Write-off of Investment

During fiscal 2001 and 2002 we invested $10.8 million in Optimum Logistics Ltd. consisting of cash and stock, of which $2.1 was refunded in March 2002. This investment entitled us to a minority interest in Optimum Logistics and was accounted for using the cost method. During the fourth quarter of fiscal 2002, we determined that our investment in Optimum Logistics was impaired and this investment of $8.7 million was written-off, in addition to $0.2 million of other write-offs.

Foreign Currency Exchange Loss

Foreign currency exchange gains and losses are primarily incurred through the revaluation of receivables denominated in foreign currencies. Foreign currency exchange loss in fiscal 2003 decreased to $0.1 million from $1.1 million in fiscal 2002, as compared to a loss of $0.1 million in fiscal 2001. The decrease between fiscal 2002 and 2003 was due to the implementation of a more effective hedging policy for Hyprotech's receivables. In fiscal 2002, an effective hedging policy had not yet been implemented. The increase between fiscal 2001 and 2002 was due to the weakening of the U.S. Dollar against European currencies and translation losses attributable to Hyprotech's receivables during the month of June.

Income (Loss) on Equity in Joint Ventures and Realized Gain on Sales of Investments

Income (loss) on equity in joint ventures and realized gain on sales of investments was a $0.5 million loss in fiscal 2003 as compared to $0.2 million in income in fiscal 2002 and $0.8 million in income for fiscal 2001. The loss in fiscal 2003 is related to losses in the joint ventures, caused by the general economic slowdown during the year. In fiscal 2002 this consisted entirely of income on equity in joint ventures. In fiscal 2001, this primarily consisted of $0.6 million of realized gains on the partial sale of two investments and $0.1 million of income on equity in joint ventures.

Provision for/Benefit from Income Taxes

We provided a full valuation against the benefit generated during fiscal 2003 and recorded a provision for income taxes of $2.4 million for fiscal 2002. We recorded a benefit from income taxes of $8.7 million for fiscal 2002 and 2001, respectively. The provision for fiscal 2002 represents income taxes on income generated in certain foreign jurisdictions where we did not have operating loss carry forwards. We generated significant U.S. tax loss carryforwards during fiscal 2003, 2002, and 2001. The provision for fiscal 2002 was comprised of an income tax provision related to foreign subsidiaries, a benefit from income taxes and an offsetting increase in the tax valuation. The provision for fiscal 2002 also included a benefit from income taxes and a corresponding increase in the tax valuation of $8.7 million.

Under SFAS No. 109, a deferred tax asset related to the future benefit of a tax loss carryforward should be recorded unless we make a determination that it is “more likely than not” that such deferred tax asset would not be realized. Accordingly, a valuation allowance would be provided against the deferred tax asset to the extent that we cannot demonstrate that it is “more likely than not” that the deferred tax asset will be realized. In determining the amount of valuation allowance required, we consider numerous factors, including historical profitability, estimated future taxable income, the volatility of the historical earnings, and the volatility of earnings of the industry in which we operate. We periodically review our deferred tax asset to determine if such asset is realizable. In fiscal 2002, we concluded, in accordance with SFAS No. 109, that we should not recognize the full value of our deferred tax asset under the “more likely than not” test and therefore increased the amount of the valuation allowance. In fiscal 2003, we determined that it was more likely than not that the deferred tax asset would be realized. (See Note 10 of Notes to Consolidated Financial Statements.)