PSC INC
Form 10-K/A
April 20, 2001

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

FORM 10-K/A
(Amendment #1)

(Mark One)

|X| Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2000 or

|_| Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number: 0-9919

PSC Inc.

Exact name of registrant as specified in its charter

New York	16-0969362
State or other jurisdiction of incorporation or organization	IRS Employer ID No.
4800 SW Meadows Rd. Suite 300, Portland, Oregon	97035
Address of principal executive offices	Zip Code

Registrant's telephone number, including area code: 503-534-3553

Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act: Nasdaq Stock Market

Common Stock, $.01 par value

(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 |X| No |_|

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 |X|.

As of March 30, 2001, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $14,156,775. (Assumes officers, directors and any shareholder holding 5% of the outstanding shares are affiliates.)

As of March 30, 2001, there were 12,458,071 outstanding Common Shares.

Documents incorporated by reference:

Part III incorporates information from certain portions of PSC Inc.'s Proxy Statement for the 2001 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days after the close of the fiscal year.

PSC Inc. is filing this Amendment No.1 on Form 10-K/A (Amendment) to its Annual Report Form 10-K for the year ending December 31, 2000 (Form 10-K) filed with the SEC on April 16, 2001 for the purposes of clarifying the description of the Company's agreements with its lenders as set forth in Item 7 and in Footnote 20 to the Financial Statements, making certain minor corrections and correcting typographical and grammatical errors. In addition, Exhibits 10.39 and 10.51 have been submitted in their entirety.

In order to facilitate the understanding of the Form 10-K, in addition to making the changes described in the preceding paragraph, this Amendment restates in its entirety all of the information contained in the initial Form 10-K. All subsequent references to Form 10-K shall mean the initial Form 10-K, as amended by this Amendment.

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PART I

ITEM 1: BUSINESS

COMPANY OVERVIEW

PSC Inc., together with its subsidiaries, (the Company) was incorporated in the State of New York in 1969. The Company is a full service provider of bar code based products designed to help companies implement supply chain management solutions. Since its inception in 1969, the Company has established a leadership position by building equipment with durability, reliability and performance. Today, the Company has evolved from simply a manufacturer of barcode scanners to a complete supply chain management solution provider.

The Company designs, manufactures and sells products and complete solutions in three primary markets: Mobile and Wireless, Retail Automation, and Automatic Identification and Data Collection (AIDC). The Company's Mobile and Wireless offering is tailored for the warehousing, distribution and retail markets, and includes batch and wireless portable, vehicle-mount, and fixed-station data collection terminals, as well as wireless networks, connectivity software, program development tools, and complete warehouse management system solutions. The Retail Automation offering includes self-checkout systems, electronic shelf label systems, and Point-of-Sale (POS) bar code scanners, designed for a variety of retail segments including supermarkets, drug stores, mass merchandisers, department stores, and specialty stores. The Company's AIDC offering includes a broad line of handheld barcode scanners, bar code scan engines, fixed position industrial bar code scanners and scanning systems, and automated carton dimensioning systems. These products are designed for every stage of the supply chain, from raw material, manufacturing and warehousing, to logistics, transportation, inventory management and POS. The

Company's products are used throughout the world in automated data collection solutions in the food, general retail, health care, manufacturing, warehousing, logistics, package handling and other industries.

The Company has positioned itself within the Mobile and Wireless, Retail Automation, and AIDC markets by selling both domestically and internationally. International sales accounted for approximately 61% of the Company's 2000 total sales. The Company has a diversified customer base comprised of original equipment manufacturers (OEMs), value-added resellers (VARs), distributors, systems integrators and end users. The Company's distribution relationships have enabled it to introduce its products to new vertical markets, and have fostered the development of strategic relationships with leading industry participants and end users.

The Company designs, manufactures, sells, distributes and services its products from world-class manufacturing facilities in Eugene, Oregon and Webster, New York. The Company has sales and service offices throughout Europe, Asia, Australia and the Americas.

In December 2000, the Company transferred its corporate headquarters from Webster, New York to Portland, Oregon in connection with a plan to consolidate its Webster, New York operations with its operations in Oregon.

On November 20, 2000, all pending litigation with Symbol Technologies, Inc. (Symbol) was settled. The agreements resolved all litigation between the parties and settled all disputed royalty payments. In addition, the parties amended and clarified the Company's existing license agreement and included certain new patents. The parties also entered into product supply agreements for products that will begin shipping in late 2001. Under the terms of the supply agreements, the Company agreed to purchase hand-held laser scanners and scan engines from Symbol. Symbol agreed to purchase fixed-position retail POS scanners from the Company.

In November 2000, the Company announced a restructuring plan to reduce its debt and to achieve future profitability and growth. The Company has identified the following actions to achieve its objectives: 1) the consolidation of its Webster, New York operations with its Eugene, Oregon operations, 2) the sale of certain non-core assets including the sale of its Webster, New York facility; the sale of its imager and verification product lines; and the sale of its Automation product line and 3) the decision to focus the Company's concentration on three primary markets including Mobile and Wireless, Retail Automation, and Automatic Identification and Data Collection.

On June 5, 2000, the Company, Mohawk Corp. (Parent) and Mohawk Acquisition Corp., a wholly owned subsidiary of Parent (Purchaser), entered into an Agreement and Plan of Merger. On July 24, 2000, Parent, Purchaser and the Company executed a Termination Agreement whereby the parties agreed to terminate the offer effective on such date. The Company recorded a pretax charge of $1.0 million during the second quarter of 2000 for expenses related to the merger activities.

On January 19, 2000, the Company acquired all of the outstanding shares of Percon Incorporated (Percon), a manufacturer of wireless and batch portable data terminals (PDTs), decoders, input devices and data management software, for approximately $61.0 million. The acquisition of Percon significantly increased the scope of the Company's product line, enhancing the Company's ability to provide systems type solutions and to expand the Company into the PDT and software/services categories of the AIDC market, which are growing rapidly. The

transaction was accounted for under the purchase method of accounting.

On December 21, 1999, the Company acquired substantially all of the assets of GAP Technologies, Inc. and GEO Labs, Inc. (GAP) for $4.8 million. GAP is a technology and research group that designs and manufactures miniature laser scan engines and pen-based scanners. In November 2000, all intellectual property and physical assets associated with GAP were transferred to Symbol.

In May 1999, the Company made a minority interest investment of $3.0 million in Eldat Communication Ltd., which develops and manufactures fully integrated electronic price display systems for retail applications, including electronic shelf labels. The system interfaces with a store's main computer, POS and back-office system enabling immediate, coordinated price changes to thousands of products.

In September 1997, the Company completed a private placement of Convertible Preferred Shares with Hydra Investissements S.A., a Luxembourg corporation. The Company received net proceeds of $10.2 million from the offering which were used to repay a portion of its senior revolving credit facility.

In July 1996, the Company acquired Spectra-Physics Scanning Systems, Inc., TxCOM S.A. and related businesses (Spectra). Spectra was one of the world's leading manufacturers of countertop and in-counter fixed position bar code scanners for retail POS applications. The purchase price was approximately $140.0 million and was accounted for under the purchase method of accounting.

MARKETS

The Company currently focuses on three primary markets - Mobile and Wireless, Retail Automation, and AIDC.

Mobile and Wireless

The Mobile and Wireless market consists of a wide range of applications in the supply chain, government, health care, and other industries, where mobile workers collect, use, and communicate information, utilizing batch or wireless portable, vehicle-mount, and fixed-station data collection terminals and software solutions tailored for their applications.

The Company offers a complete line of portable, vehicle-mount, and fixed-station data collection terminals and wireless systems to streamline supply chain management. For example, the Company's IntelliTrack(R) WMS software offers seamless integration with the Company's Falcon(TM) line of data collection terminals to provide a single source solution for the warehouse or distribution center. The Company also offers a wide range of Professional Services, to assist customers in implementing complete solutions in the manufacturing, warehousing and distribution, and retail markets upon which the Company focuses.

Retail Automation

The Retail Automation market includes systems and solutions to improve operating efficiency and effectiveness, and customer service in retail segments, including food, drug, discount, convenience, specialty, and department stores. Retail Automation spans such diverse applications as self-checkout, electronic shelf management, POS barcode scanning, and mobile and wireless applications including shelf price audit, direct store delivery, and inventory tracking and

replenishment.

The Company's first retail automation solution was POS bar code scanning, which remains as a core business today. In recent years, the Company has expanded its retail automation offering to include self-checkout systems, electronic shelf label systems, and mobile and wireless systems. The Company has been active in the self-checkout industry during the past five years through the manufacturing and marketing of the U-Scan Express(TM) self-checkout system, in conjunction with Optimal Robotics Corporation (Optimal). On December 31, 2000, the Company ceased its affiliation with Optimal, and in February 2001, announced the PSC QUICKcheck(TM) Self-Checkout System, developed under a strategic alliance with Kyrus Corporation. The PSC QUICKcheck Self-Checkout System is designed to permit supermarket and other retail segment customers to scan, bag and pay for purchases with little or no assistance from store personnel. In addition, the Company offers electronic shelf label systems, which deliver shelf edge data for use in pricing, merchandising, and managing the retail environment. Also, the Company's mobile and wireless offering, including portable data collection terminals and wireless networks, is ideally suited for retail in-store and back-room applications.

Automatic Identification and Data Collection (AIDC)

The AIDC market consists of commercial, manufacturing, warehousing, logistics and distribution applications of bar code systems and data management within retail, service, manufacturing, logistics, health care and transportation businesses and organizations. These industries have adopted bar code standards and installed bar code systems in order to increase productivity and increase the reliability of data transactions. Automated data collection and communication is now used, for example, to track insurance forms and financial documents, record quality levels of manufactured items, sort parcels, mail and airline baggage, prepare shipping manifests and catalog blood and plasma inventories. Automatic dimensioning of cartons allows shippers to maximize loads and more accurately invoice shipping costs. The Company is currently active in several of these applications across a variety of market segments.

COMPANY PRODUCTS AND SERVICES

The Company offers a broad line of products and services for the mobile and wireless, retail automation, and AIDC markets.

Mobile and Wireless Solutions

The Company offers a complete line of portable, vehicle mount, and fixed-station data collection terminals and wireless systems, for use in manufacturing, warehousing and distribution, and retail applications. The Company also offers the IntelliTrack(R) WMS complete warehouse management system solution, other data management applications, program development tools, wireless connectivity software solutions, and Professional Services to assist customers with system development, integration, installation, and support.

Data Management Software Solutions

The Company offers the IntelliTrack(R) line of data management software solutions, for managing inventory in a wide range of environments from the stock room to the complete warehouse or distribution center.

IntelliTrack(R) WMS -- IntelliTrack WMS is a reliable, affordable, and easy-to-use warehouse management solution available in both batch and real-time

radio frequency (RF) versions. Benefits of IntelliTrack WMS include improved inventory accuracy, increased labor productivity, and better customer service. IntelliTrack WMS includes advanced warehouse management capabilities, including directed picking and put-away, cubing, wave management, and cross docking. IntelliTrack WMS was designed with scalability in mind. Microsoft(R) SQL Server support means that customers can comfortably handle hundreds of users and tens of thousands of SKU's with excellent response time. IntelliTrack WMS was developed with the latest Microsoft(R) development tools, assuring compatibility with most any system. Since source code is included for the workstation client, customers have the ability to modify reports, bar code labels, perform special queries, or even change the look and feel of the software. By combining IntelliTrack WMS with any of the Company's Falcon(TM) RF portable data terminals, customers can create a complete low-cost, real-time warehouse management system. IntelliTrack WMS is an ideal solution for warehouse operations in manufacturing, distribution, retail, government and health care.

IntelliTrack(R) Data Management Software. IntelliTrack data management software is designed to maintain inventory in a variety of business environments. This user-friendly inventory tracking system combines state-of-the-art bar code data collection using the Company's broad line of portable data collection terminals, with a sophisticated Windows(R) -based inventory management program for the PC. The Company's IntelliTrack suite of products offers a relational database to ensure data integrity, portable bar code reader integration to maximize data collection efficiency, and bar code label printing capabilities to improve data collection accuracy. IntelliTrack is available in versions to support a variety of data management applications, including fixed assets, tool room, stock room, check-in and check-out, and inventory shipping and receiving.

Portable Data Collection Terminals

Portable data collection terminals (PDTs) are handheld, battery powered, durable computers that typically employ application specific software. Data can be entered either manually through an input device such as an integrated keypad or automatically through a wand, CCD, magnetic stripe reader, integrated laser scanning module or a handheld laser scanner.

Falcon(TM) 340 and Falcon(TM) 345. The Falcon 340 and 345 are the latest members of the growing family of feature-rich Falcon portable data collection terminals, engineered for fast, accurate, customizable, real-time automatic data collection to solve the needs of businesses in their quest for greater efficiency, productivity and profitability. These sleek new portable terminals were ergonomically designed with the end-user in mind. They are the lightest weight units in their class, only 13oz. (365 g). Engineered to reduce fatigue, these terminals are ideally balanced over the hand using a form-fit rubber-grip handle. Other ergonomic features include an integrated scan trigger, a large 16-line backlit display and a complete 38-key alphanumeric keypad. At the heart of the Falcon 340 and 345 portable data terminals is a powerful 32 bit 486-class processor, running at 33MHz, with 8MB of RAM and 2MB of Flash ROM. This flexible architecture also supports an internal PCMCIA Type II PC card for additional memory or wireless LAN connectivity. Because the Falcon 340 and 345 use a standard operating system, DOS 6.22, users can run applications previously developed for other Falcon terminals and other DOS terminals. They can also use popular PC development tools like the Company's Universal Program Generator (UPG) or RF SDK to create custom applications for their data collection needs. The Falcon 340 is intended for batch data collection, and the Falcon 345 for real-time wireless data collection. The Falcon 345 can be configured with any of the leading 2.4GHz spread spectrum wireless LAN solutions including Cisco, Lucent, Proxim, and Symbol.

Falcon(TM) 330 and Falcon(TM)335. The Falcon 330 and 335 are the Company's most compact batch and RF portable data collection terminals. At under 13.0 oz (0.4 kg), the Falcon 330 and 335 are the smallest and lightest 16-line DOS-based

terminals on the market. Both models feature a powerful 486-class processor, 8MB RAM, 2MB flash ROM, internal PC card slot, 16-line screen, 38-key keypad, and IP54 sealing rating. The Falcon 335 is available with any of the popular 2.4 GHz spread spectrum radios.

Falcon(TM) 320 and Falcon(TM) 325. The Falcon 320 and 325 are 16-line DOS PDTs which include a 486 processor, 57 key splash resistant alphanumeric keypad, user accessible PC Card slot and eight megabytes of RAM memory. The Falcon 320 is the batch version and the Falcon 325 is the RF version, incorporating 2.4 GHz spread spectrum radio technology. The PC Card slot can be utilized for memory expansion cards or modems.

Falcon(TM) 310 and Falcon(TM) 315. The Falcon 310 and 315 are the Company's most affordable DOS-based batch and RF PDTs. They feature a backlit 8-line display, 386-class processor and a user accessible PC Card slot for 2.4 GHz spread spectrum radio, ATA flash cards or modem.

PT2000. The PT2000 is a 12-ounce PDT with 34 splash resistant alphanumeric keys, up to two megabytes of data storage and the ability to support multiple types of input devices. The PT 2000 is easily programmed with the Company's PPG Program Generator, a Microsoft(R) Windows(R)-based application program generator, which enables users to quickly and easily outline their data collection task and upload the program to the PT 2000. Program changes that were expensive and took days can be finished in minutes.

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TopGun(R). The TopGun is a PT 2000 with an integrated laser, which allows for one-handed scanning, and can be adapted easily for either right- or left-handed use. TopGun includes all the features of the PT2000, and includes a detachable laser scanning module.

Momentum(TM) Scanning Module. The Momentum Scanning Module is a compact laser-based, barcode scanning module designed for insertion into the Springboard(TM) expansion slot of the Handspring(TM) Visor(TM) handheld computer. The Momentum scanning module combined with the Visor(TM) yields a very economical portable data collection terminal for light-duty applications. The Momentum scanning module is more than a scanner; it also includes flash memory for storage of programs and data. Because the Visor(TM) incorporates the Palm OS(TM) operating system, developing data collection programs is a snap, using a variety of development tools available on the market. The Momentum/Visor(TM) solution is ideal for professionals on the go, including field sales people, health care professionals, store managers, and even consumers, who can use the product to create shopping lists and shop from home.

Vehicle Mount Terminals

Vehicle mount terminals are data collection computers designed to be mounted in vehicles, such as fork-lift trucks. They are used for data collection in mobile applications in warehouses, distribution centers, factories, and other industrial environments.

Falcon(TM) 615 and Falcon(TM) 655. The Falcon 615 and 655 Vehicle Mount Terminals are rugged, industrial grade computers designed for the harshest environments, such as fork-lifts or other mobile industrial applications. Both have an IP56 enclosure rating, integrated 12-80 VDC power supply, and super bright electroluminescent display option. The Falcon 615 and 655 utilize an Intel(R) 386 processor running the DOS 6.22 operating system, and supports all popular 2.4 GHz spread spectrum radio options. The Falcon 655 features a full screen and detachable keyboard. The Falcon 615 features a half-screen and

integrated keyboard.

Fixed Station Terminals

Fixed station terminals are rugged and sealed computers designed for fixed position data collection applications, such as shop floor data collection, warehouse management, labor and asset tracking, and industrial process control.

Falcon(TM) 510 and Falcon(TM) 515. The Falcon 510 and 515 are the Company's new fixed station terminals, designed with flexibility in mind; supporting open systems architecture, an extensive set of host connectivity options and interface capabilities for a wide array of data input devices, including relay protected I/O ports. These rich features combined with an attractive price enable the Falcon 510 and 515 to operate in a wide variety of stand-alone and enterprise-wide data collection and system control applications. The Falcon 510 and 515 have a powerful 486-class processor, running at 33MHz, and operate under DOS 6.22. The Falcon 510 and 515 come standard with 8Mb of RAM, 2Mb of Flash ROM, two internal PCMCIA Type I/II slots, a 15-line x 40 character mono or color display and full 69 key QWERTY keypad. Because the Falcon 510 and 515 use a standard operating system, customers can run applications previously developed for portable Falcon terminals or other DOS computers. They can also use popular PC development tools like the Company's Universal Program Generator to create custom applications for their data collection and system control needs.

Batch and RF Programming Tools

Programming tools are used for programming batch and RF portable, vehicle-mount, or fixed-station data collection terminals. They are designed to make programming fast and easy, for use by programmers and non-programmers alike.

Universal Program Generator (UPG). The Universal Program Generator enables application developers to save time and money when developing applications for the Company's Falcon(TM) family and other DOS-based data collection terminals. UPG operates within a 32-bit Windows(R)-based graphical programming environment. UPG is simple enough for non-programmers to use, yet offers the features, functionality, and power to develop advanced applications. UPG provides non-programmers step-by-step instructions and settings via an on-line tutorial, enabling the novice programmer to learn tool usage and programming techniques. Programmers will find that UPG simplifies complex tasks such as validation and data manipulation. Advanced features include 'C' code hooks, attachment of custom libraries and functions, direct serial port access, program licensing to specific data collection terminals, capabilities for removing data, and storing or displaying data as required.

PSC Program Generator (PPG). The PSC Program Generator (PPG) takes the programming out of programming. With PPG and either of the Company's PT 2000 or TopGun portable data collection terminal, customers can begin tracking inventory within hours, not weeks, saving time and money. PPG allows customers to design customized data collection applications for the PT 2000 and TopGun portables by simply creating, filling in and linking dialog boxes. Running in a Microsoft(R) Windows(R) environment, PPG uses a graphical user interface (GUI) and a mouse. Once the application program is created, PPG automatically compiles it into the format needed for the portable. There is no difficult programming language to learn.

RF Software Developers Kit (SDK). The Company's RF Software Development Kit (RF SDK) is a programmer's tool for building RF data collection applications for the Company's Falcon data collection terminals. The RF SDK allows Visual Basic,

Visual C++, Delphi, PowerBuilder and Access programmers the ability to rapidly develop RF based client/server applications for the Company's Falcon(TM) data collection terminals. RF SDK uses the TCP/IP protocol to communicate between the server application running on the host and the included DOS client that runs on the Falcon terminal. RF SDK is designed to handle up to 50 RF terminals simultaneously per server. A Windows(R) client is included to allow the developer to test the application quickly in a simulator environment. RF SDK supports all the popular 2.4 GHz spread spectrum radios. With the RF SDK, programmers now have an easy way to implement RF solutions within their favorite development environment, thereby reducing learning curve and minimizing customer support time.

Wireless Data Communication Solutions

Wireless Data Communications Solutions enable Falcon(TM) RF data collection terminals to communicate over wireless networks, and enable system administrators to easily manage and control the wireless network.

PowerNet Twin Client. With PowerNet Twin Client, customers can easily configure RF-enabled Falcon portable terminals for real-time data collection applications. PowerNet Twin Client supports IBM 5250/3270, VT100/220 and HP700/92 terminal emulation, and includes a screen formatting feature, which allows the portable data terminal to properly resize and display an 80 x 24 column terminal screen on a smaller portable terminal screen. Screen formatting takes place in the portable rather than in the server. PowerNet Twin Client, running on the Falcon RF data collection terminal, can reformat screens for display on a portable and achieve sub-second response times--without the need for a wireless network controller.

PowerNet Vision. PowerNet Vision expands the field of view and extends management capabilities of the wireless network administrator to include the entire wireless infrastructure. Vision is a 32-bit, Windows(R)-based network tool that eases the burden of installing, administering, and upgrading wireless systems. Vision supports all major IEEE 802.11, 2.4Ghz, and selected 900Mhz networks. PowerNet Vision provides the single tool for managing the latest wireless technologies, as well as existing equipment, regardless of the manufacturer.

Falcon Lynx Browser. The Falcon Lynx Browser brings the power of the Internet and web-based applications to Falcon RF data collection terminals. The Falcon Lynx browser is an open-source extension of the popular text-based Lynx HTML browser. The Falcon Lynx extensions are designed to better support power management, smaller screens, backlights, and lasers associated with portable data terminals. The Falcon Lynx browser also supports an extended HTML tag set designed specifically for data collection activities on a Falcon. These extensions include the ability to pre-process collected data with many of the same data validation and data manipulation capabilities found in UPG.

Professional Services

To assist customers with data collection system planning, development, implementation, training, and support, the Company offers field- and factory-based professional services from the PSC Solutions Group (PSG). PSG provides a cost-effective means of developing, implementing or customizing various data collection solutions through its vast offering of professional services, including:

o RF client/server applications

- RF site surveys
- RF network installation
- Customized RF client/server application software development
- IntelliTrack WMS integration
- Implementation of all IntelliTrack batch modules
- Data collection terminal programming
- Customized modifications to all IntelliTrack modules
- Customized modifications to in-house applications
- Customized front ends to legacy applications on various hosts
- Training: IntelliTrack, PowerNet and RF networks
- End user training on PSC software and hardware products
- Database conversions

Retail Automation Solutions

The Company's retail automation solutions include self-checkout systems, electronic shelf label systems, fixed-position retail bar code scanners, and mobile and wireless systems (described above).

Self-Checkout Systems

Self-checkout systems are quickly becoming an essential tool in today's retail environment. In fact, just three years ago, less than 100 self-checkout systems were installed in the United States. Today, the number of installed systems has grown to well over 1,000 systems nationwide. Retail executives are realizing that self-checkout systems can provide a variety of benefits, helping trim staffing costs, improve traffic flow and increase customer service. Meanwhile, shoppers are drawn to the added convenience and speedier checkout times the self-checkout systems can provide.

PSC QUICKcheck(TM) Self-Checkout System. The PSC QUICKcheck(TM) Self-Checkout System, developed under a strategic alliance with Kyrus Corporation, a major provider of retail POS solutions, is designed to permit customers to scan, bag and pay for their own purchases with little or no assistance from store personnel, thereby speeding checkout and improving store productivity. The system incorporates the PSC Magellan(R) SL(TM) scanner, interactive video, security system and money tendering (cash, credit or debit). PSC QUICKcheck is a next-generation self-checkout system including new features and enhancements, such as seamless integration with a store's POS system, providing cash balancing, cashier accountability, and management reporting equivalent to that available for conventional lanes. PSC QUICKcheck's compact footprint enables retailers to install four customer workstations plus an attendant station in the space of two conventional lanes, allowing for added throughput. Plus, PSC QUICKcheck provides flexibility during peak times, by quickly and easily converting to Cashier Mode - a traditional staffed lane. Because every store is different with individual checkout needs, PSC QUICKcheck comes in a variety of configurations allowing retailers to customize their retail space. The Kiosk model provides a self-checkout solution for small orders or stores with limited front-end space. The Express model is great for small to medium sized orders, and the Full Basket model provides plenty of bagging space for large orders.

Electronic Shelf Label Systems

AdvanTAG(TM) Electronic Shelf Label System. The Company markets the AdvanTAG(TM) Electronic Shelf Label System to meet the growing demand for pricing accuracy in the retail marketplace. This system is an in-store network that delivers shelf edge data for use in pricing, merchandising, and managing the retail environment. It consists of a high speed wireless infra-red (IR) network for

communicating throughout the store, and shelf edge labels to display data for customers, employees and store management. The Company currently markets this system in Europe only, where the need for displaying both Euro and local currencies has driven retailer interest in electronic shelf management solutions.

Fixed Position Retail Scanners

The Company built the first supermarket scanner installed in the United States in 1974, and today offers a broad line of fixed position retail scanners for supermarkets, discount stores, drug stores, do-it-yourself stores, warehouse clubs, convenience stores, and other retail segments. The Company's fixed position retail scanners improve productivity, pricing accuracy, and customer service for retailers globally. The Company's line of fixed position retail scanners includes high-performance Magellan(R) 360-degree scanners and scanner/scales, in-counter scanners, on-counter scanners, compact scanners, and dual-use scanners, designed to be hand held or used in a stand.

Magellan(R) SL(TM) 360-Degree Scanner and Scanner/Scale. The Magellan SL is the Company's highest performance scanner and scanner/scale, designed for retail checkstands worldwide. The Magellan SL is capable of simultaneously reading the bottom and all four sides of grocery store items, a full 360 degrees, thereby increasing productivity and improving ergonomics by reducing the need for checkers to twist, turn or lift items for scanning. The Magellan SL is also available with an integrated, 30-pound capacity scale with an L-shaped, All-Weighs(TM) Platter, which allows retailers to combine the scanner and scale functions into a single unit. With the All-Weighs Platter, the scanner/scale's vertical window and frame are an integral part of the scale weighing platter, allowing checkers to lean oversized items against the vertical window, intentionally or unintentionally, and get an accurate weight. The unit may also be ordered with an integrated electronic article surveillance antenna for use in deactivating RF-based security tags.

HS1250 In-Counter Horizontal Scanner. The HS1250 is a compact, high performance horizontal scanner for grocery, drug, discount and home improvement store applications. The HS1250 reads UPC/EAN and industrial bar codes and features advanced Edge decoding software. It is also available with an integrated electronic article surveillance antenna for use in deactivating RF-based security tags.

VS1200 and VS1000 On-Counter Vertical Scanners. The VS1000 and VS1200 compact vertical scanners include scan geometry optimized for vertical scanning applications in limited space areas, such as pharmacies, variety and convenience stores. These products permit bar codes to be read whether the cashier is presenting the bar code to the scanner or sweeping the bar code across the scanner in a continuous movement. Both the VS1000 and VS1200 are available with an optional integrated electronic article surveillance antenna for use in deactivating RF-based security tags.

Duet(TM) and VS800(TM) Dual-Use and Compact Scanners. The Duet Scanner is a compact "dual action" scanner that combines features of both countertop and handheld scanners. Standard bar coded items are presented or swept by the scanner's 19-line omni-directional scan window. Pick lists and large, bulky goods are scanned using Duet's Targeted Handheld Mode by simply picking up the scanner and pointing it at a bar code. The VS800 is perfect for situations where space is at a premium. Fully adjustable and able to be mounted in a wide variety of orientations, the VS800 provides aggressive, highly affordable hands-free scanning performance in a very small package. The VS800 is ideally suited for convenience stores, pharmacies, specialty retailers and small grocers.

Automatic Identification and Data Collection (AIDC) Solutions

The Company offers a broad line of AIDC solutions, including handheld scanners; fixed-position industrial scanners, tunnel scanning and carton dimensioning systems; scan engines, decoders and bar code verifiers.

Handheld Scanners

The Company is a leading provider of handheld scanners for automated data collection in a wide variety of applications in the retail, commercial, government, and industrial markets. The Company's handheld scanner line includes laser-based and non-laser based models. From the economical QuickScan(R) 6000 Plus to the rugged and durable PowerScan(TM) Industrial Scanner, the Company has a handheld scanner for just about any application.

PowerScan(TM) and PowerScan(TM) RF Rugged Industrial Scanners. The PowerScan(TM) industrial handheld scanner was designed "from the ground up" for rugged industrial applications. It is ideally suited for harsh conditions as found in industrial warehouses and trucking and for demanding applications, including inventory control, parcel sorting and tracking, and product manufacturing (from electronics goods to large industrial equipment). It is also used for outdoor applications (e.g. rental car returns or home and garden stores) and for freezer or cold storage applications. PowerScan is available in multiple versions for a wide variety of applications. Versions include standard range, high density, long range, extra long range and wireless. The wireless PowerScan RF includes a low-power, narrow band 433 MHz or 915MHz radio and convenient battery pack, and is capable of communicating bar code data real time over distances of 150 feet (45.7 meters) for up to 8 hours or more on a single charge.

SP400 Light Industrial/Commercial Scanners. The SP400 family of handheld scanners provides high performance, ergonomics and durability. It is perfect for POS, back-room inventory, warehouse and manufacturing applications.

5300IP9X AutoRange(TM) Industrial Handheld Scanner. The 5300IP9X AutoRange is an industrial handheld scanner, which provides the broadest depth of field for reading bar codes in shipping, receiving and inventory management applications. In long-range applications, the 5300IP9X scanner reads lower density bar codes at distances up to 40 feet (12.2 m) using a long-range laser diode and long-range optical design features. A marker beam assists the operator by momentarily providing an aiming reference point on a label's surface when the scanner's trigger is initially activated. In near contact applications, from 6 in. (15.2 cm), the scanner reads higher density labels utilizing a second near-range laser diode and near-range optical design features. The unique design enables two lasers to work efficiently together for superior overall performance, and allows an operator to use a single scanner for multiple applications which boosts productivity and the bottom line.

QuickScan(R) 6000 Plus Handheld Scanner. The QuickScan series of bar code scanners includes models for a variety of retail, commercial, and light industrial applications. The QuickScan 6000 Plus features high performance, durability, ergonomic design, and an affordable price.

QuickScan(R) 1000 Handheld Scanner. The QuickScan(R) 1000 handheld scanner provides the same scanning performance of the QuickScan 6000 Plus in a sleek triggerless design. It is ideal for use in both hands-free, with included countertop stand, and handheld applications.

SnapShot(TM) Handheld Scanner. The SnapShot is a very compact, high-performance handheld laser scanner designed for retail and commercial applications. It is available in standard range, high density, and enhanced performance versions.

Decoded models are available with either of the Company's PowerWedge(TM) or Master BB decoding software and programmability features.

QuickScan(R) CCD Scanner. The QuickScan 200 Scanner is a lightweight, ergonomic, handheld CCD (charge coupled device) scanner for retail and commercial applications. The QuickScan 200 offers the ability to read and autodiscriminate all major retail and industrial bar code symbologies in a small, inexpensive package.

Fixed Position Industrial Scanners

The Company offers a broad line of fixed position industrial scanners for applications in manufacturing, package sortation, distribution, and material handling, with products ranging from miniature scanners to complete tunnel scanning and carton dimensioning systems.

Miniature Scanners. The LazerData(R) 9000, 11000, 12000 and LM520 offer a complete line of compact, versatile, industrial miniature line scanners aimed at the high-speed automated sorting or identification applications in the demanding environments of the manufacturing and material handling markets. The LD11000 and LD12000 are supplied with LDHost, a Windows(R)-based software package that makes configuring the scanners for a customer's application a breeze. For the most demanding applications, the LD9000E offers the performance of many larger high-performance line scanners. The LM520 is the Company's most cost-effective compact scanning solution for indexed or continuous flow material tracking. Its simple plug-and-play design is incorporated easily into any scanning application, particularly OEM environments where space is limited.

High-End Line Scanners. With the LD16000 and the LD8000 family of line scanners, the Company now offers the most complete line of high-end line scanners. The LD16000 is exceptional for reading bar codes on the side of packages, whereas, the LD8000 is perfect for reading bar codes on the front and back. In addition, the LD8000 is an integral component of sophisticated tunnel scanning systems that scan bar codes on high-speed conveyors from all angles.

Mid Range Omni-directional Scanning. The LD8000LX offers a low cost omni-directional scanning solution by creating an "X" pattern using a single laser. To achieve greater depths-of-field, increased scan coverage, or to scan more than one face of the carton at a time, the LD8000LX can be chained together providing a single output to the customer. With TimeSlice(TM) decoding (TSD) software and tracking built into the scanner, more than one bar code can be in the scan zone at one time maximizing the system throughput.

Omni-directional Scanners. The SureScan(R) is a high-speed modular, omni-directional scanner for use in high-volume retail distribution, parcel sortation centers and e-commerce distribution applications. It can be configured with up to four multiplexed scanners and is a key component of tunnel scanning systems. For scanning bar codes positioned on the bottom of packages, the Company offers the SureScan HS Linear Omni Scanner. Using both image-based and laser technology, the HS Linear Omni scans bar codes in any orientation through a gap between two conveyor belts. It is ideal for parcel identification and sorting in high-volume distribution centers.

Carton Dimensioning System. The SureCube(TM) is an automated carton dimensioning system which measures the volume of cartons over conveyors or in-motion scales for material handling systems. The system can be supplied with a bar code scanner for identifying and dimensioning or integrated with an in-motion scale to provide a completely automated system for identifying, sizing, weighing and

sorting of cartons. It captures the carton data regardless of the location, orientation or angle of the carton. This is especially useful in large warehouses, package delivery services and other shipping companies for reducing shipping costs and inventory shrinkage.

Scanning Tunnel Systems. By mounting multiple scanners in a fixed array around a conveyor belt, the Company offers a unique solution to solve high-speed sortation problems where cartons may have a bar code label on any surface of a carton, even the bottom, or multiple labels on multiple sides of the carton. With PSC's ScanManager Data Management System, this system can track up to 16 cartons at one time at conveyor speeds up to 500 feet per minute.

Scan Engines

The Company's scan engines are self-contained bar code reading components, which OEMs build into a variety of products. The Company's scan engines incorporate all of the electronic, optical, mechanical and bar code decoding components required for laser scanning in a single package which can be easily integrated into fixed position and portable applications. The various models manufactured by the Company are based on its successful LM500 Plus(TM) laser scanning engine used in many of its own products, adapted for custom OEM needs. Ideally suited for portable applications, the LM500 Plus is the lightest scan engine in its class and features RapidStart circuitry for the fastest start-of-scan in the industry with very low power consumption, which is essential for battery powered applications.

Fixed Station and Integrated Decoders

Fixed station decoders are used to connect undecoded bar code scanners and other devices to PCs and computer terminals. Fixed station decoders provide both decoding and interfacing capabilities. Bar codes scanned by a handheld or fixed-position scanner are translated into data used by the PC or terminal as if the data originated from the keyboard. Decoders permit computers to accept bar codes without requiring special programming of the application software. The Company offers two series of fixed station decoders - the PowerWedge(TM) series and the Master series. Products offered in this category include the Mini PowerWedge(TM), PowerWedge 10, PowerWedge 20, Master B+ and Master BB+.

Integrated decoders are products incorporating the base decoder technology in other form factors. These products include the SnapShot, a handheld laser scanner available with an integrated decoder, and the Decoder Communications Card, which is an ISA Bus card incorporating the decoder technology with four high-speed serial ports. Symphony is a decoder product that incorporates narrow band RF support and includes the Maestro base station and Player radio unit with belt clip.

Quick Check(R) Verifiers

Quick Check verifiers can display a simple pass/fail report or provide a detailed quality analysis. These verifiers are sold as handheld, desktop, PC-based or printer/labeler mounted on-line models. They analyze bar codes for traditional print quality such as wide to narrow ratio, print contrast, bar growth or loss, dimensions and formats, or analyze based upon quality parameters found in the American National Standards Institute (ANSI), European Committee for Standardisation (CEN) and International Standards Organization (ISO) guidelines such as edge determination, reflectance minimum, symbol contrast, modulation, decodability and edge contrast minimum. When mounted online, the Quick Check verifier results can automatically control the user's system and

cause it to pause, reprint, shutdown or activate an alarm. All Quick Check verifiers are designed and manufactured to meet national, international and industry specified standards (such as those created by the Uniform Code Council and the Automatic Identification Manufacturers, Inc.) and provide traceability to the National Institute of Standards and Technology (NIST) for compliance to ISO 9000 and QS 9000 requirements. On February 16, 2001, the Company sold the imaging and verification product lines for approximately $3.8 million. The Company continues to distribute Quick Check verifiers in the Asia Pacific region only.

SALES AND MARKETING

The Company sells its products domestically and internationally through a diversified customer base comprised of OEMs, third party resellers and end users. International sales increased from approximately $112.0 million, or 52% of net sales, in 1998 to approximately $146.5 million, or 61% of net sales, in 2000. Management believes that the international markets for Mobile and Wireless, Retail Automation, and AIDC products are less developed and has broadened its international sales and sales and marketing support to its international operations.

The Company's OEM customers and third party resellers serve various vertical markets and sub-markets and a wide variety of end users. They introduce the Company's products to their end users through their established sales and distribution networks, thus sparing the Company the expense of supporting a large in-house sales force. By forming strategic relationships with major OEM customers, the Company has been able to conduct joint development and design customer-specific products and applications thereby further expanding its market presence and broadening its distribution network.

In addition to its sales and marketing staff in Eugene, Oregon, the Company has regional sales representatives in the United States and sales offices throughout Europe, Latin America and the Asia Pacific regions that provide sales, service and support to the Company's domestic and international customers.

Foreign sales of the Company's products are subject to the normal risks of foreign operations, such as currency fluctuations, protective tariffs, export/import controls and transportation delays and interruptions. Because the Company's products are manufactured in the United States, the Company's sales and results of operations could be affected by fluctuations in the value of the U.S. dollar.

The Company's marketing operations include product management, market management, new business development, channel marketing and marketing communications. Marketing personnel identify new business opportunities, develop business plans, identify new product and market requirements, manage product positioning/introduction and provide tactical sales support activities. They interact regularly with external parties such as OEMs, VARs, distributors, systems integrators and end users, technical partners and standards committees. The marketing personnel also, in conjunction with outside vendors, conduct customer surveys and coordinate advertising and public relations. This group creates advertising, brochures and documentation, manages trade show exhibits and places articles highlighting applications of the Company's products in trade and industry publications. These marketing efforts are augmented by the Company's cooperative advertising and sales incentives programs, which promote greater visibility of the Company's products.

CUSTOMER SUPPORT AND SERVICE

The Company is dedicated to providing consistently high customer service on a national and international basis. The Company maintains a highly responsive customer support and service organization that bridges the Company's marketing, engineering and manufacturing functions. The customer support and service personnel receive extensive training in all of the Company's products and assist customers with ordering, product scheduling, coordinating service repairs, procuring replacement parts, and managing warranties and service contracts. The Company's Eugene, Oregon customer support and service organizations have met ISO 9001 quality registration levels.

CUSTOMERS

The Company sells its products principally to OEMs, VARs, distributors and systems integrators. During 2000, net sales to the Company's largest customer represented approximately 17%. Sales to this customer are not expected to continue to represent a significant portion of the Company's revenues since the Company's agreement to supply this customer expired on December 31, 2000. There were no other customers responsible for greater than 10% of sales in 2000. During 1999 and 1998, no individual customer accounted for greater than 10% of net sales. The Company's arrangements with major customers are generally nonexclusive.

ENGINEERING, RESEARCH AND PRODUCT DEVELOPMENT

The Company's engineering, research and product development (ER&D) programs are aimed at applying its technology to develop new products, improve its existing products' reliability, ergonomics and performance, and reduce manufacturing and related support costs. Current programs focus on new advances in fixed and portable bar code scanning, retail automation applications, such as retail self-checkout systems, and new generations of portable data terminals and related software application solutions. The Company also carries on significant development programs in electronics design, bar code acquisition and decoding, RF communications, optical signal detection, software, network architectures, advanced mechanical structures and automated manufacturing methods. Computer-aided design and computer-aided manufacturing tools assist the Company's research and development efforts by permitting computer simulation of proposed products. These tools include electronics circuit modeling, optics analysis and three-dimensional mechanical product modeling.

While the majority of the Company's research and development is performed by its own staff, advanced research in targeted technologies is supported through relationships with several well known universities. The Company believes its technical strengths are in the specialty disciplines of lasers, electro-optics, miniature mechanical mechanisms, video imaging, signal processing, decoding and software development.

The Company's ER&D expenses were approximately $22.2 million, $18.1 million and $15.7 million in 2000, 1999 and 1998, respectively. Such amounts do not include expenditures by the Company for manufacturing engineering activities.

MANUFACTURING AND SUPPLIERS

The Company designs, engineers and manufactures substantially all of its products at its Eugene, Oregon and Webster, New York facilities. The Company's design and process approach allows end-of-line configuration of

generic modules to meet a multitude of specific customer needs. Statistical methods are used throughout the factory and with critical suppliers in order to control important processes. The Company makes extensive use of computer integrated systems and software for purposes of resource planning, such as material requirements, assembly planning and scheduling, and order management.

The Company seeks to design and manufacture products that optimize performance, quality, reliability, durability and versatility. These designs facilitate cost-efficient materials sourcing and assembly methods with high standards of workmanship. The Company has invested and will continue to invest in capital equipment such as printed circuit board surface mount machines that automate production, increase capacity and reduce direct labor costs. Computer operated equipment is used for testing at all levels of production to assure repeatable, reliable performance and accurate data collection. The Company has designed many of its own tools, fixtures and test equipment.

The Company does not have long-term supply contracts with its vendors. The Company currently relies on single suppliers, some of whom manufacture at a number of locations, for some key components of its products. The Company believes that maintaining ongoing relationships with single suppliers who have proven that they are capable of meeting the Company's standards of quality, on-time delivery and cost containment has enabled it to increase the value of its product to its customers. Although the Company maintains 30 to 60 day inventories of key components and alternative sources of key materials are available, the Company could incur set-up costs and delays in manufacturing should it become necessary to replace key vendors due to work stoppages, shipping delays, quality problems, financial difficulty or other factors, and under certain circumstances, these costs and delays could have a material adverse effect on the Company's operations.

COMPETITION

The Mobile and Wireless, Retail Automation and AIDC industries are highly competitive with rapid technological change and intellectual property developments being key competitive factors. The Company also competes on the basis of innovative design, high quality manufacturing and technical expertise in scanning and wireless RF systems, level of sales and support services, price and overall product functionality, and fitness for use. Failure to keep pace with product and technological advances could negatively affect the Company's competitive position and prospects for growth. Many firms manufacture and market bar code reading equipment utilizing laser technology. In addition, the Company's bar code reading equipment also competes with devices which utilize technologies other than laser scanners such as CCDs and optical wands. The Company faces competitive pressures from various companies in each of its product categories. Many of the Company's competitors have substantially greater financial, manufacturing, research and development, and marketing resources than the Company. The Company believes its principal competitors for its handheld bar code scanner products are Symbol Technologies, Inc. (Symbol) and Metrologic Instruments, Inc. (Metrologic). The Company's principal competitors in the fixed position scanner market are Accu-Sort Systems, Inc. and CI/Matrix. The Company believes its principal competitors for its line of in-counter and on-counter scanner products are NCR Corporation, Fujitsu Ltd., Symbol, Scantech B.V. and Metrologic. The principal competitors for its line of verifiers, which was sold to Handheld Products, Inc. in February 2001, are Stratix (formerly Bar Code Systems) and RJS Inc. The Company's principal competitors for its PSC QUICKcheck self-checkout systems are Optimal Robotics Corporation, NCR and Productivity Solutions, Inc. For the portable data terminal line, the principal competitors are Symbol and Intermec Technologies Corporation.

No assurance can be given that the Company will be able to compete successfully against current and future competitors or that the competitive factors faced by the Company will not have a material adverse effect on the

Company's operations.

INTELLECTUAL PROPERTY

The Company believes that certain of its products are proprietary and consequently relies on a combination of United States and foreign patent, trade secret, copyright and trademark law to establish and protect its proprietary rights. The Company currently holds more than 235 United States patents and also has certain foreign patents pertaining to various technologies associated with its products. These patents expire on various dates between 2003 and 2019. The Company currently has a number of patent applications pending in the United States and in a number of foreign countries. In addition, the Company expects that its continuing research and development efforts will result in the creation of new proprietary rights for which it will seek patent protection.

The Company maintains an active program to obtain patents and otherwise protect its intellectual property. Nevertheless, its competitors could develop technology or know-how or obtain patents that could limit the Company's ability to compete in the future. Similarly, others could challenge the validity of the Company's patents or assert that the Company is infringing on their proprietary rights. The Company believes that its patents are valid and enforceable and does not believe that it is infringing on the proprietary rights of others. The Company, however, is currently involved in certain patent litigation See "Legal Proceedings." While the Company believes that its patents provide it with competitive advantages with respect to the products they cover, the Company relies primarily upon the technical know-how, competence, innovative skills and marketing abilities of its engineers and other employees.

The Company currently holds certain trademarks that are registered with the United States Patent and Trademark Office and a number of common law trademarks and valuable trade secrets. It also has certain foreign trademarks and has numerous domestic and foreign trademark registrations pending.

EMPLOYEES

As of March 1, 2001, the Company had approximately 1,000 full-time employees. In addition, the Company at various times makes use of temporary labor in its manufacturing operations. Approximately 15% of the work force is located outside the United States, based in offices throughout Europe, Latin America and the Asia Pacific regions. The Company believes that its future success will depend in part on its ability to recruit and maintain highly qualified management, sales, marketing, technical and administrative personnel. None of the Company's employees is represented by a labor union. Management believes that its relationship with employees is good.

GOVERNMENT REGULATION

Certain products of the Company must comply with regulations promulgated by the United States Food and Drug Administration's Center for Devices and Radiological Health (CDRH), the Federal Communications Commission (FCC), as well as, Underwriters Laboratories (UL), the Canadian Standards Association (CSA), the European Community Standards (CE), TUV Rheinland (Europe) and TUV Product Services, which are corresponding agencies for certain foreign countries. The regulations are in the areas of laser light emissions, intentional or non-intentional RF energy emissions, standards for weighing instruments and European electromagnetic compatibility (EMC) directives. The regulations mandate, among other items, warning labels, safety features, and establish certain levels for laser power, weight measuring, voltage and electromagnetic

fields. The Company's operations are also subject to certain federal, state and local requirements relating to environmental, waste management, health and safety regulations. Management believes that the Company's business is operated in compliance with applicable government, environmental, waste management, health and safety regulations. There can be no assurance that future regulations will not require the Company to modify its products to meet revised energy output or other requirements. Failure to comply with future regulations could result in a material adverse effect on the Company's results of operations.

All products manufactured by the Company are produced under quality systems compliant to ISO 9001. The Company received its ISO 9001 registration from National Quality Assurance, USA Inc. (NQA, USA), an accredited registrar that performs assessments of management systems against requirements of national and international standards.

SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS UNDER SECURITIES LITIGATION REFORM ACT OF 1995; CERTAIN CAUTIONARY STATEMENTS

From time to time, the Company or its representatives have made or may make forward-looking statements, orally or in writing. Such forward-looking statements may be included in, but not limited to, press releases, oral statements made with the approval of an authorized executive officer or in various filings made by the Company with the Securities and Exchange Commission. The words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project" or similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (the Reform Act). The Company wishes to ensure that such statements are accompanied by meaningful cautionary statements, so as to maximize to the fullest extent possible the protections of the safe harbor established in the Reform Act.

Accordingly, such statements are qualified in their entirety by reference to and are accompanied by the following discussion of certain important factors that could cause actual results to differ materially from such forward-looking statements. The risks included here are not exhaustive. Furthermore, reference is also made to other sections of this report which include additional factors which could adversely impact the Company's business and financial performance. Moreover, the Company operates in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on the Company's business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Accordingly, forward-looking statements should not be relied upon as a prediction of actual results.

Shareholders should be aware that while the Company does, from time to time, communicate with securities analysts, it is against the Company's policy to disclose to such analysts any material non-public information or other confidential commercial information. Accordingly, shareholders should not assume that the Company agrees with any statement or report issued by any analyst irrespective of the content of such statement or report. Accordingly, to the extent that reports issued by securities analysts contain any projections, forecasts or opinions, such reports are not the responsibility of the Company.

RISK FACTORS

Debt Service. The Company incurred substantial indebtedness in connection with

the acquisitions of Spectra and Percon, of which, $132.6 million was outstanding as of December 31, 2000. Approximately $93 million is due and payable on April 1, 2002 and approximately $7.6 million is due in 2001. The indebtedness could have important consequences, including the following: (i) the Company's ability to obtain additional financing in the future for working capital, capital expenditures, acquisitions or general corporate purposes may be impaired; (ii) a substantial portion of the Company's cash flow from operations must be dedicated to the payment of interest on the indebtedness, thereby reducing the funds available to the Company for other purposes; (iii) the agreements governing the Company's long-term indebtedness contain certain restrictive financial and operating covenants; (iv) certain indebtedness under the senior debt will be at variable rates of interest which would cause the Company to be vulnerable to increases in interest rates; (v) all of the indebtedness outstanding under the senior debt is secured by substantially all the assets of the Company; (vi) the Company is substantially more leveraged than certain of its competitors which might place the Company at a competitive disadvantage; (vii) the Company may be hindered in its ability to adjust rapidly to changing market conditions and (viii) the Company's substantial degree of leverage could make it more vulnerable in the event of a downturn in general economic conditions or its business.

As a result of the indebtedness incurred in connection with the acquisitions of Spectra and Percon, a substantial portion of the Company's cash flow will be devoted to debt service. The ability of the Company to continue making payments of principal and interest will be largely dependent upon its future financial performance.

Technological Change. The market for the Company's products is characterized by rapidly changing technology, evolving industry standards, changes in customer requirements, and frequent new product introductions and enhancements. The Company's future success will depend on its ability to enhance its current products, to develop new products on a timely and cost-effective basis, and to respond to changing customer requirements and technological developments. Certain of the Company's competitors spend larger amounts on research and development efforts than the Company. Any failure by the Company to anticipate or respond adequately to changes in technology and customer preferences, or any significant delay in product development or introduction, could have a material adverse effect on the Company's financial condition and results of operations. There can be no assurance that the Company will be successful in developing and marketing on a timely or cost-effective basis, product enhancements or new products that respond to technological advances by others, or that such product enhancements or new products will achieve market acceptance.

Dependence on Intellectual Property Rights. The Company's success is dependent in part on its ability to obtain patent protection for its products, maintain trade secret protection and operate without infringing on the proprietary rights of others. The Company currently owns over 235 United States patents having various expiration dates between 2003 and 2019, and also has certain foreign patents. The Company has filed, and intends to file, applications for additional patents covering its products. There can be no assurance that any of these patent applications will be granted, or that the Company will develop additional products that are patentable and do not infringe upon the patents of others, or that the patents issued to or licensed by the Company will provide the Company with a competitive advantage or adequate protection for its products. In addition, there can be no assurance that the Company's competitors will not develop technology or know-how, to obtain patents, that could limit the Company's ability to compete in the future or that patents issued to or licensed by the Company will not be challenged, invalidated or circumvented by others.

Pending Litigation. The Mobile and Wireless, Retail Automation and AIDC industries are characterized by substantial litigation regarding patent and other intellectual property rights. The Company aggressively defends its patents and other proprietary rights. There can be no assurance that others will not assert claims against the Company that result in litigation. Any such litigation could result in significant expense, adversely impact the Company's marketing, give rise to certain indemnity rights on the part of customers and divert the Company's attention from other matters. If any of the Company's products were found to infringe a third-party patent, the third party could be entitled to injunctive relief, which would prevent the Company from selling any such infringing products. In addition, the Company could be required to pay monetary damages. Although the Company could seek a license to sell products determined to infringe a third-party patent, there can be no assurance that a license would be available on terms acceptable to the Company. The Company could also attempt to redesign any infringing products so as to avoid infringement, although any effort to do so could be expensive and time-consuming, and there can be no assurance the effect would be successful. There can be no assurance that such litigation will not have a material adverse effect on the results of operations, financial position or cash flows. See "Business - Intellectual Property" and "Legal Proceedings."

Competition. The Mobile and Wireless, Retail Automation and AIDC industries are highly competitive with rapid technological change, product improvements, new product introduction and intellectual property developments representing key competitive factors. The Company also competes on the basis of innovative design, high quality manufacturing, technical expertise in scanning, level of sales and support services, price and overall product functionality, and fitness for use. Failure to keep pace with product and technological advances could negatively affect the Company's competitive position and prospects for growth. Several of the Company's competitors have substantially greater financial, technical, marketing and other resources than the Company. As a result, they may be able to respond more quickly to new or emerging technologies and to changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products, than can the Company. In addition, other larger corporations could enter the Moblie and Wireless, Retail Automation and AIDC industries. Increased competition is likely to result in average selling price reductions, reduced operating margins or loss of market share. No assurance can be given that the Company will be able to compete successfully against current and future competitors or that the competitive factors faced by the Company will not adversely affect its business, financial condition or results of operations. See "Business--Competition."

Product Transitions. The Company is dependent upon the introduction of new and improved products. The Company's financial performance is dependent upon the successful introduction of these products. The success will be dependent, among other things, upon the ability of the Company to complete development of certain products, customer acceptance of and demand for these products, and the ability of the Company to efficiently manufacture these products and to meet delivery schedules. The introduction of new and enhanced products requires the Company to manage the transition from older products in order to minimize disruption in customer ordering patterns, avoid excess levels of older material inventories and ensure that adequate supplies of new product can be delivered to meet customer demand.

The Company and Optimal Robotics Corp. (Optimal) entered into an agreement in April 1998, which provided the Company exclusive rights to manufacture U-Scan(R) Express Self-Checkout Systems until December 31, 2000. On December 31, 2000, the

Company's agreement with Optimal was terminated. The Company is currently developing and marketing the QUICKcheck(TM) Self-Checkout System to major supermarkets and mass merchandisers in a strategic alliance with Kyrus Corporation. There can be no assurance that the Company will successfully manage the transition to selling new products. The failure to do so could have a material adverse effect on the Company's business, financial condition or results of operations.

Dependence on Sales by Third Parties: Significant Customers. A significant portion of the Company's net sales is dependent upon the ability of its OEM, VAR, distributor and systems integrator customers to develop and sell products that incorporate the Company's scanning products. Factors, including economic conditions, patent positions, inventory positions, the ability to sell the Company's products to end users, regulatory requirements and marketing restrictions that adversely affect the operations of the Company's OEM, VAR, distributor and systems integrator customers can have a substantial impact upon the Company's financial results. No assurances can be given that the Company's OEM, VAR, distributor and systems integrator customers will not experience financial or other difficulties that could adversely affect their operations and, in turn, the results of operations of the Company. During 2000, net sales to the Company's largest customer represented approximately 17%. Sales to this customer are not expected to continue to represent a significant portion of the Company's revenues since the Company's agreement to supply this customer expired on December 31, 2000. There were no other customers responsible for greater than 10% of sales in 2000. During 1999 and 1998, no individual customer accounted for more than 10% of net sales. See "Business--Sales and Marketing" and "--Customer Support and Service."

Risks Associated with International Operations. The Company's sales to international customers increased from $112.0 million or 52% of total net sales in 1998 to $146.5 million or 61% of net sales in 2000. The Company intends to continue to expand its operations outside of the United States and to enter additional international markets which will require significant management attention and financial resources and which will result in a significant portion of the Company's net sales being subject to the normal risks associated with international sales. Such risks include unexpected changes in regulatory requirements, compliance costs associated with quality control standards, special standards requirements, longer accounts receivable collections in certain geographic regions, tariffs and other barriers, difficulties in staffing and managing international subsidiary operations, potentially adverse tax consequences, country-specific product requirements and political and regulatory uncertainties. There can be no assurance that these factors will not have an adverse impact on the Company's ability to increase or maintain its international sales or results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business--Sales and Marketing."

Exposure to Currency Fluctuations. Historically, the Company's revenue from international operations primarily has been denominated in United States dollars. During 2000, approximately 60% of its revenue was derived from international operations and approximately 75% of its consolidated revenue were denominated in United States dollars. The Company expects that a growing percentage of its business will be conducted in currencies other than the United States dollar. As a result, fluctuations in the value of certain foreign currencies could materially affect the Company's business operating results and financial condition. Also, an increase in the value of the United States dollar relative to foreign currencies could make the Company's products more expensive and, therefore, less competitive in certain markets. Due to the constantly

changing currency exposures and the volatility of currency exchange rates, there can be no assurance that the Company will not experience currency losses in the future, nor can the Company predict the effect of exchange rate fluctuations upon future operating results. The Company enters into forward foreign exchange contracts as a hedge against currency fluctuations relating to foreign sales denominated in foreign currencies. The forward contracts generally have maturities up to 60 days and require the Company to exchange foreign currencies for United States dollars at maturity, at rates agreed to at the inception of the contracts. Gains and losses on forward contracts are offset against the foreign exchange gains and losses on the underlying hedged items and are recorded in the Consolidated Statements of Operations.

Price. Traditionally, the selling price of the Company's products decreases over the life of the product. The Company endeavors to reduce manufacturing costs of existing products and to introduce new products, functions and other price/performance-enhancing features in order to mitigate the effect of such decreases. To the extent that such cost reductions, product enhancements and new product introductions do not occur in a timely manner or market acceptance is not achieved, the Company's operating results could be materially, adversely affected.

Acquisitions. The Company has in the past and may in the future acquire businesses or product lines as a way of expanding its product offerings and acquiring new technology. The Company does not expect to complete an acquisition in the near term since its existing debt agreements with its senior and subordinated lenders restrict this type of activity. Failure of the Company to identify future acquisition opportunities and/or to integrate effectively businesses that it may acquire could have a material adverse effect on the Company's growth.

Dependence on Key Vendors. The Company's ability to produce and ship its products on schedule is highly dependent on timely receipt of an adequate supply of components and materials from its key vendors. The Company currently relies on single suppliers, some of whom manufacture at a number of locations, for some of the key components of its products. The Company could incur significant set-up costs and experience delays in manufacturing should it be necessary to replace key vendors due to work stoppages, shipping delays, quality problems, financial difficulties or other factors. There can be no assurance that these potential costs and delays would not have a material adverse impact on the Company's business or results of operations. See "Business--Manufacturing and Suppliers."

Fluctuations in Quarterly Operating Results. Historically, the Company has experienced variability in its quarterly results and the Company anticipates that such variability will continue in the future as a result of a number of factors, many of which are beyond the Company's control. The factors affecting this variability include demand for the Company's products, the size and timing of large customer orders, the entry of new competitors and new technological advances by competitors, changes in pricing policies by the Company or competitors, customer order deferrals in anticipation of product enhancements or new product offerings by the Company or its competitors, changes in the mix of products sold by the Company and general economic factors.

Since customers order products for delivery within 30 to 45 days, backlog is not a reliable predictor of future results beyond the current quarter. The Company's expense levels are based, in part, on expectations of future revenue. If revenue levels are below expectations, expense levels would be disproportionately high as a percentage of total revenue and operating results would be adversely affected. The Company believes that quarterly period-to-period comparisons of its financial results are not necessarily meaningful and should not be relied upon as an indication of future performance. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The Company anticipates that in 2001 it will sell more products with lower margins and lower margin products will represent a greater percentage of total sales than in prior years. If the Company does not increase sales and/or lower operating expenses to compensate for overall lower margins, the Company's operating results could be materially, adversely affected.

Government Regulation. The Company's products and operations are subject to regulation by federal, state and local agencies in the United States and its products are subject to regulation in certain foreign countries where the Company's products are sold. While the Company believes that its products and operations comply with all applicable regulations, there can be no assurance of continued compliance if these regulations were to change. Noncompliance with respect to these regulations could have a material adverse impact on the Company's results of operations. See "Business--Government Regulation."

ITEM 2: PROPERTIES

The Company owns a 132,000 square foot facility in Webster, New York, a suburb of Rochester, New York, which is utilized primarily for manufacturing, engineering, and administrative functions. The facility is currently marketed for sale in connection with the Company's plan to consolidate its Webster, New York operations with its Eugene, Oregon operations. The Company anticipates disposing of the facility within the first half of 2001, at which time, a portion of the proceeds will be utilized to reduce the Company's indebtedness under the senior credit facility.

During 1999, the Company sold its two facilities and 32-acre parcel located in Eugene, Oregon and simultaneously entered into a lease agreement for the facilities, which expires in May 2014. Engineering, marketing and administrative functions are contained in one of the facilities, which is eighteen years old and consists of 54,000 square feet. The second facility, which is thirteen years old and consists of 56,000 square feet, contains manufacturing and warehousing functions. The Company also leases 20,000 square feet for manufacturing and warehousing activities and 9,000 square feet of offsite storage and shop space which are both located within a two miles radius from the main facilities. These leases expire on March 31, 2002 and on June 30, 2002, respectively. Additionally, the Company leases a separate 37,250 square foot facility in Eugene, Oregon for manufacturing and research and development activities, of which, approximately 9,000 square feet are subleased to another tenant. This lease expires on December 31, 2007.

The Company's corporate headquarters are located in Portland, Oregon in a 625 square foot facility. The lease expired on March 31, 2001, and the Company is currently leasing the premises on a month-to-month basis, as it is seeking larger space.

The Company leases approximately 6,250 square feet in Sharon Hill, Pennsylvania which was formerly used for manufacturing and engineering operations associated with GAP. This lease expires on October 31, 2001.

Domestically, the Company maintains offices under short-term leases for individual sales and support personnel in or near Dallas, Texas; Dayton, Ohio; Miami, Florida; and Skaneateles, New York in order to serve North, Central and South America.

Internationally, the Company maintains offices in or near Tokyo, Beijing, Guangzhou, Sydney, Melbourne, Hong Kong, London, Paris, Milan, Frankfurt,

Brussels, Madrid, Malmo, Singapore, Santiago, Istanbul and Ontario. These offices house from one to 49 people in 300 to 20,400 square foot facilities under short-term leases.

All of the Company's locations are in good condition and management believes that the Company has sufficient manufacturing capacity for the foreseeable future.

ITEM 3: LEGAL PROCEEDINGS

Symbol Technologies, Inc.

In November, 2000, the Company settled all pending litigation with Symbol Technologies, Inc. (Symbol). The agreements resolved all claims between the parties and settled all disputed royalty payments. In addition, the parties amended and clarified the Company's existing license agreement and included certain new patents. The parties also entered into product supply agreements for products that will begin shipping later in 2001. Under the terms of the supply agreements, the Company agreed to purchase hand-held laser scanners and scan engines from Symbol. Symbol has agreed to purchase fixed position retail POS scanners from the Company.

In conjunction with the settlement, in 2000 and 1999, the Company recognized a total loss of approximately $12.0 million which included approximately $3.0 in inventory write-offs that were reflected in cost of sales in the consolidated statements of operations. In addition, all intellectual property and physical assets associated with GAP were transferred to Symbol.

Lemelson

On July 21, 1999, the Company and six other leading members of the Automatic Identification and Data Capture industry jointly initiated litigation (the Auto ID Action) in the United States District Court of Nevada in Reno, Nevada against the Lemelson Medical, Educational & Research Foundation, Limited Partnership (the Lemelson Partnership). In the Auto ID Action, entitled "Symbol Technologies, Inc. et al. v. Lemelson Medical, Educational & Research Foundation, Limited Partnership", the Auto ID companies seek, among other remedies, a declaration that certain patents, which have been asserted by the Lemelson Partnership against end users of bar code equipment, are invalid, unenforceable and not infringed. The other plaintiffs in the lawsuit are Accu-Sort Systems, Inc., Intermec Technologies Corporation, a wholly-owned subsidiary of UNOVA, Inc., Metrologic Instruments, Inc., Symbol Technologies, Inc., Psion Teklogix Corporation, a wholly-owned U.S. subsidiary of Psion Teklogix International, Inc. and Zebra Technologies Corporation. Symbol has agreed to bear approximately half of the legal and related expenses associated with the litigation, with the remaining portion being borne equally by the Company and the other five Auto ID companies.

Although no claim is now being asserted by the Lemelson Partnership directly against the Company, the Lemelson Partnership has contacted many of the Company's and other Auto ID companies' customers demanding a one-time license fee for certain so-called "bar code" patents transferred to the Lemelson Partnership by the late Jerome H. Lemelson. The Company and the other Auto ID companies have received many requests from their customers asking that they undertake the defense of these claims using their knowledge of the technology at issue. Certain of these customers have requested indemnification against the Lemelson Partnership's claims from the Company and the other Auto ID companies, individually and/or collectively with other equipment suppliers. The Company,

and we understand, the other Auto ID companies believe that generally they have no obligation to indemnify their customers against these claims and that the patents being asserted by the Lemelson Partnership against their customers with respect to bar code equipment are invalid, unenforceable and not infringed. However, the Company and the other Auto ID companies believe that the Lemelson claims do concern the Auto ID industry at large and that it is appropriate for them to act jointly to protect their customers against what they believe to be baseless claims being asserted by the Lemelson Partnership.

The Lemelson Partnership moved to dismiss, transfer and/or stay the Auto ID Action. On March 21, 2000, the U.S. District Court in Nevada denied the Lemelson Partnerhip's motion to dismiss, transfer or stay the Auto ID Action. It also struck one of the four counts in the Action and ordered the Action consolidated with an action against the Lemelson Partnership brought by Cognex Corporation pending in the same Court.

On April 12, 2000, the Lemelson Partnership filed its Answer, including a counterclaim against the Company and the other Auto ID companies, seeking a dismissal of the case. Alternatively, the counterclaim sought a declaration that the plaintiffs have contributed to, or induced infringement of particular method claims of the patents-in-suit by the plaintiffs' customers. The Company, and we understand, the other Auto ID companies believe there is no merit in the counterclaim.

On May 15, 2000, the Company and the other Auto ID companies filed a motion seeking permission to file an interlocutory appeal of the Court's decision to strike the fourth count of the complaint (which alleged that the Lemelson Partnership's delays in obtaining its patents rendered them unenforceable for laches). The motion was granted by the Court on July 14, 2000. On September 1, 2000, the United States Court of Appeals for the Federal Circuit granted the petition for permission to pursue this interlocutory appeal. The Company believes that oral argument on the motion will take place later in 2001.

On July 24, 2000, the Company and the other Auto ID companies filed a motion for partial summary judgment, arguing that almost all of the claims of the Lemelson Partnership's patents are invalid for lack of written description. On October 25, 2000, after having obtained a significant extension of time to file its response, the Lemelson Partnership filed a combined opposition to the motion for partial summary judgment and its own cross motion for partial summary judgment that many of the claims of the Lemelson Partnership's patents satisfy the written description requirement. On January 2, 2001, the Company and the other Auto ID companies filed a combined reply in support of their motion for partial summary judgment and in opposition to the cross motion of the Lemelson Partnership. The Company believes that oral argument on the motion will take place later in 2001.

International Automated Systems

On or about July 2, 1999, International Automated Systems (IAS) filed a complaint in the State of Utah against the Company and Optimal Robotics Corp (Optimal) alleging patent infringement. The complaint was served on the Company on or about August 23, 1999. An answer and counterclaim on behalf of the Company and Optimal was served on IAS on or about October 22, 1999. A reply to the counterclaim was filed on November 12, 1999. Smith's Food and Drug has been added to the case as a defendant. Optimal has retained counsel to represent Optimal, the Company and Smith. This case remains in the discovery phase. The Company's contract with Optimal provides for indemnification obligations on the part of Optimal. The Company believes that the lawsuit will not have a material

adverse effect on the Company's business or prospects and, with Optimal and the other defendant, intends to vigorously defend the claim.

Metrologic Instruments, Inc.

On or about October 13, 1999, Metrologic Instruments, Inc. commenced suit against the Company in the United States District Court for the District of New Jersey alleging patent infringement and seeking damages and injunctive relief. The Company filed an answer and counterclaim on December 22, 1999. The action involves seven patents. The Company believes that the claims against it are without merit and intends to vigorously defend the action.

This case is in the discovery phase. Depositions have been taken and documents exchanged. The discovery deadline is currently set at July 31, 2001. A status conference with the Court is scheduled for July 9, 2001.

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

The following matters were submitted to a vote of security holders during the fourth quarter of the period ended December 31, 2000.

(a) The Annual Meeting of Shareholders was held on December 6, 2000.

(b) The names of the directors elected at the Annual Meeting for a three-year term are as follows:

James C. O'Shea
Terry R. Peets

The name of each other director whose term of office continued after the Annual Meeting is as follows:

Edward J. Borey
Robert S. Ehrlich
Jack E. Rosenfeld
Roberto Tunioli
Dr. Jay M. Eastman
Thomas J. Morgan
Bert W. Wasserman

(c)(i) At the Annual Meeting, the tabulation of votes with respect to each nominee for director was as follows:

Nominee	Votes FOR	Authority Withheld
James C. O'Shea	9,383,942	369,912
Terry R. Peets	9,419,073	334,781

(c)(ii) At the Annual Meeting, the shareholders voted upon one other matter. The description of the other matter voted upon and the tabulation of votes with respect to such matter are as follows:

	Votes FOR	Votes AGAINST	Votes ABSTAINING
Proposal to approve the 2000 Employee			

Stock Purchase Plan	9,264,985	442,757	46,112

EXECUTIVE OFFICERS OF REGISTRANT

The Company's executive officers as of December 31, 2000, were as follows.

Name	Age	Officer/Position
Charles E. Biss	48	Vice President, Verification Products
Edward J. Borey	50	President and Chief Executive Officer and Director
Cecil F. Bowes	57	Vice President, Sales - The Americas, Asia Pacific Rim
Nigel P. Davis	50	Vice President, Sales - Europe, Middle East, Africa
Phillip A. Eckerdt	53	Vice President, Operations
G. William Hartman	55	Vice President, Automation
David L. Latimer	49	Vice President, Product Marketing
Elizabeth J. McDonald	47	Vice President, Corporate Counsel and Secretary
Linda J. Miller	40	Senior Vice President and General Manager
William L. Parnell, Jr.	44	Executive Vice President and Chief Operating Officer
George A. Plesko	54	Senior Vice President
Matt D. Schler	44	Vice President, Engineering and Product Development
Michael J. Stachura	45	Vice President, Treasurer and Chief Financial Officer
John B. West	43	Vice President, Mobile & Wireless

Charles E. Biss served as Vice President, Verification Products since January 1996, as General Manager, Verification Products (1995-1996) and as Product and Technical Support Manager (1985-1995). On February 16, 2001, Mr. Biss left the Company. Mr. Biss served the Company in a variety of technical and production related roles since 1973. Mr. Biss represented the Company on a number of national and international standards creating committees relating to bar codes and the automatic identification and data capture industry. Mr. Biss holds a B.S. degree in Photographic Science and Engineering from Rochester Institute of Technology.

Edward J. Borey has served as President, Chief Executive Officer and a director since December 2000. Prior to joining the Company, Mr. Borey was President and CEO of TranSenda (May 2000 to December 2000). Previously, Mr. Borey held senior positions in the automated data collection industry. At

Intermec Technologies Corporation (1995-1999), he was Executive Vice President and Chief Operating Officer and also Senior Vice President/General Manager of the Intermec Media subsidiary. Prior to that, Mr. Borey also held Vice President/General Manager positions at Paxar (1992-1995) and at Monarch Marketing Systems (1989-1992). Mr. Borey also held senior marketing positions at companies in the retail automation industry, including Seimans Nixdorf, ICL and National Semiconductor Datachecker. Currently, Mr. Borey serves as a Board member at Centura Software, recently renamed MBrane, and he is on the Advisory Board of TranSenda Software and NextRx. Mr. Borey holds a B.S. degree in Economics from the State University of New York, College of Oswego; an M.A. degree in Public Administration from the University of Oklahoma and an M.B.A. degree in Finance from Santa Clara University.

Cecil F. Bowes has served as Vice President, Sales - The Americas, Asia Pacific Rim since December 1996. Prior thereto, he was Group Director, North America for Spectra-Physics Scanning Systems, Inc. (Spectra) from November 1990 until December 1996. Mr. Bowes holds a B.S. degree in Education from the University of Dayton.

Nigel P. Davis has served as Vice President, Sales - Europe, Middle East, Africa (EMEA) since July 1996. Prior thereto, he was Group Director, EMEA for Spectra from March 1993 to May 1996. Before joining Spectra, he held the position of Vice President, EMEA for Prime Computer, Inc.

Phillip A. Eckerdt has served as Vice President, Operations since May 1999 and Director of Materials from July 1996 until May 1999. Prior thereto, he was Director of Materials for Spectra from November 1990 until July 1996. Mr. Eckerdt holds a B.S. degree in Psychology from Washington State University and an M.S. degree in International Management from the University of Oregon.

G. William Hartman has served as Vice President, Automation since September 1997. Prior to joining the Company, he was Senior Vice President and Chief Operating Officer of Datamax International Corporation, Orlando, Florida, a manufacturer of thermal bar code readers, from 1991 to 1996. Mr. Hartman holds a B.S. degree in Mechanical Engineering from the University of Utah and an M.S. degree in Mechanical Engineering from Villanova University.

David L. Latimer has served as Vice President, Product Marketing since May 1998. Prior thereto, he was Vice President of Product Marketing at Percon Inc. (Percon), Eugene, Oregon, a manufacturer of bar code reading products, from February 1997 to May 1998 and Director of Product Marketing at Spectra from December 1987 until February 1997. He received B.S. and M.S. degrees from Michigan State University and University of Wisconsin - Milwaukee, respectively, and holds an M.B.A. degree from Harvard Business School.

Elizabeth J. McDonald has served as Secretary since December 2000, as Vice President since July 1999 and as Corporate Counsel since September 1997. From December 1996 until September 1997, she was Assistant Corporate Counsel and from September 1997 until December 2000, she was Assistant Secretary. Prior to joining the Company in December 1996, Ms. McDonald was a New York State Assistant Attorney General (1984 to 1996). Ms. McDonald holds a B.A. degree from Elmira College and a J.D. degree from Albany Law School of Union University.

Linda J. Miller has served as Senior Vice President and General Manager since May 1999 and was Vice President, Marketing from April 1998 until May 1999. On December 31, 2000, Ms. Miller left the Company. Prior to joining the Company, Ms. Miller was Vice President of Business Planning and Development for Champion Products, which she joined in January 1992 as Director of Sales Planning. Ms. Miller holds a B.S. degree in Industrial Administration from General Motors Institute and an M.B.A. degree from the University of Michigan.

William L. Parnell, Jr. has served as Executive Vice President and Chief Operating Officer since rejoining the Company in October 2000. He was Chief Operating Officer and Senior Vice President of the Company from May 1999 until January 2000 and Vice President, Operations from October 1996 until May 1999. Prior thereto, he was Vice President - Operations of Spectra from November 1990 until October 1996. Mr. Parnell received a B.S. degree in Physics from Utah State University and an M.B.A. degree from the University of Washington.

George A. Plesko has served as Senior Vice President since December 1999. Prior to joining the Company, Mr. Plesko was President, CEO, Chairman and majority stockholder of GAP Technologies, Inc. (GAP) which he founded in 1989. GAP was engaged in the design, development and manufacture of miniature electro-optical scanning devices. Prior to founding GAP, he served as a director at Mars Electronics International, Inc. Mr. Plesko is the inventor of 31 United States patents, 29 of which are now owned by the Company. These include broad patents on the world's only non-contact laser scanning pen. Mr. Plesko received a B.S. degree in Physics and an M.S. degree in Nuclear Physics from the Pennsylvania State University.

Matt D. Schler has served as Vice President, Engineering and Product Development since November 1997. Prior thereto, he was Vice President of Engineering at Percon Inc., a manufacturer of bar code reading products, from February 1997 to November 1997 and Engineering Manager of Spectra from March 1992 until January 1997. Mr. Schler received a B.S. degree in Electrical Engineering from the University of Colorado.

Michael J. Stachura served as Vice President, Treasurer and Chief Financial Officer since November 2000 and was Vice President, Finance from September 1997 until November 2000. On January 26, 2001, Mr. Stachura left the Company. Prior thereto, he was Vice President, Corporate Controller of Genencor International, Inc. from January 1991 until August 1997. Mr. Stachura received a B.S. degree in Accounting from Canisius College.

John B. West has served as Vice President, Mobile and Wireless since December 2000 and as Director of Materials from January 2000 until December 2000. Prior thereto, Mr. West was Vice President of Operations at Percon from April 1996 to January 2000. Mr. West also served in the role of Chief Operating Officer for Percon from January 1997 to November 1999. Mr. West received a B.S. degree in Business Administration from Lewis and Clark College and an M.B.A. degree from UCLA.

PART II

ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SECURITY HOLDER MATTERS

The Company's Common Shares traded on The Nasdaq Stock Market(R) under the symbol PSCX. The following table sets forth, for the periods indicated, the high and low sale prices for the Common Shares.

	High	Low
2000		
Fourth Quarter	$ 2.94	$0.50
Third Quarter	$ 8.38	$2.50

Second Quarter	$ 8.22	$3.50
First Quarter	$ 9.00	$4.25
1999		
Fourth Quarter	$ 9.00	$6.25
Third Quarter	$10.25	$6.88
Second Quarter	$10.75	$7.63
First Quarter	$ 9.63	$7.38

As of December 31, 2000, there were approximately 1,200 holders of record of Common Shares.

Since February 22, 2001, the Company's Common Shares have been listed on The Nasdaq SmallCap Market; prior thereto, the Common Shares were listed on The Nasdaq National Market.

The Company has not paid any cash dividends since 1979 and does not anticipate paying cash dividends in the foreseeable future. The Company's senior debt and subordinated term loan agreements restrict payment of dividends.

ITEM 6: SELECTED FINANCIAL DATA
(All amounts in thousands, except per share data)

The selected consolidated financial data presented below for each of the five years in the period ended December 31, 2000 have been derived from the Company's consolidated financial statements, which statements have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports thereon. The selected consolidated financial data should be read in conjunction with the Consolidated Financial Statements and Notes thereto included elsewhere in this report.

	Year Ended		
	2000	1999	1
	(All amounts in thousan		
Statement of Operations Data:			
Net sales	$240,883	$231,324	$21
Cost of sales	158,948	134,049	12
Gross profit	81,935	97,275	9
Operating expenses:			
Engineering, research and development	22,207	18,075	1
Selling, general and administrative	51,779	45,185	4
Acquisition related restructuring and other costs	--	--	
Severance and other costs	4,883	1,923	
Loss on royalty settlement	2,781	6,400	
Loss on asset write-downs	8,632	--	
Merger related costs	959	--	
Amortization of intangibles from business acquisitions	11,094	6,419	
Income/(loss) from operations	(20,400)	19,273	2
Interest and other income/(expense)	(13,951)	(7,024)	(

Income/(loss) from continuing operations before income tax provision/(benefit)	(34,351)	12,249	1
Income tax provision/(benefit)	20,711	4,287	
Income/(loss) from continuing operations	(55,062)	7,962	1
Loss from discontinued operations	--	--	
Net income/(loss)	$(55,062)	$ 7,962	$ 1
Net income/(loss) per common and common equivalent share:			
Basic:			
Continuing operations	$ (4.56)	$ 0.67	$
Discontinued operations	--	--	
Net income/(loss)	$ (4.56)	$ 0.67	$
Diluted:			
Continuing operations	$ (4.56)	$ 0.58	$
Discontinued operations	--	--	
Net income/(loss)	$ (4.56)	$ 0.58	$
Weighted average number of common and common equivalent shares:			
Basic	12,077	11,942	1
Diluted	12,077	13,751	1

	Year Ended December		
	2000	1999	1998
Balance Sheet Data:			
Cash and cash equivalents	$5,461	$1,402	$6,180
Working capital	21,137	16,845	16,827
Total assets	175,407	166,741	171,263
Long-term debt, including current maturities	132,609	73,866	93,208
Total shareholders' equity	(2,971)	51,333	44,199

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

The following discussion should be read in conjunction with the Consolidated Financial Statements and the Notes thereto appearing elsewhere in this report.

Results of Operations

The following table sets forth, for the years indicated, certain consolidated financial data expressed as a percentage of net sales.

Year Ended December 31,

	2000		1999		
			(dollars in thousands)		
Net sales	$ 240,883	100.0%	$ 231,324	100.0%	$
Cost of sales	158,948	66.0	134,049	58.0	
Gross profit	81,935	34.0	97,275	42.0	
Operating expenses:					
Engineering, research and development	22,207	9.2	18,075	7.8	
Selling, general and administrative	51,779	21.5	45,185	19.5	
Severance and other costs	4,883	2.0	1,923	0.8	
Loss on royalty settlement	2,781	1.2	6,400	2.8	
Loss on asset write-downs	8,632	3.6	--	--	
Merger related costs	959	0.4	--	--	
Amortization of intangibles from business acquisitions	11,094	4.6	6,419	2.8	
Income/(loss) from operations	(20,400)	(8.5)	19,273	8.3	
Interest and other income/(expense)	(13,951)	(5.8)	(7,024)	(3.0)	
Income/(loss) from continuing operations before income tax provision	(34,351)	(14.3)	12,249	5.3	
Income tax provision	20,711	8.6	4,287	1.9	
Net income/(loss)	$ (55,062)	(22.9)%	$ 7,962	3.4%	$

Overview

PSC Inc. (the Company) achieved record annual sales in 2000 while also investing in new products that extend its reach into higher growth markets and emerging technologies within the Mobile and Wireless, Retail Automation and Automatic Identification and Data Collection (AIDC) industries. During the year, the Company completed the acquisition and integration of Percon Incorporated (Percon), settled pending litigation with Symbol Technologies, Inc. (Symbol), increased investments in product development and marketing and announced a strategic restructuring plan to refocus the Company in 2001.

On January 19, 2000, the Company acquired all of the outstanding shares of Percon, a manufacturer of wireless and batch portable data terminals (PDTs), decoders, input devices and data management software, for approximately $61.0 million. The acquisition of Percon significantly increased the scope of the Company's product line, enhancing the Company's ability to provide systems type solutions and to expand the Company into the PDT and software/services categories of the AIDC market, which are growing rapidly.

On June 5, 2000, the Company, Mohawk Corp. (Parent) and Mohawk Acquisition Corp., a wholly owned subsidiary of Parent (Purchaser), entered into an Agreement and Plan of Merger. On July 24, 2000, Parent, Purchaser and the Company executed a Termination Agreement whereby the parties agreed to terminate the offer effective on such date. The Company recorded a pre-tax charge of $1.0 million during the second quarter of 2000 for expenses related to the merger activities.

In November 2000, the Company announced a restructuring plan to reduce its debt

and to achieve future profitability and growth. The Company has identified the following actions to achieve its objectives: 1) the consolidation of its Webster, New York operations with its Eugene, Oregon operations, 2) the sale of certain non-core assets including the sale of its Webster, New York facility; the sale of its imager and verification product lines; and the sale of its Automation product line; and 3) the decision to focus the Company's concentration on three primary markets including Mobile and Wireless, Retail Automation, and Automatic Identification and Data Collection.

On November 20, 2000, all pending litigation with Symbol was settled. The agreements resolved all litigation between the parties and settled all disputed royalty payments. In 2000 and 1999, the Company recognized a total loss of approximately $12.0 million in connection with the royalty settlement, which included approximately $3.0 in inventory write-offs that were reflected in cost of sales in the consolidated statements of operations. In addition, the parties amended and clarified the Company's existing license agreement and included certain new patents. The parties also entered into product supply agreements for products that will begin shipping in late 2001. Under the terms of the supply agreements, the Company agreed to purchase hand-held laser scanners and scan engines from Symbol. Symbol agreed to purchase fixed-position retail POS scanners from the Company.

On December 31, 2000, the Company's agreement with Optimal Robotics Corp. (Optimal) to manufacture U-Scan(R) Express Self-Checkout Systems was terminated. Net sales to Optimal represents approximately 17% of the Company's total net sales for the year ending December 31, 2000 and less than 10% for the years ending December 31, 1999 and 1998. The Company is currently developing and marketing the PSC QUICKcheck(TM) Self-Checkout System to major supermarkets and mass merchandisers in a strategic alliance with Kyrus Corporation. The system is targeted for retail store express lanes and incorporates the PSC Magellan SL scanner, interactive video, security system and money tendering (cash, credit or debit). The PSC QUICKcheck Self-Checkout System is designed to permit customers to scan, bag and pay for their own purchases with little or no assistance from store personnel, thereby speeding checkout and improving store productivity.

For the Year ended December 31, 2000

Net Sales. Net sales of $240.9 million for the year ended December 31, 2000 increased 4% over 1999. The increase in net sales is primarily due to the inclusion of Percon product sales and increased sales of U-Scan(R) Express Self-Checkout Systems and engine products offset by a decline in retail fixed position and handheld product sales combined with a $7.9 million impact of unfavorable foreign currency exchange rates. International net sales increased 10% over the previous year primarily due to sales of U-Scan(R) Express Self-Checkout Systems, and represented 61% of net sales in 2000 versus 58% in 1999.

Gross Profit. Gross profit of $81.9 million for the year ended December 31, 2000 decreased 16% over 1999. As a percentage of sales, gross profit was 34.0% in 2000 compared to 42.1% in 1999. Gross profit dollars and percentage decreased primarily due to the combination of lower selling prices and a change in product mix, in addition to, inventory reserves/write-offs that were recorded primarily as a result of the royalty settlement with Symbol and the Company's strategic plan to consolidate its Webster, New York operations with its Eugene, Oregon operations.

Engineering, Research and Development (ER&D). In 2000, the Company continued its commitment to the development of new products. ER&D expenses of $22.2 million

for the year ended December 31, 2000 increased $4.1 million or 23%. As a percentage of sales, ER&D increased to 9.2% from 7.8% in 1999. The 2000 dollar and percentage increases were primarily due to additional investments to develop new products and enhance existing products, and the inclusion of expenditures incurred by GAP and Percon, which were acquired in December 1999 and January 2000, respectively.

Selling, General and Administrative (SG&A). SG&A expenses of $51.8 million for the year ended December 31, 2000 increased $6.6 million or 15%. As a percentage of sales, SG&A increased to 21.5% in 2000 from 19.5% in 1999. The 2000 dollar and percentage increases are primarily attributed to the inclusion of Percon's expenditures, additional investments in the Company's marketing organization and marketing programs, and higher litigation and debt maintenance costs.

Loss on Asset Write-downs. Of the total $8.6 million loss recognized, $7.9 million was recorded in connection with the anticipated sale of the Webster, New York facility. The facility now approximates fair market value less any commissions or fees to be paid upon disposal. The Company anticipates disposing of the facility in 2001, at which time, a portion of the proceeds will be utilized to reduce the Company's indebtedness under the senior credit facility.

Severance and Other Costs. During the first quarter of 2000, the Compa