes payable	(762)	343	584
Net cash provided by operating activities	18,220	11,870	4,474
Cash flow from investing activities:			
Proceeds from sale of assets	20	52	2
Acquisition of property, plant and equipment	(3,658)	(3,998)	(5,166)
Acquisition of subsidiary company, net of cash acquired	(252)		
Proceed from (purchase of) long-term investments	(502)	7	209
Net cash (used in) investing activities	(4,392)	(3,939)	(4,955)
Cash flow from financing activities:			
Net (repayments) borrowings under line of credit agreements	(10,600)	(5,400)	3,400
Proceeds from issuance of long-term debt		697	
Retirement of long-term debt	(2,056)	(1,960)	(3,075)
Net proceeds from exercise of stock options	46	10	
Net cash (used in) provided by financing activities	(12,610)	(6,653)	325

	2002	2001	2000
Effect of exchange rate changes on cash	174	(200)	(300)
Net increase (decrease) in cash	1,392	1,078	(456)
Cash at beginning of year	1,849	771	1,227
Cash at end of year	$ 3,241	$ 1,849	$ 771
Supplemental cash flow informaton:			
Cash paid for interest	$ 1,658	$ 2,954	$ 3,207
Cash paid for (refunded) for income taxes	$ 1,200	$	$ (3,969)

See accompanying notes to consolidated financial statements

LANCER CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Principles of Consolidation

Lancer Corporation (the "Company") designs, engineers, manufactures and markets fountain soft drink and other beverage dispensing systems and related equipment for use in the food service and beverage industry. The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries, with significant intercompany balances and transactions eliminated in consolidation.

Concentrations of Credit Risk

The Company has accounts receivable from customers in the food service and beverage industry and is not concentrated in any specific geographic region. The Company has receivables from one major customer See Note 13 Segment and Geographic Information. The food and beverage industry may be affected by economic factors, which may impact the account receivable generally; the company does not require collateral from customers.

Accounts Receivable Allowance for Doubtful Accounts

The Company maintains its allowance for doubtful accounts at a balance adequate to reduce accounts receivable to the amount of cash expected to be realized on collection. The methodology used to determine the allowance is based on the Company's prior collection experience. Specific customers' financial strength and circumstance also influence the balance. Accounts that are determined to be uncollectible are written-off in the period in which they are determined to be uncollectible.

Inventories

Inventories are stated at the lower of cost or market on a first-in, first-out basis (average cost as to raw materials and supplies) or market (net realizable value).

Certain items in inventory have become obsolete due to technological advances and discontinuation of products. The Company has taken these items into consideration in valuing its inventory.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is calculated on a straight-line basis over estimated useful lives ranging from 5 to 39 years. Long-lived assets are evaluated annually for possible impairment adjustments which may be required. See note 2 for discussion of discontinued operations.

Maintenance, repair and purchases of small tools and dies are expensed as incurred.

Goodwill and Other Intangible Assets

Goodwill represents the excess of costs over fair value of assets of businesses acquired. The Company adopted the provisions of SFAS No. 142, "Goodwill and Other Intangible Assets," as of January 1, 2002. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but instead tested for impairment at least annually in accordance with the provisions of SFAS No. 142. SFAS No. 142 also requires that intangible assets with estimable useful lives be amortized over their respective estimated useful lives to their estimated residual values, and reviewed for impairment in accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets."

In connection with SFAS No. 142's transitional goodwill impairment evaluation, the Statement required the Company to perform an assessment of whether there was an indication that goodwill is impaired as of the date of adoption. To accomplish this, the Company was required to identify its reporting units and determine the carrying value of each reporting unit by assigning assets and liabilities, including the existing goodwill and intangible assets, to those reporting units as of January 1, 2002. The Company was required to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit within six months of January 1, 2002. To the extent the carrying amount of a reporting unit exceeded the fair value of the reporting unit, the Company would be required to perform the second step of the transitional impairment test, as this is an indication that the reporting unit goodwill may be impaired. The Company has completed its transitional impairment test as described above in the second quarter of 2002, as well as the annual impairment test as of December 31, 2002, and determined that its goodwill was not impaired.

The Company has approximately $1.9 million and $1.6 million of goodwill, net of accumulated amortization of $0.8 million and $0.8 million, at December 31, 2002 and 2001, respectively. Amortization expense related to goodwill for the years ended December 31, 2001 and 2000 was $0.2 million and $0.1 million, respectively.

A reconciliation of the effects of the adoption of SFAS No. 142 on net income and basic and diluted earnings per share is as follows (amounts in thousands, except share data):

	2002	2001	2000
Net earnings	$ 4,006	$ 1,402	$ 558
Add back goodwill amortization (net of tax effect)		147	84
Adjusted net earnings	$ 4,006	$ 1,549	$ 642
Basic earnings per common share:			
Net earnings	$ 0.43	$ 0.15	$ 0.06
Add back goodwill amortization (net of tax effect)		0.02	0.01
Adjusted net earnings	$ 0.43	$ 0.17	$ 0.07
Diluted earnings per common share:			
Net earnings	$ 0.43	$ 0.15	$ 0.06
Add back goodwill amortization (net of tax effect)		0.02	0.01
Adjusted net earnings	$ 0.43	$ 0.17	$ 0.07

Other intangible assets with definite useful lives are recorded on the basis of cost in accordance with SFAS No. 142, and are amortized on a straight-line basis. The Company assesses the recoverability of its other intangible assets by determining whether the amortization of the intangible balance over its remaining useful life can be recovered through projected undiscounted future cash flows over the remaining amortization period. If projected undiscounted future cash flows indicate that an unamortized intangible asset will not be recovered, an impairment loss is recognized based on projected discounted future cash flows. Cash flow projections are based on trends of historical performance and management's estimate of future performance, given consideration of existing and anticipated competitive and economic conditions.

The Company has approximately $3.3 million and $3.1 million of intangible assets, net of accumulated amortization of $0.7 million and $0.5 million, at December 31, 2002 and 2001, respectively. Amortization expense related to other intangible assets was $0.3 million, $0.2 million and $0.2 million for the years ended December 31, 2002, 2001 and 2000, respectively. Estimated amortization expense is $0.2 million for each of the five years ending December 31, 2007.

Long-term Investments

The Company owns a 50% interest in a joint venture, Lancer FBD Partnership, Ltd., which manufactures frozen beverage dispensing systems. The investment is accounted for under the equity method. The remaining 50% is owned by the developer of the technology utilized by the joint venture. The joint venture owns the rights to that technology.

The Company purchased a 50% interest in a joint venture, Lauch Lancer LLC, d.b.a. Moo Technologies, which markets concentrated shelf-stable milk for foodservice customers. The investment is accounted for under the equity method. The remaining 50% is owned by the developer of the technology utilized by the joint venture. The joint venture owns the right to that technology.

Also included in long-term investments is an investment in the common stock of Packaged Ice, Inc., a company that sells ice bagger machines manufactured by the Company. Lancer owns less than 10% of the common stock of Packaged Ice, Inc. The investment, accounted for as an available-for-sale security, is recorded at fair value with net unrealized gains and losses reported, net of tax, in other comprehensive income. The fair value is determined by quoted market prices.

Derivative Instruments

The Company accounts for derivative instruments using the principles of Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 provides guidance on accounting and financial reporting for derivative instruments and hedging activities. SFAS No. 133 requires the recognition of all derivatives as either assets or liabilities on the consolidated balance sheet, and the periodic measurement of those instruments at fair value. The Company determined that hedge accounting would not be elected for derivatives existing at January 1, 2001, which consisted of interest rate swap agreements. The Company entered into the swap agreements to effectively fix the interest rate on a portion of its debt in order to lessen the Company's exposure to floating rate debt. Changes in the fair value of those derivatives are recorded in income. The adoption of SFAS No. 133 as of January 1, 2001, resulted in a cumulative-effect-type expense to other comprehensive income of $0.051 million which is recognized in interest expense over the term of the interest rate swap agreements ranging from 11 months to 24 months. As of December 31, 2002 and 2001, the fair value of the interest rate swap agreements was a liability of $0.053 million and $0.379 million respectively, which is included in accrued expenses in the accompanying financial statements. During 2002 and 2001, the Company recognized in interest expense $0.014 million and $0.037 million relating to the transition adjustment. Interest expense was reduced by $0.311 million in 2002 and increased by $0.365 million in 2001, relating to the change in the fair value of the interest rate swap agreements.

Net Earnings per Share

Basic earnings per share is calculated using the weighted average number of common shares outstanding and diluted earnings per share is calculated assuming the issuance of common shares for all dilutive potential common shares outstanding during the reporting period. The dilutive effect of stock options approximated 106,664, 187,727, and 165,146 shares in 2002, 2001 and 2000, respectively. Options to purchase approximately 82,550, 132,250, and 293,875 shares in 2002, 2001 and 2000, respectively, were outstanding but were not included in the computation because the exercise price is greater than the average market price of the common shares.

Revenue Recognition

Revenue is recognized in accordance with the following methods:

(a) At the time of shipment for all products except for those sold under agreement described in (b).The Company requires a purchase order for all sales. At the time of the shipment, risk of ownership and title passes to the customer. The goods are completely assembled and packaged and the Company has no further performance obligations.

(b) As produced and at time of title transfer, for certain products manufactured and warehoused under production and warehousing agreements with certain customers. The Company had no such arrangements after March 31, 2002.

(c) The Company has entered into an agreement with its major customer to receive partial reimbursement for design and development. The reimbursement is offset against cost on a percentage of completion basis.

(d) The Company has agreed to provide exclusive rights for use of certain tools to its major customer. These tools are included in fixed assets and are depreciated over the life of the asset. The corresponding license and maintenance fees are recorded as deferred income and recognized over the life of the agreement, which approximates the life of the corresponding asset.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Provision for U.S. income taxes on the undistributed earnings of foreign subsidiaries is made only on those amounts in excess of the funds considered to be permanently reinvested.

Research and Development

Company-sponsored research and development costs are expensed as incurred and totaled approximately $2.3 million, $2.4 million and $2.9 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Foreign Currency Translation

Assets and liabilities of non-U.S. subsidiaries that operate in a local currency environment are translated to U.S. dollars at year-end exchange rates. Income and expense items are translated at average rates of exchange prevailing during the year. Translation adjustments are accumulated in a separate component of shareholders' equity. Inventories, plant and equipment and other non-monetary assets and liabilities of non-U.S. subsidiaries that operate in U.S. dollars are translated at approximate exchange rates prevailing when acquired. All other assets and liabilities are translated at year-end exchange rates. Inventories charged to cost of sales and depreciation are translated at historical exchange rates. All other income and expense items are translated at average rates of exchange prevailing during the year. For those companies that operate in U.S. dollars, gains and losses that result from translation are included in earnings.

Stock Compensation Plans

At December 31, 2002, the Company has stock option plans, which are described further in Note 6. The Company utilizes the intrinsic value method required under provisions of APB Opinion No. 25 and related interpretations in measuring stock-based compensation for employees. If the Company had elected to recognize compensation cost based on the fair value of the options granted at grant date as prescribed by SFAS No. 123, net earnings and net earnings per share would have been adjusted to the pro forma amounts indicated in the table below (amounts in thousands, except share data):

	2002	2001	2000
Net earnings-as reported	$ 4,006	$ 1,402	$ 558
Add: Total stock-based compensation expense determined under the intrinsic value method, net of tax	$ 150	$	$
Deduct: Total stock-based compensation expense determined under fair value based method for all awards, net of tax	(94)	(161)	(167)
Net earnings-pro forma	$ 4,062	$ 1,241	$ 391
Net earnings per basic share-as reported	$ 0.43	$ 0.15	$ 0.06
Net earnings per basic share-pro forma	$ 0.42	$ 0.14	$ 0.04
Net earnings per diluted share-as reported	$ 0.43	$ 0.15	$ 0.06
Net earnings per diluted share-pro forma	$ 0.41	$ 0.13	$ 0.04
Weighted-average fair value of options, granted during the year	$ 2.88	$ 2.02	$ 1.51

The fair value of each option granted in 2002, 2001 and 2000 is estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	2002	2001	2000
Expected life (years)	5	4	4
Interest rate	3.0%	4.0%	5.0%
Volatility	42.9%	44.4%	43.4%
Dividend yield	None	None	None

Comprehensive Income

The Company has adopted SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 establishes standards for reporting and presentation of comprehensive income and its components in a full set of financial statements. Comprehensive income (loss) consists of net earnings, currency translation adjustment, unrealized gain (loss) on investment, and unrealized loss on derivative instruments and is presented in the consolidated statements of shareholders' equity and comprehensive income. The Statement requires additional disclosures in the consolidated financial statements but it does not affect the Company's financial position or results of operations.

Use of Estimates

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

Impairment of Long-Lived Assets

SFAS No. 144 provides a single accounting model for long-lived assets to be disposed of. SFAS No. 144 also changes the criteria for classifying an asset held for sale; and broadens the scope of businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing losses on such operations. The Company adopted SFAS No. 144 on January 1, 2002. The adoption did not affect the Company's financial statements.

In accordance with SFAS No. 144, long-lived assets, such as property, plant, and equipment, and purchased intangibles subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposed group classified as held for sale would be presented separately in the appropriate asset and liability sections of the balance sheet.

Reclassifications

Certain amounts in the consolidated financial statements for prior years have been reclassified to conform with the current year's presentation.

Recent Accounting Pronouncements

SFAS No. 143, "Accounting for Asset Retirement Obligations," issued in June 2001 establishes financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. The standard applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and (or) normal use of the asset. The Company is required and plans to adopt the provisions of SFAS No. 143 for the quarter ending March 31, 2003. To accomplish this, the Company must identify all legal obligations for asset retirement obligations, if any, and determine the fair value of these obligations on the date of adoption. The Company believes the adoption of SFAS No. 143 will not have a material impact on the Company's financial statements.

SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities," issued in July 2002, addresses financial accounting and reporting for costs associated with exit or disposal activities. It nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS No. 146 requires that a liability be recognized for the cost associated with an exit or disposal activity only when the liability is incurred, that is, when it meets the definition of a liability in the FASB conceptual framework. SFAS No. 146 also establishes fair value as the objective for initial measurement of liabilities related to exit or disposal activities. The Statement is effective for exit or disposal activities that are initiated after December 31, 2002. The Company believes the adoption of SFAS No. 146 will not have a material impact on the Company's financial statements.

In November 2002, the Financial Accounting Standards Board (FASB) issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This Interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under guarantees issued. The Interpretation also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of the obligation undertaken. The initial recognition and measurement provisions of the Interpretation are applicable to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of periods ending after December 15, 2002. The Company does not expect the adoption of Interpretation No. 45 to have a material impact on the Company's financial statements.

SFAS No. 148, "Accounting for Stock-Based Compensation Transition and Disclosure," issued in December 2002, amends SFAS No. 123 "Accounting for Stock-Based Compensation" to provide alternative methods of transition for a voluntary change to the fair-value based method of accounting for stock-based employee compensation. In addition, SFAS No. 148 amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The transition guidance and annual disclosure provisions of SFAS No. 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial statements for interim periods beginning after December 15, 2002. The Company will continue to account for stock-based compensation using the intrinsic value method under APB Opinion No. 25. The disclosure modifications required for fiscal years ending after December 15, 2002 are included in the notes to these financial statements.

Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51," issued in January 2003, addresses the consolidation by business enterprises of variable interest entities as defined in the Interpretation. Interpretation No. 46 applies immediately to variable interests in variable interest entities created and/or obtained after January 31, 2003. The application of this Interpretation is not expected to have a material impact on the Company's financial statements.

2. Discontinued Operations

During the quarter ended June 30, 2002, the Company decided to close its Brazilian subsidiary. In connection with the closure of the Brazilian subsidiary, the Company recorded an estimated loss from disposal of discontinued operations of $1.8 million in the quarter ended June 30, 2002 related to the write-down of the Brazilian subsidiary assets net of expected proceeds, foreign currency translation losses, and an accrual for estimated exit costs. Accordingly, the Company has reported the results of operations of the Brazilian subsidiary as discontinued operations in the Consolidated Statements of Operations. For business segment reporting purposes, the Brazil operation was previously classified as the segment "Brazil."

Certain information with respect to the discontinued Brazilian operation for the years ended 2002, 2001 and 2000 is as follows (amounts in thousands):

	Years ended December 31,		
	2002	**2001**	**2000**
Net sales	$ 466	$ 1,092	$ 1,538
Pretax gain (loss) from discontinued operations	(378)	(268)	38
Pretax (loss) on disposal of discontinued operations	(2,064)		
Income tax benefit (expense)	829	91	(13)
Net gain (loss) from discontinued operations	$ (1,613)	$ (177)	$ 25

Assets and liabilities of the discontinued operation are as follows (amounts in thousands):

	2002	2001
Current assets	$ 293	$ 1,435
Property, plant and equipment, net	29	363
Current liabilities	(1,499)	(1,797)
Net (liabilities) assets of discontinued operation	$ (1,177)	$ 1

3. Investment in Joint Ventures

The Company's 50% share of net earnings, after elimination of profit in ending inventory, is included in other income. On May 1, 2002, the Company's joint venture that manufactures frozen beverage equipment began selling directly to most third party customers, and paying a commission to the Company $0.1 million for the year ended December 31, 2002. Prior to May 1, 2002, the joint venture sold substantially all of its production to the Company, and the Company distributed the equipment to third party customers. The joint venture sales to the Company were $3.0 million and $7.7 million for the years ended December 31, 2002 and 2001 respectively. The joint venture purchases from the Company were $0.5 million and $0.7 million for the years ended December 31, 2002 and 2001 respectively. The joint venture had a balance due from (to) the Company of $(0.8) million and $(0.05) million at December 31, 2002 and 2001 respectively.

The Company's joint venture, Lauch Lancer LLC d.b.a. Moo Technologies, is a developmental stage enterprise that reported an operating loss and no revenue in 2002.

4. Income Taxes

An analysis of income tax expense (benefit) follows (amounts in thousands):

2002	Current	Deferred	Total
Continuing operations:			
Federal	$ 364	$ 1,121	$ 1,485
State	24		24
Foreign	1,052	108	1,160
Total	$ 1,440	$ 1,229	$ 2,669
Discontinued operations:			
Federal	$ (444)	$ (385)	$ (829)
2001			
Continuing operations:			
Federal	$ 362	$ (407)	$ (45)
State	24		24
Foreign	933	6	939
Total	$ 1,319	$ (401)	$ 918
Discontinued operations:			
Federal	$	$ (91)	$ (91)
2000			
Continuing operations:			
Federal	$ (64)	$ (957)	$ (1,021)
State	24		24
Foreign	1,332	7	1,339
Total	$ 1,292	$ (950)	$ 342
Discontinued operations:			
Federal	$	$ 13	$ 13

Temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities that give rise to significant portions of the net deferred tax liability relate to the following (amounts in thousands):

	2002	2001
Deferred tax assets:		
Accounts receivable	$ 229	$ 190
Inventory	1,449	701
Compensation and benefits	353	141
Net operating loss carryforward, expiring in 2020	63	1,364
Minimum taxes creditable in foreign jurisdictions	639	503
US tax credits	741	611
Other	233	252
Total gross deferred tax assets	3,707	3,762
Deferred tax liabilities:		
Property, plant and equipment	3,495	3,283
DISC income	1,746	1,385
Foreign deferred liabilities	523	304
Total deferred tax liability	5,764	4,972
Net deferred tax liability	$ 2,057	$ 1,210

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Based on the expectation of future taxable income and that the deductible temporary differences will offset existing taxable temporary differences, management believes it is more likely than not the Company will realize the benefits of these deductible differences at December 31, 2002.

The actual tax expense (benefit) differs from the "expected" tax expense (benefit) (computed by applying U.S. Federal corporate rate of 34% to earnings before income taxes) as follows (amounts in thousands):

	2002	2001	2000
Computed "expected" tax expense (benefit) from continuing operations	$ 2,818	$ 849	$ 298
Increase (decrease) in taxes resulting from:			
Effect of tax credits	(129)	(118)	(144)
Effect of nondeductible expenses	78	44	99
State, net of Federal benefit	16	16	16
Effect of foreign tax rates	(26)	34	83
Other, net	(88)	93	(10)
	$ 2,669	$ 918	$ 342

In accordance with SFAS No. 109, no federal income taxes have been provided for the accumulated undistributed earnings of the DISC as of December 31, 1992. On December 31, 1992, the accumulated undistributed earnings of the DISC totaled $2.4 million. Should the DISC terminate in the future, SFAS No. 109 would require federal and state income taxes to be provided. Such a provision would result in a federal and state income tax charge to the financial statements, thereby increasing the Company's effective tax rate.

The Company elected to treat the Brazilian subsidiary as a partnership for U.S. tax purposes for the year ended December 31, 1999. This election has enabled the Company to recognize for U.S. income tax purposes a loss of $7.7 million on its investment in the Brazilian operation. The Internal Revenue Service (the "Service") is examining the Company's U.S. income tax return for 1999 including the deduction of the loss on its investment in the Brazilian operation, and has proposed the disallowance of the deduction. With the liquidation of the Brazilian subsidiary in 2002, the Service is reviewing the deductibility of the loss in 2002. The Company does not believe that any significant adjustments will be required as a result of this examination.

Actual net Federal income taxes (refunded) paid were approximately $1.2 million, nil and ($3.0) million, for 2002, 2001, and 2000, respectively.

5. Long-term Debt and Line of Credit with Banks

(Amounts in thousands)	2002	2001
$11,487 notes payable to banks, due in quarterly installments plus interest based upon prime and LIBOR (weighted average rate of 2.84% at December 31, 2002) through July 15, 2005; secured by substantially all of the Company's assets in the United States	$ 10,786	$ 12,724
Debt payable to seller of Brazil subsidiary, due in annual installments plus interest based on LIBOR (weighted average interest rate of 2.17% at December 31, 2002) through December 31, 2002	1,196	1,196
Capital lease payable to bank, due in monthly installments plus interest of 6.72% through November 1, 2006	552	670
	12,534	14,590
Less current installments of long-term debt	2,726	2,718
	$ 9,808	$ 11,872

The Company also has a $25.0 million revolving credit facility (the "Revolving Facility") from three banks. Borrowings under the Revolving Facility are based on certain percentages of accounts receivable and inventories. The Revolving Facility is collateralized by substantially all of the Company's assets in the United States. Amounts outstanding under the revolving facility were $5.0 million at December 31, 2002 and $15.6 million at December 31, 2001. There was $13.7 million available under the Revolving Facility on December 31, 2002. Interest accrues at a rate based upon either LIBOR or upon the Banks' prime rate. The weighted average interest rate was 2.55% as of December 31, 2002. The Revolving Facility expires July 15, 2005.

The note payable to the seller of the Company's Brazil subsidiary was due on December 31, 2001. Because of the unfavorable business conditions in Brazil, the holder of the note has not demanded payment of the amount due. The Company has not repaid the $1.196 million balance pending discussions with the holder of the note to restructure the debt.

Annual maturities on long-term debt outstanding at December 31, 2002 are as follows (amounts in thousands):

2003	2,726
2004	1,540
2005	8,136
2006	132
	$ 12,534

To manage its exposure to fluctuations in interest rates, the Company has entered into interest rate swap agreements (the "Swap Agreements") with a notional principal amount of $5.0 million. Interest rate swap agreements involve the exchange of interest obligations on fixed and floating rate debt without the exchange of the underlying principal amounts. The difference paid or received on the swap agreement is recognized as an adjustment to interest expense. The Company's Swap Agreement provides that the Company pay a fixed interest rate of 5.98%, while receiving a floating rate payment equal to the three month LIBOR rate determined on a quarterly basis with settlement occurring on specific dates. While the Company has credit risk associated with this financial instrument, no loss is anticipated due to nonperformance by the counterparties to these agreements because of the financial strength of the financial institution involved.

The Credit Facilities and the Revolving Credit Facility require that the Company maintain certain financial ratios and other covenants. The Company is in compliance with all of these financial ratios and covenants as of December 31, 2002.

Actual interest paid was approximately $1.7 million, $3.0 million and $3.2 million in 2002, 2001 and 2000, respectively.

6. Employee Benefit Plans

Common Stock Options

The Company has stock option plans under which incentive and non-qualified options may be granted. Options are granted at the market price per share at the grant date. Options generally become exercisable in 20% increments beginning on the grant date and expire ten years from the grant date.

During the third quarter of 2002, the Company's Board of Directors extended the life of the Company's outstanding stock options by five years. The change resulted in an expense of $0.4 million,

$0.2 million of which was recognized during the third and fourth quarters of 2002. The remaining $0.2 million will be recognized ratably as the options vest.

A summary of transactions for all options follows:

	Stock Options	Option Price Low		Option Price High	Option Price Weighted Average
Outstanding at December 31, 1999	542,988	$ 1.29	-	16.54	$ 5.30
Granted	225,000	3.57	-	5.00	$ 3.77
Canceled	(22,950)	3.57	-	13.25	$ 7.45
Outstanding at December 31, 2000	745,038	$ 1.29	-	16.54	$ 4.77
Granted	29,000	5.51	-	6.06	$ 5.98
Canceled	(168,725)	3.56	-	10.00	$ 7.31
Exercised	(2,900)	3.57	-	3.57	$ 3.56
Outstanding at December 31, 2001	602,413	$ 1.29	-	16.54	$ 4.12
Granted	110,300	3.60	-	9.00	$ 5.86
Canceled	(57,700)	3.56	-	16.54	$ 11.56
Exercised	(268,362)	1.30	-	3.56	$ 1.40
Outstanding at December 31, 2002	386,651	$ 3.56	-	13.63	$ 5.40

A summary of exercisable options follows:

	Options Outstanding			Options Excerciable	
Range of Prices	Number	Weighted Avg. of Exercise Price	Weighted Avg. of Remaining Life (yrs.)	Number of Exercisable Options	Weighted Avg. of Exercise Price
2000					
$1.0 to 5.0	479,163	$ 2.45	2.63	300,761	$ 1.66
$5.1 to 10.0	222,875	$ 7.82	0.98	191,375	$ 7.67
$10.1 to 17.0	43,000	$ 14.88	1.61	32,100	$ 14.97
2001					
$1.0 to 5.0	470,162	$ 2.43	1.60	340,562	$ 1.91
$5.1 to 10.0	89,250	$ 7.89	2.53	46,600	$ 8.54
$10.1 to 17.0	43,000	$ 14.88	0.61	40,700	$ 14.95
2002					
$1.0 to 5.0	234,100	$ 3.88	7.67	128,100	$ 3.84
$5.1 to 10.0	141,050	$ 7.27	8.10	64,010	$ 7.94
$10.1 to 17.0	11,500	$ 13.52	5.28	11,500	$ 13.52

Self-Insured Medical Plan

The Company maintains a self-insurance program for major medical and hospitalization coverage for employees and their dependents, which is partially funded by payroll deductions. The Company has provided for both reported, and incurred but not reported, medical costs in the accompanying consolidated balance sheets. The Company has a maximum liability of $100,000 per employee /

dependent per year. Amounts in excess of the stated maximum are covered under a separate policy provided by an insurance company.

Workers' Compensation Coverage

The Company is self-insured for all workers' compensation claims submitted by employees for on-the-job injuries. The Company has provided for both reported, and incurred but not reported, costs of workers' compensation coverage in the accompanying consolidated balance sheets.

In an effort to provide for catastrophic events, the Company carries an excess indemnity policy for workers' compensation claims. All claims paid under the policy are subject to a deductible of $500,000 to be paid by the Company. Based upon the Company's past experience, management believes that the Company has adequately provided for potential losses. However, multiple occurrences of serious injuries to employees could have a material adverse effect on the Company's financial position and its results of operations.

Employee Profit Sharing Plan

The Company has established an employee profit sharing and 401(k) plan, which covers substantially all United States employees who meet the eligibility requirements. Participants may elect to contribute up to 15% of their annual wages, subject to certain IRS limitations. The Company matches employee 401(k) contributions to the plan at a rate of 50% of the first 6% of the salary contributed to the plan through salary deferral. In addition, the Company, at the discretion of the Board of Directors, may make profit sharing contributions to the plan. The accompanying consolidated statements of income for the years ended December 31, 2002, 2001 and 2000 include Company contributions to the plan of approximately $0.5 million, $0.2 million and $0.5 million, respectively.

The Company is also required to make contributions to a defined contribution plan for the employees of its Australian subsidiary. Contributions during 2002, 2001 and 2000 totaled approximately $0.2 million, $0.1 million, and $0.2 million, respectively.

7. Leases

The Company rents a building, in which a portion of its manufacturing facilities are located, under an operating lease from a partnership controlled by certain shareholders. The month-to-month agreement provides for monthly rental payments of $7,400, and the payment of real estate taxes, insurance and maintenance expenses.

At December 31, 2002, future minimum lease payments required under all noncancelable operating leases are as follows (amounts in thousands):

2003	$ 629
2004	488
2005	218
2006	161
2007	360
Total minimum lease payments	$ 1,856

Total rental expense was approximately $1.0 million, $1.3 million and $2.5 million in 2002, 2001 and 2000, respectively.

The Company has been party to agreements to provide warehousing space and services for certain of its customers. Rental income related to the warehousing agreements totaled approximately $0.2 million, $1.7 million and $1.2 million in 2002, 2001 and 2000, respectively. These agreements were terminated in 2002.

8. Long-term Receivables

Long-term receivables are interest bearing and include approximately $0.1 million and $0.4 million due from officers as of December 31, 2002 and 2001, respectively.

9. Fair Value of Financial Instruments

The Company is required to disclose estimated fair value of its financial instruments, including derivative financial instruments, for which it is practicable to estimate fair value. The following methods and assumptions were used to estimate the fair market value of each class of financial instrument for which it is practicable to estimate that value.

Cash, Trade Receivables, and Trade Payables

The carrying amounts of the Company's cash, trade receivables and trade payables approximate market value.

Long-term Receivables

The carrying amount of the Company's notes receivable approximates fair market value based on the actual interest rates paid on the interest bearing notes.

Long-term Investments

Long-term investments, excluding investment in joint ventures, are stated at approximate market value based upon the current nature of the investments. The Company's investment in Packaged Ice, Inc. was written-down by $0.03 million and $0.3 million to the fair market value at December 31, 2002 and 2001, respectively.

Debt

The carrying amount of the Company's long-term debt and short-term debt approximate market value as the rates are variable or are fixed at current market rates.

Swap Agreements

The carrying amount of the Company's interest rate swap agreements approximate market value. The fair market value of interest rate swap agreements was approximately $0.05 million and $0.4 million as of December 31, 2002 and 2001, respectively.

10. Acquisitions

During the second quarter of 2002, the Company acquired certain assets and liabilities of BMS Refrigeration Pty. Ltd., an Australian company, for approximately $0.252 million. The acquisition has been accounted for by the purchase method, and accordingly, the results of operations of BMS have been included in the Company's consolidated financial statements from the date of acquisition. The excess of the purchase price over the fair value of the identifiable assets acquired of $0.126 million has been recorded as goodwill. The operating results of the Company would not have been significantly different had the acquisition occurred at the beginning of 2002.

11. Supplemental Balance Sheet and Income Statement Information

Inventory components are as follows (amounts in thousands):

	2002	2001
Finished goods	$ 10,893	$ 14,350
Work in process	7,647	8,199
Raw material and supplies	10,554	9,611
	$ 29,094	$ 32,160

Accrued expenses consist of the following (amounts in thousands):

	As of December 31,	
	2002	2001
Payroll and related expenses	$ 3,936	$ 1,786
Commissions	395	499
Health and workers' compensation	909	561
Property taxes	539	297
Interest	339	679
Warranty	526	304
Other taxes	140	109
Other accrued expenses	1,193	823
	$ 7,977	$ 5,058

12. Product Warranties

The Company generally warrants its products against certain manufacturing and other defects. These product warranties are provided for specific periods of time from the date of sale. As of December 31, 2002 and 2001, the Company has accrued $0.5 million and $0.3 million, respectively, for estimated product warranty claims. The accrued product warranty costs are based primarily on actual warranty claims as well as current information on repair costs. Warranty claims expense for each of the years 2002, 2001 and 2000 were $0.199 million, $0.159 million and $0.090 million.

(Amounts in thousands)	
January 1, 2002	$ 304
Liabilities accrued for warranties issued during the period	$ 222
Warranty claims paid during the period	$
December 31, 2002	$ 526

13. Contingencies

The Company is a party to various lawsuits and claims generally incidental to its business. The ultimate disposition of these matters is not expected to have a significant adverse effect on the Company's financial position or results of operations.

14. Quarterly Financial Information (Unaudited)

The fourth quarter of 2002 includes a $0.9 million reversal of sale for product to be returned by a customer in 2003**.** The fourth quarter of 2001 includes an impairment loss of $0.3 million related to the other than temporary decline in the market value of the Company's investment in Packaged Ice, Inc.

The following table reflects the quarterly results for 2002 and 2001 (in thousands except for share data):

	Three Months Ended			
2002	**March 31**	**June 30**	**September 30**	**December 31**
Net sales	$ 30,250	$ 37,306	$ 37,298	$ 34,161
Gross profit	7,209	9,732	11,031	9,118
Net earnings	503	582	1,876	1,045
Earnings per share:				
Basic	$ 0.05	$ 0.06	$ 0.20	$ 0.11
Diluted	$ 0.05	$ 0.06	$ 0.20	$ 0.11

	Three Months Ended			
2001	**March 31**	**June 30**	**September 30**	**December 31**
Net sales	$ 29,669	$ 31,207	$ 31,166	$ 30,703
Gross profit	7,025	7,332	7,217	5,294
Net earnings (loss)	871	482	561	(512)
Earnings (loss) per share:				
Basic	$ 0.10	$ 0.05	$ 0.06	$ (0.06)
Diluted	$ 0.09	$ 0.05	$ 0.06	$ (0.06)

15. Segment and Geographic Information

The Company and its subsidiaries are engaged in the manufacture and distribution of beverage dispensing equipment and related parts and components. The Company manages its operations geographically. Sales are attributed to a region based on the ordering location of the customer.

Amounts in thousands	**North America**	**Latin America**	**Asia/Pacific**	**Brazil**	**Europe**	**Corporate**	**Total**
Year ended December 31, 2002							
Total revenues	$ 97,575	13,351	18,555		9,534		$ 139,015
Depreciation and amortization	4,525	164	222		48		4,959
Operating income	17,430	1,979	1,785		1,360	(12,999)	9,555
Identifiable assets at December 31, 2002	66,668	10,194	12,538	322	3,033		92,755
Capital expenditures	2,591	487	535		45		3,658
Year ended December 31, 2001							
Total revenues	$ 87,770	9,816	15,303		9,856		$ 122,745
Depreciation and amortization	4,132	170	317	136	61		4,816
Operating income	11,115	587	1,446		1,601	(10,116)	4,633
Identifiable assets at December 31, 2001	67,721	13,677	9,080	1,798	4,328		96,604
Capital expenditures	3,292	471	221	12	2		3,998
Year ended December 31, 2000							
Total revenues	$ 73,373	7,850	19,582		10,895		$ 111,700
Depreciation and amortization	3,583	156	342	60	64		4,205
Operating income	9,056	827	2,481		1,923	(10,515)	3,772
Identifiable assets at December 31, 2000	76,885	9,348	9,522	1,915	4,722		102,392
Capital expenditures	3,916	290	471	368	121		5,166

All intercompany revenues are eliminated in computing revenues and operating income. The corporate component of operating income represents corporate general and administrative expenses. Identifiable assets are those assets identified with the operations in each geographic area. The revenues and operating income from Brazil have been included in discontinued operations. During 2002, the Company placed the Asia region and the Pacific region under common management. The two regions are now combined for segment reporting purposes.

Substantially all revenues result from the sales of products and services associated with beverage dispensing. The products can be divided into four major categories: (i) fountain soft drink and citrus dispensers; (ii) post-mix dispensing valves; (iii) beer dispensing systems; and (iv) other products and services as follows (Amounts in thousands):

	2002	2001	2000
Soft drink, citrus and frozen beverage dispensers	$ 62,470	$ 50,703	$ 42,209
Post mix dispensing valves	13,452	13,725	13,334
Beer dispensing systems	8,757	5,887	8,190
Other	54,336	52,430	47,967
Total revenue	$ 139,015	$ 122,745	$ 111,700

The following provides information regarding net sales to major customers, domestically and internationally (amounts in thousands):

	2002	Percent of Net Sales	2001	Percent of Net Sales	2000	Percent of Net Sales
United States:						
The Coca-Cola Company	$ 49,241	35%	$ 44,163	36%	$ 29,649	27%
Other	45,998	33	42,025	34	42,829	38
	95,239	68	86,188	70	72,478	65
Outside of United States:						
Other	43,776	32	36,557	30	39,222	35
	$ 139,015	100%	$ 122,745	100%	$ 111,700	100%

In addition to sales made directly to The Coca-Cola Company, substantially all sales to other entities are significantly influenced by The Coca-Cola Company. Any disruption or change in the relationship with The Coca-Cola Company could have a material adverse effect on the results of operations of the Company.

The Coca-Cola Company had accounts receivable outstanding of $3.5 million for each of the years ended December 31, 2002 and 2001.

16. Related Party Transactions

Leases

The Company rents a building, in which portions of its manufacturing facilities are located, under an operating lease from a partnership controlled by certain shareholders. The month-to-month agreement provides for monthly rental payments of $7,400, and the payment of real estate taxes, insurance and maintenance expenses.

Long-term Receivables

Long-term receivables are interest bearing and include approximately $0.1 and $0.4 million due from officers as of December 31, 2003 and 2002, respectively.

Joint Venture Transactions

As outlined in Note-3 Investment in Joint Ventures, the Company has sales, purchases and commission transactions between the Company and Lancer FBD Partnership. Ltd.

17. Other Matters

In June 2003, the Audit Committee of the Company's Board of Directors (the "Audit Committee") began conducting an internal investigation (the "Investigation"). The Investigation was related to allegations raised by a lawsuit against The Coca-Cola Company by a former Coca-Cola employee, Matthew Whitley. Although the Company was not a defendant to the lawsuit, certain allegations contained in the lawsuit specifically involved the Company. The Investigation was later expanded to include allegations raised in certain press articles.

The Company's former independent auditors, KPMG LLP, advised that, until the Investigation was complete, they would not be able to complete their review of the Company's consolidated financial statements for the second and third quarters of 2003. Therefore, the Company was unable to file its quarterly reports for the second and third quarters with the Securities and Exchange Commission (the "SEC"). On December 5, 2003, the Company provided financial information for the second and third quarters of 2003 in exhibits to a Form 8-K, in order to provide information to the investing public while the Investigation continued.

The Company's inability to file its quarterly report for the second quarter of 2003 with the SEC on a timely basis violated the American Stock Exchange ("AMEX") continued listing standards, specifically Section 1003(d) of the AMEX Company Guide. The Company submitted a formal action plan to regain compliance with AMEX on September 30, 2003 and AMEX accepted the plan on October 8, 2003. Since the initial acceptance, the Company has had to revise the plan with the approval of AMEX in order to accommodate new developments, including the Company's inability to file its annual report on Form 10-K for 2003 and its quarterly report on Form 10-Q for the first quarter 2004. The plan currently indicates that the Company expects to regain compliance with the listing standards on or near June 30, 2004. By accepting the plan and its revisions, AMEX has provided the Company with an extension of time in order to regain compliance and is allowing the Company to maintain its listing, subject to periodic progress reviews by the AMEX staff. If the Company does not make progress consistent with the plan or regain compliance in a time and manner acceptable to AMEX, the AMEX staff could initiate delisting procedures. The Company intends to make all efforts to comply fully with the plan, although no assurance can be made that it will achieve compliance by the target date or otherwise progress in a manner acceptable to AMEX.

In August of 2003, the United States Attorney's Office for the Northern District of Georgia (the "US Attorney's Office") informed the Company that it was conducting an investigation arising from allegations raised in a lawsuit against The Coca-Cola Company by a former Coca-Cola employee, Matthew Whitley, and requested certain information, which the Company supplied. In January 2004, the Company received written notice that the SEC had issued a formal order of investigation that appeared to concern matters which were the subject of the Investigation. The Company has fully cooperated, and intends to continue to cooperate fully, with both the US Attorney's Office and the SEC investigations. Although the Company is unable at this point to predict the scope or outcome of these investigations, it is possible that it could result in the institution of administrative, civil injunctive or criminal proceedings, the imposition of fines and penalties, and/or other remedies and sanctions. The conduct of these proceedings could adversely affect the Company's business. In addition, the Company expects to continue to incur expenses associated with responding to these agencies, regardless of the outcome, and the efforts and attention of our management team may be diverted from normal business operations. This could adversely affect our business, financial condition, operating results, and cash flow.

On January 30, 2004, the Company announced that the Investigation had concluded and the Audit Committee released a general summary of the Investigation findings. On February 2, 2004, KPMG resigned from its position as independent auditors of the Company. In addition, KPMG withdrew its December 31, 2002, 2001 and 2000 audit reports and advised the Company that the financial statements and related audit reports should no longer be relied upon. KPMG stated in a letter to the Company that they had determined that likely illegal acts, which had been the subject of the Investigation, had come to their attention and that these likely illegal acts would have a material effect on the Company's financial statements. Additionally, KPMG indicated that information had come to their attention that caused them to conclude that the Company's accounting for revenue recognition in connection with sales of equipment to Coca Cola North America Fountain in the years ended December 31, 2001 and 2002 is not correct and has raised concerns that the accounting is not correct in each of the three quarters of fiscal year 2003. The Company has filed the letters from KPMG which outline these assertions and have responded to them in an 8-K, filed with the SEC on February 10, 2004, and two subsequent amendments to that Form 8-K, filed with the SEC on February 24, 2004 and March 10, 2004.

On May 14, 2004, a purported class action, cause number 04-CV-427, naming as defendants the Company, George F. Schroeder, David F. Green and The Coca-Cola Company was filed in the United States District Court for the Western District of Texas by TDH Partners. The action alleges that the defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder. Specifically, the complaint alleges that during the period October 26, 2000 to February 4, 2004, the defendants engaged in a pattern of fraudulent conduct involving the issuance of a series of false and misleading statements because they materially described inaccurately the nature of Lancer's revenue, with a goal of manipulating the sales of fountain products. The action also alleges that Lancer's public statements failed to fully reveal that it had major manufacturing problems, which resulted in a high defect rate in its products and that Lancer engaged in a fraudulent scheme with its largest customer, to artificially create demand for a new line of soda machine dispensers that Lancer was manufacturing for the customer to sell to its commercial customers. No specific amount of damages has been claimed. Neither the Company nor George F. Schroeder has been served with the lawsuit as of the date of this filing.

SCHEDULE II
RESERVE ACCOUNTS

Description	Balance at Beginning of Year	Additions Charged to Expense	Deductions from Account	Balance at End of Year
Allowance for doubtful accounts (amounts in thousands):				
December 31, 2002	$ 467	$ 622	$ 110	$ 979
December 31, 2001	$ 379	$ 122	$ 34	$ 467
December 31, 2000	$ 414	$ 66	$ 101	$ 379

Description	Balance at Beginning of Year	Additions Charged to Expense	Deductions from Account	Balance at End of Year
Inventory reserve account (amounts in thousands):				
December 31, 2002	$ 1,478	$ 3,916	$ 1,642	$ 3,752
December 31, 2001	$ 1,483	$ 489	$ 494	$ 1,478
December 31, 2000	$ 847	$ 860	$ 224	$ 1,483

QuickLinks