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KINARK CORP  
Form 10-K  
March 20, 2003

=====
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

(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, 2002

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 1-3920

KINARK CORPORATION

-----
(Exact name of registrant as specified in its charter)

DELAWARE

-----
(State or other jurisdiction of incorporation or organization)

71-0268502

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

2250 EAST 73RD STREET, TULSA, OKLAHOMA 74136-6832

-----
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code
(918) 494-0964

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS NAME OF EACH EXCHANGE ON WHICH REGISTERED
-----
COMMON STOCK, \$.10 PAR VALUE AMERICAN STOCK EXCHANGE

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
None

Indicate by check mark whether the registrant: (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days. Yes [X] No [\_]

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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. [X]

The aggregate market value of Common Stock held by non-affiliates on March 18, 2003 was approximately \$6.9 million. As of March 18, 2003, there were 6,747,689 shares of Kinark Corporation Common Stock \$.10 par value outstanding.

### DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed not later than 120 days after the end of the fiscal year covered by this report are incorporated by reference in Part III.

=====

### KINARK CORPORATION

Annual Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934  
For the Fiscal Year Ended December 31, 2002

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### FORWARD LOOKING STATEMENTS OR INFORMATION

Certain statements in this Annual Report in Form 10-K, including information set forth under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations", constitute "Forward-Looking Statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Such statements are typically punctuated by words or phrases such as "anticipates," "estimate," "should," "may," "management believes," and words or phrases of similar import. The Company cautions investors that such forward-looking statements included in this Form 10-K, or hereafter included in other publicly available documents filed with the Securities and Exchange Commission, reports to the Company's stockholders and other publicly available statements issued or released by the Company involve significant risks, uncertainties, and other factors which could cause the Company's actual results, performance (financial or operating) or achievements to differ materially from the future results, performance (financial or operating) or achievements expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences could include, but are not limited to, changes in demand, prices, and the raw materials cost of zinc; changes in economic conditions of the various markets the Company serves, as well as the other risks detailed herein and in the Company's reports filed with the Securities and Exchange Commission. The Company believes that the important factors set forth in the Company's cautionary statements at Exhibit 99 to Form 10-K could cause such a material difference to occur and investors are referred to Exhibit 99 for such cautionary statements.

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### PART I

#### ITEM 1. BUSINESS

Kinark Corporation was incorporated under the laws of the state of Delaware in 1955. Its corporate headquarters are located in Tulsa, Oklahoma. As used in this report, except where otherwise stated or indicated by the context, "Kinark", the "Company" and the "Registrant" means Kinark Corporation and its consolidated

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subsidiary.

Kinark is a manufacturing services holding company currently conducting business in galvanizing and coatings through its wholly-owned subsidiary, North American Galvanizing Company and its wholly-owned subsidiaries ("NAG"). Formed in 1996, NAG merged with Rogers Galvanizing Company ("Rogers") in 1996 and Boyles Galvanizing Company ("Boyles") in 1997, with NAG as the surviving company. Rogers was acquired by the Company in 1996 and Boyles was acquired in 1969. In 2000, the Company discontinued its chemicals storage and public warehousing business with the sale of its wholly-owned subsidiaries, Lake River Corporation ("Lake River") and North American Warehousing Company ("NAW").

### GALVANIZING

The Company conducts galvanizing and coating operations through its NAG subsidiary. NAG is principally engaged in hot dip galvanizing of metal products and components fabricated by its customers. All of NAG's revenue is generated from the value-added galvanizing and coating of its customer's products. NAG galvanizes iron and steel products by immersing them in molten zinc. This bonding process produces an alloyed metal surface that provides an effective barrier ("cathodic protection") against oxidation and corrosion from exposure to the elements, for up to 50 years. Additional coating services provided by NAG include sandblasting, quenching, metalizing (flame sprayed), centrifuge spinner galvanizing, Corrocote Classic II painting and INFRASHIELD<sup>SM</sup> Coating.

The galvanizing process provides effective corrosion protection of fabricated steel which is used in numerous markets such as petrochemical, highway and transportation, energy, utilities, communications, irrigation, pulp and paper, waste water treatment, food processing, recreation and the manufacture of original equipment. In a typical year, NAG will galvanize in excess of 300,000,000 pounds of steel products for over 1,000 customers nationwide. Based on the number of its operating plants, NAG is one of the largest merchant market hot dip galvanizing companies in the United States.

NAG operates eleven galvanizing plants in six states. These strategically located plants enable NAG to compete effectively by providing galvanizing to manufacturers representing a broad range of basic industries throughout the mid and south-central United States, and beyond. Its galvanizing plants are located in Tulsa, Oklahoma; Kansas City, Missouri; St. Louis, Missouri; Nashville, Tennessee; Louisville, Kentucky; Denver, Colorado; Hurst, Texas; and Houston, Texas.

In January 2003, NAG expanded services at its Nashville, Tennessee facility with the installation of a centrifuge spinner line to galvanize small product and threaded materials.

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In the fourth quarter of 2002, NAG began operations at its newest galvanizing plant in St. Louis, Missouri. This state-of-the-art facility features a 51-foot kettle, providing the largest galvanizing capacity in the St. Louis region.

In the third quarter of 2002, NAG introduced INFRASHIELD<sup>SM</sup> coating, a specialty multi-part polymer coating system designed to be applied over hot dip galvanized material. The resultant superior corrosion protection offered by combining cathodic protection with a non-conductive coating is applicable to many environments that have unique corrosion issues.

In 2001, the Company completed a major expansion of its galvanizing operations with the construction of a new galvanizing plant in Houston, Texas. This state-of-the-art facility includes a 62-foot galvanizing kettle with capabilities to process extra large poles for the wireless communication and electric transmission markets. The new facility became operational in the first

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quarter of 2001.

Zinc, the primary raw material in the galvanizing process, is a widely available commodity in the open market. During 2002, there was relatively little movement in the price of zinc. The London Metal Exchange price of zinc for three month delivery was \$.35 per pound at the beginning of 2002 and closed the year at \$.34 per pound. To reduce the potential impact of zinc price fluctuations, the Company periodically enters into forward purchase commitments for up to one year.

NAG has a broad customer base with its ten largest customers, on a combined basis, accounting for approximately 34% of the Company's consolidated sales in 2002. In mid-2000, NAG eliminated steel fabrication services being provided to its largest customer in order to focus resources on its core galvanizing business. Such fabrication service accounted for sales of \$2,749,000 in 2000. The backlog of orders at NAG is generally nominal due to the short turn-around time requirement typical in the galvanizing industry.

Hot dip galvanizing is highly competitive. NAG competes with other publicly and privately owned independent galvanizing companies, captive galvanizing facilities operated by manufacturers, and alternative forms of corrosion protection such as paint. The type and number of competitors vary throughout the geographic areas in which NAG does business. Competition is driven primarily by price, rapid turn-around service time, and the quality of the finished galvanized product. Management believes that the broad geographic disbursement of NAG's plants and the reliable quality of its service enables NAG to compete on a favorable basis. The Company continues to develop and implement operating and market strategies to maintain its competitive position and to develop new markets, as demonstrated by the recent opening of new galvanizing plants in Houston and St. Louis, as well as expanded service capabilities at its existing plants.

NAG's business is not generally considered to be seasonal due to the breadth and diversity of markets served, although revenues typically are lower in the first and fourth quarters due to seasonality in certain construction markets. In line with its historical pattern, NAG generated 52% of its revenues during the first six-months of 2002.

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The Company's facilities are subject to extensive environmental legislation and regulation affecting their operations and the discharge of wastes. The cost of compliance with such regulations was approximately \$1,168,000 and \$988,000 in 2002 and 2001, respectively, for the disposal and recycling of wastes generated by the galvanizing operations. In 1997, NAG was named a potentially responsible party by the Illinois Environmental Protection Agency ("IEPA") in connection with cleanup of an abandoned site formerly owned by Sandoval Zinc Co. The IEPA notice included NAG and a number of other organizations which arranged for the treatment and disposal of hazardous substances at Sandoval. Based on current information, NAG's share of any probable future costs cannot be estimated at this time.

NAG's one-year labor agreement with the United Steel Workers Union covering approximately 70 production workers at its Tulsa galvanizing plants was renewed for one year in April 2002. Nation-wide, NAG employed 364 persons at December 31, 2002.

### ITEM 2. PROPERTIES

NAG operates hot dip galvanizing plants located in Oklahoma, Missouri, Texas, Colorado, Tennessee and Kentucky. Two of the plants are leased under terms which gives NAG the option to extend the lease for up to 15 years. NAG's galvanizing

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plants average 20,000 square feet in size, with the largest approximately 55,000 square feet, and it operates zinc kettles ranging in length from 33 to 62 feet.

The headquarters offices of Kinark and NAG are located in Tulsa, Oklahoma, in approximately 4,100 square feet of office space leased through December, 2005.

### ITEM 3. LEGAL PROCEEDINGS

During the first quarter of 2002, NAG was named a defending party in a legal proceeding resulting from the personal injury of an independent contractor at one of its facilities. The Company believes its liability insurance is adequate with respect to this claim, the outcome of which cannot be determined at this time. Beyond this claim, the Company is not a party to, nor is any of its property subject to, any material legal proceedings, other than routine litigation incidental to the business.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of stockholders during the fourth quarter of 2002.

### ITEM 4A. EXECUTIVE OFFICERS OF THE REGISTRANT

PAUL R. CHASTAIN	68	Vice President and Chief Financial Officer since February 1996, and Secretary of the Company since January 2000 to present. From July 1993 through January 1996, President and Chief Executive Officer of the Company. From June 1991- July 1993, Chairman and Chief Executive Officer.
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Co-Chairman and Co-Chief Executive Officer of the Company from June 1990-June 1991. From 1976, Executive Vice President and Treasurer. From 1973 through 1976, Vice President of Finance and Secretary of the Company. Director of Kinark Corporation since 1975.

RONALD J. EVANS	53	President of the Company since February 1996 and appointed Chief Executive Officer November 1999 to present. From May 1995 through January 1996, private investor. From 1989-1995, Vice President-General Manager of Deltech Corporation. Mr. Evans' previous experience includes 13 years with Hoechst Celanese Corporation. Director of Kinark Corporation since 1995.
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## PART II

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

## STOCK INFORMATION

The principal trading market for the common stock of Kinark Corporation is the American Stock Exchange. The Company's common stock trades under the symbol "KIN". The Company does not pay a dividend and expects to continue that policy in order to reinvest earnings to support and expand its business operations. The board of directors may review the dividend policy in the future, recognizing that dividends may be a desirable form of return on the investment made by many of its stockholders. Stockholders of record at March 13, 2003 numbered approximately 2,400.

## QUARTERLY STOCK PRICES

	FIRST	SECOND	THIRD	FOURTH
2002-High	\$1.34	\$1.70	\$1.75	\$1.65
Low	\$0.93	\$0.96	\$1.20	\$1.30
2001-High	\$1.00	\$1.45	\$1.10	\$1.00
Low	\$0.70	\$0.65	\$0.75	\$0.75

## ITEM 6. SELECTED FINANCIAL DATA

The selected financial data for years 1998 through 2002 are presented on page FS-31 of this Annual Report on Form 10-K.

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

The index to Management's Discussion and Analysis of Financial Condition and Results of Operations is presented on page 17 of this Annual Report on Form 10-K.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Management's discussion of quantitative and qualitative disclosures about market risk is presented on page FS-10.

## ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The index to Financial Statements and Supplementary Data is presented on page 17 of this annual Report on Form 10-K.

## ITEM 9. DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no disagreements with the Company's independent accountants on any matter of accounting principles or practices, financial statement disclosure, or auditing scope.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information contained under the heading "Election of Directors" in the Company's Proxy Statement for its annual meeting of stockholders to be held on May 14, 2003 is incorporated by reference.

Information about our Executive Officers may be found in Part I, Item 4A of this Form 10-K under the heading "Executive Officers of the Registrant" in accordance with Instruction 3 of Item 401(b) of Regulation S-K and General Instruction G(3) of Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item appears in the 2003 Proxy Statement under the heading "Executive Compensation" and is incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item concerning security ownership of certain beneficial owners and management appears in the 2003 Proxy Statement under the heading "Security Ownership of Principal Stockholders and Management" and is incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this item concerning certain relationships and related party transactions appears in the 2003 Proxy Statement under the heading "Related Party Transactions" and is incorporated by reference.

ITEM 14. CONTROLS AND PROCEDURES

The certifying officers of the Company are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the Company and have (i) designed such disclosure controls and procedures to ensure that material information relating to the Company, including its consolidated subsidiary, is made known to them by others within those entities, particularly during the period in which this annual report is being prepared; and (ii) evaluated the effectiveness of the Company's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"). Based on this evaluation, the chief executive officer and the chief financial officer of the Company have concluded that the Company's disclosure controls and procedures were effective during the period being reported on in this annual report.

The Company's certifying officers have indicated that there were no significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of their most recent evaluation, including any significant deficiencies or material weaknesses that would require corrective actions.

PART IV

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

(A) THE FOLLOWING DOCUMENTS ARE FILED AS PART OF THIS REPORT:



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(1) FINANCIAL STATEMENTS	PAGE
-----	
Independent Auditors' Report .....	FS-13
Consolidated Balance Sheets at December 31, 2002 and 2001 .....	FS-14
Consolidated Statements of Operations and Comprehensive Income for the years ended December 31, 2002, 2001 and 2000 .....	FS-15
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2002, 2001 and 2000 .....	FS-16
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All schedules omitted are inapplicable or the information required is included in either the consolidated financial statements or the related notes to the consolidated financial statements.

(3) EXHIBITS:

The Exhibits filed with or incorporated by reference into this report are listed in the following Index to Exhibits.

### EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
-----	
3.1	Restated Certificate of Incorporation of Kinark Corporation, as amended on June 6, 1996 (incorporated by reference to Exhibit 3.1 of the Company's Pre-Effective Amendment No. 1 to Registration Statement on Form S-3, Registration No. 333-4937, filed with the Commission on June 7, 1996).
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3.2	Amended and Restated Bylaws of Kinark Corporation (incorporated by reference to Exhibit 3.1 to the Company's Quarterly Report on Form 10-Q dated March 31, 1996).
10.1	Credit Agreement, dated September 24, 1999, between Kinark Corporation, a Delaware corporation, and Bank One, Oklahoma, N.A., National Association, a national banking association.
21.	Subsidiaries of the Registrant.
23.	Independent Auditors' Consent.
24.01	Power of attorney from Linwood J. Bundy.

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- 24.02 Power of attorney from Ronald J. Evans.
- 24.03 Power of attorney from Gilbert L. Klemann, II.
- 24.04 Power of attorney from Patrick J. Lynch.
- 24.05 Power of attorney from Joseph J. Morrow.
- 24.06 Power of attorney from John H. Sununu.
- 24.07 Power of attorney from Mark E. Walker.
- 99 Cautionary Statements by the Company Regarding Forward Looking Statements.
- 99.1 Annual Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(B) REPORTS ON FORM 8-K.

There were no reports filed on Form 8-K for the quarter ended December 31, 2002.

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ANNUAL CERTIFICATION  
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), each of the undersigned officers of Kinark Corporation (the registrant"), does hereby certify, to each officer's knowledge, that:

The Report on Form 10-K for the year ended December 31, 2002 of the registrant fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the registrant.

Dated: March 18, 2003  
-----

/s/ Ronald J. Evans  
-----

Ronald J. Evans  
President and  
Chief Executive Officer

Dated: March 18, 2003  
-----

/s/ Paul R. Chastain  
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Paul R. Chastain  
Vice President and

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Chief Financial Officer  
(Principal Financial Officer)

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SCHEDULE II

KINARK CORPORATION  
VALUATION AND QUALIFYING ACCOUNTS  
YEARS ENDED DECEMBER 31, 2002, 2001 AND 2000

DESCRIPTION	BALANCE AT BEGINNING OF YEAR	ADDITIONS CHARGED TO COSTS AND EXPENSES	DEDUCTIONS	BALANCE AT END OF YEAR
Allowance for doubtful receivables (deducted from accounts receivable)				
2002	\$ 293,000	\$ 184,000	\$ 192,000	\$ 285,000
2001	\$ 321,000	\$ 110,000	\$ 138,000	\$ 293,000
2000	\$ 307,000	\$ 140,000	\$ 126,000	\$ 321,000

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SIGNATURES

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

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KINARK CORPORATION  
(Registrant)

Date: March 18, 2003

By: /s/ Paul R. Chastain

-----  
Paul R. Chastain  
Vice President and  
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on March 13, 2003, by the following persons on behalf of the Registrant and in the capacities indicated.

/s/ Joseph J. Morrow\*

-----  
Joseph J. Morrow, Non-Executive  
Chairman of the Board

/s/ Patrick J. Lynch\*

-----  
Patrick J. Lynch, Director

/s/ Ronald J. Evans\*

-----  
Ronald J. Evans, President and  
Chief Executive Officer (Principal  
Executive Officer), and Director

/s/ John H. Sununu\*

-----  
John H. Sununu, Director

/s/ Paul R. Chastain

-----  
Paul R. Chastain, Vice President,  
Chief Financial Officer, Secretary &  
Director (Principal Financial and  
Accounting Officer)

/s/ Mark E. Walker\*

-----  
Mark E. Walker, Director

/s/ Linwood J. Bundy\*

-----  
Linwood J. Bundy, Director

/s/ Gilbert L. Klemann, II\*

-----  
Gilbert L. Klemann, II, Director

\* Paul R. Chastain, by signing his name hereto, does hereby sign this Annual Report on Form 10-K on behalf of each of the directors and officers of the Registrant after whose typed names asterisks appear pursuant to powers of attorney duly executed by such directors and officers and filed with the Securities and Exchange Commission as exhibits to this report.

By: /s/ Paul R. Chastain

-----  
Paul R. Chastain, Attorney-in-fact

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### SECTION 302 CERTIFICATION

I, the undersigned Ronald J. Evans, President and Chief Executive Officer of Kinark Corporation, and I, the undersigned Paul R. Chastain, Vice President and Chief Financial Officer of Kinark Corporation, hereby certify that:

1. I have reviewed this annual report on Form 10-K of Kinark Corporation;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by annual report;
3. Based on my knowledge, the consolidated financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of annual report (the "Evaluation Date"); and
  - c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors:
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for our registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Dated: March 18, 2003  
-----

/s/ Ronald J. Evans  
-----

Ronald J. Evans  
President and

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Chief Executive Officer

Date: March 18, 2003  
-----

/s/ Paul R. Chastain  
-----

Paul R. Chastain  
Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

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CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Kinark Corporation achieved a strong performance in 2002, recording increased sales and a five-year high in net earnings and diluted earnings per share.

RESULTS OF OPERATIONS

The consolidated statements of operations and comprehensive income provide an

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overview of Kinark's operating results for 2000 through 2002. This section of Management's Discussion and Analysis summarizes the major factors which influenced operating results during the three-year period presented.

During 2002 and the first quarter of 2003, the Company reported a number of developments supporting its strategic program to reposition its galvanizing business in the national market. In the third quarter of 2002, the Company announced the introduction of INFRASHIELD<sup>SM</sup> Coating, a specialty polymer coating system that is designed to be applied over hot dip galvanized material slated for harsh operating conditions. In December 2002, Kinark announced process operations had begun at its newest galvanizing plant in St. Louis, Missouri. A 51-foot kettle at this new facility provides the largest galvanizing capacity in the St. Louis region. The Company expects the new St. Louis plant will provide NAG a strategic base for extending its geographic area of service. In January 2003, Kinark announced installation of a state-of-the-art Spinner line to galvanize small product and threaded material at its Nashville plant.

In the first quarter of 2001, NAG began operations at its newly-constructed galvanizing facility in Houston, Texas. The Houston-Fairbanks plant -- approximately 55,000 square feet under roof -- features a state-of-the-art galvanizing process line supporting a massive 62-foot zinc dipping kettle. The plant started operations supported by a multi-year contract to galvanize large wireless communication and electric transmission poles for a major company. In addition to conventional hot dip galvanizing, Houston-Fairbanks offers its customers added value paint-over-galvanizing in a dedicated facility at this same site. In the first quarter of 2002, NAG temporarily closed its previously existing, smaller Houston plant in response to the economic downturn in the fourth quarter of 2001.

During the second quarter of 2000, Kinark exited the chemical storage and warehousing business with the sale of its wholly-owned subsidiaries, Lake River Corporation and North American Warehousing Company. As a result, these subsidiaries have been classified as discontinued operations for accounting purposes and their revenues and expenses are not included in the results of continuing operations discussed below. These subsidiaries historically accounted for approximately 15% to 20% of the Company's annual consolidated sales. Currently, the Company's sole line of business is hot dip galvanizing and coatings.

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### REVENUES

	2002		2001		2000	
	\$ (000)	%	\$ (000)	%	\$ (000)	%
Galvanizing	\$38,178	100.0%	\$37,219	100.0%	\$36,120	92.9%
Steel Fabrication	--	--	--	--	2,749	7.1%
Total	\$38,178	100.0%	\$37,219	100.0%	\$38,869	100.0%

### 2002 COMPARED WITH 2001

In 2002, total sales from NAG's multi-plant galvanizing business increased for the second consecutive year. Sales of \$38,178,000 rose 2.6%, or \$959,000, over comparable sales of \$37,219,000 in 2001, based on record tonnage up 4.4% from the prior year. In its second full year of operation, tonnage production at NAG's newest and largest facility in Houston increased 52% over 2001, led by

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galvanizing of tubular steel structures for the communications and utility markets. Despite intense competition from other galvanizers in 2002's uncertain economy, NAG's planned marketing and sales efforts achieved a stable average selling price per ton, only slightly below the level reported for 2001. The impact on sales from these slightly lower prices in 2002 was significantly offset by the record tonnage. During 2002, fabricators' demand for galvanizing showed a pattern quite similar to the prior year, with galvanizing sales for the first nine months of 2002 up 4.2%, followed by a sales decline of 2.4% in the fourth quarter, compared to the same periods in 2001.

### 2001 COMPARED WITH 2000

In 2001, galvanizing sales increased 3.0%, or \$1,099,000, over comparable galvanizing sales in 2000, reflecting increased tonnage and improved average selling prices. Total sales for 2001 were \$37,219,000, a decrease of \$1,650,000, or 4.2% from sales of \$38,869,000 in 2000. Measurable sales growth in 2001 from the core galvanizing business was offset by the elimination of steel fabrication services, which NAG discontinued in the third quarter of 2000. Underlying sales growth was led by galvanizing of large communications and electric transmission poles at NAG's new facility in Houston, as well as increased demand for galvanizing structural steel for general merchant market business. NAG's overall galvanizing sales were impacted in the fourth quarter of 2001 by the continuing weakness in the U.S. economy. After a 4.9% increase in galvanizing sales in the first three quarters of 2001, sales declined moderately by 2.2% in the fourth quarter compared to the prior year same quarter.

### COST AND EXPENSES

	2002		2001		2000	
	\$ (000)	% OF SALES	\$ (000)	% of Sales	\$ (000)	% of Sales
Cost of sales	\$26,268	68.8%	\$26,129	70.2%	\$27,662	71.1%
Selling, general & administrative	5,983	15.7%	5,592	15.0%	5,481	14.2%
Depreciation & amortization	3,227	8.4%	3,427	9.2%	2,916	7.5%
Total	\$35,478	92.9%	\$35,148	94.4%	\$36,059	92.8%

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### 2002 COMPARED WITH 2001

Cost of sales for 2002 was \$26,268,000, an increase of less than one percent, compared to cost of sales of \$26,129,000 in 2001. Cost of sales as a percent of sales was 68.8% in 2002 compared 70.2% in 2001. The gross profit margin on sales rose to 31.2% compared to 29.8% in 2001, due primarily to increased sales volume and a lower cost of zinc, the principal material used in galvanizing. Also, nominal improvements in productivity, resulting from efficient usage of zinc and increased tonnage throughput per man-hour, favorably impacted the gross profit margin. Selling, general and administrative (SG&A) expenses were \$5,983,000 and \$5,592,000 in 2002 and 2001, respectively. The increase of \$391,000 in SG&A was the result of increased sales and marketing for revenue growth plans and higher premiums for property and liability insurance coverages. Depreciation and amortization expense of \$3,227,000 in 2002 decreased \$200,000 from \$3,427,000 in 2001. The decrease was primarily due to the adoption on January 1, 2002 of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," which no longer requires amortization of goodwill. Under this standard, goodwill must be reviewed at least annually for impairment. In



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2001, the Company recorded goodwill amortization of \$188,000.

### 2001 COMPARED WITH 2000

Cost of sales in 2001 reflected the effect of operations at the new Houston plant, including the costs of training and startup. Despite the impact of these costs and added pressures from the general business downturn experienced during the fourth quarter of 2001, NAG increased the gross profit margin as a result of lower zinc cost and gains in man-hour production and efficient usage of zinc. The new Houston plant was profitable in its first year of operation and led all of NAG's plants in production volume, output per man-hour and efficiency of zinc usage. Total cost of sales was \$26,129,000 in 2001, or 70.2% of sales, compared to \$27,662,000, or 71.1% of sales in 2000. Selling, general and administrative (SG&A) expenses were \$5,592,000 and \$5,481,000 in 2001 and 2000, respectively. The increase of \$111,000, or 2.0% in SG&A in 2001 was due primarily to the impact of consulting expenses. Depreciation of property, plant and equipment and amortization of goodwill was \$3,427,000 in 2001 compared to \$2,916,000 in 2000. The increase in 2001 depreciation primarily reflects commissioning the new Houston plant into operation during the first quarter of the year.

### CASUALTY LOSSES

NAG recorded casualty losses (net of insurance proceeds) of \$245,000 in the first quarter of 2000 arising from the failure of a galvanizing kettle.

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### OTHER (INCOME) EXPENSE

	2002	2001	2000		
	\$ (000)	\$ (000)	\$ (000)	% OF SALES	% of Sales
Interest	\$ 872	\$ 1,315	\$ 989	2.3%	2.5%
Other	--	258	64	--	0.2%
<b>Total</b>	<b>\$ 872</b>	<b>\$ 1,573</b>	<b>\$ 1,053</b>	<b>2.3%</b>	<b>2.7%</b>

Interest expense decreased to \$872,000 in 2002 from \$1,315,000 in 2001, reflecting lower average borrowings for working capital, lower average interest rates on variable rate debt and an interest rebate of \$200,000 on the Company's industrial revenue bonds. In 2001, interest expense increased to \$1,315,000 from \$989,000 in 2000, primarily due to the interest expense on the Company's 5.25% industrial revenue bonds and the issuance in 2001 of the \$1,000,000 subordinated notes. Interest on the 5.25% industrial revenue bonds was capitalized in 2000 during construction of the new Houston galvanizing facility.

Other expense in 2001 of \$258,000 resulted from losses incurred on two commodity collar contracts which were intended to hedge the price risk associated with fixed price zinc purchase commitments. The Company did not apply hedge accounting to these contracts. The contracts expired in 2001 and were not replaced.

### INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES

In 2002, income from continuing operations before income taxes increased \$1,330,000, or 267%, to \$1,828,000, reflecting increased sales, improvement in

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gross profit margins and lower interest expense, partially offset by higher selling, general and administrative costs.

In 2001, income from continuing operations before income taxes decreased \$1,014,000, or 67.1%, to \$498,000, compared with \$1,512,000 in 2000. Major factors impacting continuing income for 2001 were incremental costs and expenses associated with the new Houston plant, including startup costs, higher depreciation and interest expense, and losses on commodity collar contracts. Gains from the growth in galvanizing sales and improved gross profit margins only partially offset the negative impact of these factors.

### INCOME TAXES

The Company's effective income tax rates for 2002, 2001 and 2000 were 39.3%, 42.0% and 42.0%, respectively. These rates are higher than federal statutory rates primarily due to state income taxes and non-deductible amortization of goodwill in 2001 and 2000.

### DISCONTINUED OPERATIONS

During the second quarter of 2000, the Company sold its Lake River Corporation ("Lake River") and North American Warehousing Company ("NAW") subsidiaries, comprising the Company's bulk liquids terminal and public warehousing businesses. On June 26, 2000, the Company sold all of the common stock of these subsidiaries to members of the existing management of Lake River and NAW, for \$371,000 in cash.

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These transactions resulted in a net loss on the disposal of business segments of approximately \$1,246,000 and \$417,000 for Lake River and NAW, respectively, in 2000. The Lake River and NAW segments are accounted for as discontinued operations, and accordingly, amounts in the financial statements and related notes for all periods prior to 2000 have been restated to reflect the segments as discontinued operations. (See Note 1 to Consolidated Financial Statements.)

### NET EARNINGS

Net earnings for 2002 were \$1,110,000, up 284% from \$289,000 in 2001. Diluted earnings per common share were \$.15 in 2002, a five-year high, up from \$.04 in 2001.

### CASH FLOWS

Kinark generated operating cash flow from continuing operations of \$4,171,000 in 2002, a decrease of 10.2% compared to 2001. Decreased cash flow from continuing operations in 2002 resulted primarily from the increase in zinc inventory for a new galvanizing facility in St. Louis, Missouri, which was partially offset by an increase in net income. Operating cash flows were \$4,643,000 and \$2,154,000 in 2001 and 2000, respectively.

Cash flow provided from continuing operations increased 48.3% to \$4,643,000 in 2001 from \$3,129,000 in 2000. Increased cash flows from continuing operations in 2001 were impacted by decreases in working capital primarily the result of improvement in the turnover of trade receivables and zinc inventory.

Capital expenditures were \$5,880,000 in 2002, \$3,297,000 in 2001 and \$9,463,000 in 2000. In addition to budgeted capital expenditures to upgrade existing galvanizing facilities, NAG completed construction of new galvanizing facilities in St. Louis, Missouri in 2002 and in Houston, Texas in 2001. In 2002 and 2001, the new Houston plant ranked first in tonnage and sales among all of NAG's plants. Capital expenditures for 2003 are expected to approximate \$2,300,000.

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In 2002, total debt (current and long-term obligations) increased \$859,000 to \$18,600,000. Financing activities in 2002 included payments of \$587,000 to a bond sinking fund, net payments of \$1,321,000 on bank debt and other obligations and proceeds of \$2,767,000 from an advancing construction loan provided by a bank (See Note 3 to Consolidated Financial Statements) for the construction of the new galvanizing plant in St. Louis. In 2002, the Company issued 56,094 shares of its common stock from treasury in lieu of cash for payment of board fees to its directors.

In 2001, total debt decreased \$1,747,000 to \$17,741,000, reflecting payments of \$562,000 to a bond sinking fund, net payments of \$2,085,000 on bank debt and other obligations and proceeds of \$900,000 (net present value) from issuance of subordinated debt with warrants (See Note 5 to Consolidated Financial Statements). In 2001, the Company purchased 50,000 shares of its common stock for treasury at a cost of \$49,000. Total debt increased \$8,367,000 to \$19,471,000 in 2000, which reflected financing for the new galvanizing plant in Houston. During the first quarter of 2000, the Company issued \$9,050,000 of industrial revenue bonds (See Note 4 to Consolidated Financial Statements) for the construction of the new galvanizing facility. In 2000, the Company paid down its bank debt and other obligations a total of \$683,000.

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### LIQUIDITY AND FINANCIAL CONDITION

In November 2001, the Company amended a three-year bank credit agreement that was scheduled to expire in September 2002. The amended agreement provides (i) a \$9,000,000 maximum revolving line of credit for working capital and general corporate purposes, (ii) a \$3,692,595 term loan and (iii) a \$3,000,000 advancing construction loan facility. In September 2002, the maturity of the revolving loan facility was extended to June 30, 2004 to coincide with the maturities of the term and advancing construction loans.

Term loan payments are based on a three-year amortization schedule with equal monthly payments of principal and interest, and the loan may be prepaid without penalty. The revolving line of credit may be paid down without penalty, or additional funds may be borrowed up to the maximum line of credit. Payments on the advancing construction loan are based on a 108-month amortization schedule, plus interest, commencing March 1, 2003, and the loan may be prepaid without penalty.

At December 31, 2002, \$9,742,000 was outstanding under the bank credit agreement, and \$400,000 was reserved for outstanding irrevocable letters of credit for workers' compensation insurance coverage. The Company's commitment to repay \$9,050,000 of tax-exempt adjustable rate industrial revenue bonds issued in 2000 is fully secured by an irrevocable letter of credit issued by Bank One, Oklahoma, N.A. in favor of Bank One Trust Company (See Note 4 to Consolidated Financial Statements). At December 31, 2002, the Company had additional borrowing capacity of \$1,421,000 net of outstanding letters of credit, under its revolving line of credit based on the borrowing base calculated under the agreement. The Company believes that its ability to continue to generate cash from operations and its bank credit facilities will provide adequate capital resources and liquidity to support operations and capital expenditures plans for 2003.

The following table summarizes future payments for the Company's contractual obligations at December 31, 2002:

(DOLLARS IN THOUSANDS)	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	AFTER 5 YEARS
=====	=====	=====	=====	=====	=====

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Long-term debt	\$ 18,663	\$ 1,910	\$ 11,535	\$ 1,577	\$ 3,641
Operating leases	2,873	673	1,493	416	291
Fixed price zinc purchase commitments	4,014	4,014	--	--	--
Total	\$ 25,550	\$ 6,597	\$ 13,028	\$ 1,993	\$ 3,932

The Company's total off-balance sheet contractual obligations of \$6,887,000 at December 31, 2002, consist of \$2,873,000 for long-term operating leases for three galvanizing facilities and galvanizing equipment and \$4,014,000 for zinc purchase commitments. The various leases for galvanizing facilities, including option renewals, expire from 2015 to 2017. A lease for galvanizing equipment expires in 2007. NAG periodically enters into fixed price purchase commitments with domestic and foreign zinc producers to purchase a portion of its requirements for its hot dip galvanizing operations; commitments for the future delivery of zinc are typically up to one year.

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The following table summarizes the Company's contingent commitments at December 31, 2002:

(DOLLARS IN THOUSANDS)	TOTAL	LESS THAN 1 YEAR	1-3 YEARS	4-5 YEARS	OVER 5 YEARS
Lines of credit	\$ 1,421	\$ --	\$ 1,421	\$ --	\$ --
Letters of credit*	8,300	1,018	2,080	1573	3,629
Total	\$ 9,721	\$ 1,018	\$ 3,501	\$ 1,573	\$ 3,629

\* Amount includes letter of credit relating to debt outstanding under the industrial revenue bond agreement (See Note 4 to Consolidated Financial Statements).

### ENVIRONMENTAL MATTERS

The Company's facilities are subject to extensive environmental legislation and regulations affecting their operations and the discharge of wastes. The cost of compliance with such regulations was approximately \$1,168,000, \$988,000 and \$965,000 in 2002, 2001 and 2000, respectively, for the disposal and recycling of wastes generated by the galvanizing operations.

As previously reported, NAG was notified in 1997 by the Illinois Environmental Protection Agency ("IEPA") that it was a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Information System ("CERCLIS") in connection with cleanup of an abandoned site formerly owned by Sandoval Zinc Co. The IEPA notice includes NAG as one of 59 organizations which arranged for the treatment and disposal of hazardous substances at Sandoval. Based on current information and the preliminary state of investigation, NAG's share of any probable future costs cannot be estimated at this time.

The Company is committed to complying with all federal, state and local environmental laws and regulations and using its best management practices to anticipate and satisfy future requirements. As is typical in the galvanizing business, the Company will have additional environmental compliance costs associated with past, present, and future operations. Management is committed to discovering and eliminating environmental issues as they arise. Because of the frequent changes in environmental technology, laws and regulations management cannot reasonably quantify the Company's potential future costs in this area.

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### CRITICAL ACCOUNTING POLICIES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires that management apply accounting policies and make estimates and assumptions that affect results of operations and the reported amounts of assets and liabilities. The following areas are those that management believes are important to the financial statements because they require significant judgment and estimation.

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**REVENUE RECOGNITION.** The Company generates revenue by providing galvanizing and other coating services to customers' products. Revenue is recognized when the galvanizing process is completed. Freight billed to customers is recorded as revenue.

**INVENTORIES.** Inventories are stated at the lower of cost (LIFO basis) or market. Since substantially all of the Company's inventory is raw zinc used in the galvanizing of customers' products, market value is based on an estimate of the value added to the cost of raw zinc as a result of the galvanizing service.

**SELF-INSURANCE RESERVES.** The reserves for the self-insured portion of workers compensation and health insurance coverage is based on historical data and current trends. Estimates for claims incurred and incurred but not reported claims are included in the reserves. These estimates may be subject to adjustment if the Company's actual claims are significantly different than its historical experience. The Company has obtained insurance coverage for medical claims exceeding \$60,000 and workers' compensation claims exceeding \$125,000 per occurrence, respectively, and has implemented safety training and other programs to reduce workplace accidents.

**IMPAIRMENT OF LONG-LIVED ASSETS.** The Company reviews long-lived assets for impairment using forecasts of future cash flows to be generated by those assets. These cash flow forecasts are based upon expected tonnage to be galvanized and the margin to be earned by providing that service to customers. These assumptions are susceptible to the actions of competitors and changes in economic conditions in the industries and geographic markets the Company serves.

**ENVIRONMENTAL.** The Company expenses or capitalizes, where appropriate, environmental expenditures that relate to current operations as they are incurred. Such expenditures are expenses when they are attributable to past operations and are not expected to contribute to current or future revenue generation. The Company records liabilities when remediation or other environmental assessment or clean-up efforts are probable and the cost can be reasonably estimated.

**GOODWILL IMPAIRMENT.** On January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets." The Company assessed initial impairment under the transition rules of SFAS 142 in the second quarter of 2002 and determined that goodwill was not impaired at January 1, 2002. Management selected May 31 as the date of its annual goodwill impairment test. Based upon the impairment test performed at May 31, 2002, management determined that goodwill was not impaired.

### NEW ACCOUNTING STANDARDS

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143") which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development

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and/or the normal operation of a long-lived asset, except for certain obligations of lessees. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The adoption of this standard had no effect on the Company's consolidated financial position or results of operations.

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In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") which addresses financial accounting and reporting for the impairment or disposal of long-lived assets by requiring that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and by broadening the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The adoption of this standard had no impact on the Company's consolidated financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 62, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS 145 will require gains and losses on extinguishments of debt to be classified as income or loss from continuing operations rather than as extraordinary items as previously required under SFAS 4. SFAS 145 also amends SFAS 13 to require certain modifications to capital leases be treated as a sale-leaseback and modifies the accounting for sub-leases when the original lessee remains a secondary obligor or guarantor. Accordingly, most gains or losses from extinguishments of debt for fiscal years beginning after May 15, 2002 shall not be reported as extraordinary. Upon adoption, any gain or loss on extinguishment of debt previously classified as an extraordinary item in prior periods presented must be reclassified to conform with the provisions of SFAS 145. SFAS 145's amendment and technical correction to SFAS 13 is effective for all transactions occurring after May 15, 2002. Management does not expect a material impact on the financial statements upon adoption of this statement.

In July 2002, FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities." The statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when a liability is incurred. Under Issue 94-3, a liability for an exit cost as generally defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. Management does not expect a material impact on the financial statements upon adoption of this statement.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation elaborates on the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligations it has undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of the interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002.

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In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123, "Accounting for Stock Based Compensation" to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company does not anticipate that the adoption of SFAS No. 148 will have a material impact on its consolidated financial position, results of operations or financial statement disclosures.

### QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Kinark's operations include managing market risks related to changes in interest rates and zinc commodity prices.

**INTEREST RATE RISK.** Kinark is exposed to financial market risk related to changes in interest rates. Changing interest rates will affect interest paid on Kinark's variable rate debt. Variable rate debt aggregating \$9,742,000 and \$8,297,000 was outstanding under the credit agreement at December 31, 2002 and 2001, respectively, with effective rates of 4.50% and 4.75%, respectively. Amounts outstanding under the industrial revenue bond agreement were \$7,900,000 and \$8,487,000 at December 31, 2002 and 2001, respectively, with an effective rate of 5.25% (see Note 4 to Condensed Consolidated Financial Statements). In addition, the Company's fixed rate debt consisting of \$1,000,000 of 10% subordinated promissory notes was outstanding at December 31, 2002. The borrowings under all of the Company's debt obligations at December 31, 2002 are due as follows: \$1,910,000 in 2003; \$9,108,000 in 2004; \$694,000 in 2005 and \$6,951,000 in years 2006 through 2013. Each increase of 10 basis points in the effective interest rate would result in an annual increase in interest charges on variable rate debt of approximately \$17,600 based on December 31, 2002 outstanding borrowings. The actual effect of changes in interest rates is dependent on actual amounts outstanding under the various loan agreements. The Company monitors interest rates and has sufficient flexibility to renegotiate the loan agreement, without penalty, in the event market conditions and interest rates change.

**ZINC PRICE RISK.** NAG periodically enters into fixed price purchase commitments with domestic and foreign zinc producers to purchase a portion of its zinc requirements for its hot dip galvanizing operations. Commitments for the future delivery of zinc, typically up to one (1) year, reflect rates quoted on the London Metals Exchange. At December 31, 2002 and 2001, the aggregate fixed price commitments for the procurement of zinc were approximately \$4,000,000 and \$6,800,000, respectively. With respect to the zinc fixed price purchase commitments, a hypothetical decrease of 10% in the market price of zinc from the December, 2002 and 2001 levels represented potential lost gross margin opportunities of approximately \$400,000 and \$680,000, respectively; however, lower zinc prices potentially could benefit future earnings for the zinc purchases that are made at the lower market price. During the third quarter of

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2001, two one-year commodity collar contracts which were intended to hedge the price risk associated with fixed price zinc purchase commitments expired, and were not renewed.

The Company's financial strategy includes evaluating the selective use of derivative financial instruments to manage zinc and interest costs. As part of its inventory management strategy, the Company expects to continue evaluating hedging instruments to minimize the impact of zinc price fluctuations.

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MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

Kinark Corporation's management is responsible for the integrity and accuracy of the accompanying consolidated financial statements. Management believes that the consolidated financial statements for the three years ended December 31, 2002 have been prepared in conformity with accounting principles, appropriate in the circumstances, generally accepted in the United States. In preparing the consolidated financial statements, management makes informed judgments and estimates where necessary to reflect the expected effects of events and transactions that have not been completed. The Company's disclosure controls, including operating procedures and guidelines, ensure that material information required to be disclosed is appropriately and timely recorded and communicated to management.

Management relies on a system of internal operating procedures and accounting controls that allows it to meet its responsibility for the reliability of the consolidated financial statements. This system provides reasonable assurance that the Company's physical and intellectual assets are safeguarded and transactions are recorded and processed in accordance with management's authorization that permits the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States. Management believes that the Company's system of internal operating procedures and accounting controls provide reasonable assurance that errors that could be material to the consolidated financial statements are prevented or would be detected within a timely period.

The Audit Committee of the Board of Directors, composed of three Independent Directors, is responsible for overseeing the Company's financial reporting process. The Audit Committee regularly meets with executive and financial management to review financial reports and monitor matters that could be material to the consolidated financial statements. The Audit Committee also meets several times a year with the independent auditors who have free access to the Audit Committee and the Board of Directors to discuss the quality and acceptability of the Company's financial reporting, internal controls and matters related to corporate governance.



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The independent auditors are engaged to express an opinion on the Company's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America. Their reports included herein on page FS-13.

Ronald J. Evans  
President and  
Chief Executive Officer

Paul R. Chastain  
Vice President and  
Chief Financial Officer

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### INDEPENDENT AUDITORS' REPORT

TO THE BOARD OF DIRECTORS AND STOCKHOLDERS OF KINARK CORPORATION:

We have audited the accompanying consolidated balance sheets of Kinark Corporation and subsidiary as of December 31, 2002 and 2001, and the related consolidated statements of operations and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2002. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and the financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and the financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Kinark Corporation and subsidiary at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 2 to the consolidated financial statements, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," and ceased amortizing goodwill effective January 1, 2002.

Deloitte & Touche LLP  
Tulsa, Oklahoma  
February 7, 2003

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CONSOLIDATED BALANCE SHEETS

	December 31	
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)	2002	2001
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 3	\$ 853
Trade receivables, less allowances of \$285 for 2002 and \$293 for 2001	4,529	4,821
Inventories	6,154	5,399
Prepaid expenses and other assets	618	291
Deferred tax asset, net	444	583
<b>TOTAL CURRENT ASSETS</b>	<b>11,748</b>	<b>11,947</b>
<b>PROPERTY, PLANT AND EQUIPMENT, AT COST</b>		
Land	1,714	1,714
Galvanizing plants and equipment	40,099	36,258
Other	0	70
	41,813	38,042
Less: Allowance for depreciation	16,203	15,234
Construction in progress	303	459
<b>TOTAL PROPERTY, PLANT AND EQUIPMENT, NET</b>	<b>25,913</b>	<b>23,267</b>
GOODWILL, NET	3,389	3,389
OTHER ASSETS	381	489
<b>TOTAL ASSETS</b>	<b>\$ 41,431</b>	<b>\$ 39,092</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Current maturities of long-term obligations	\$ 1,283	\$ 976
Current portion of bonds payable	617	587
Trade accounts payable	1,025	1,123
Accrued payroll and employee benefits	846	889
Other taxes	301	317
Other accrued liabilities	644	449
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,716</b>	<b>4,341</b>
DEFERRED TAX LIABILITY, NET	1,187	819
PENSION AND RELATED LIABILITIES	--	101
LONG-TERM OBLIGATIONS	8,480	7,361
BONDS PAYABLE	7,283	7,900
SUBORDINATED NOTES PAYABLE	937	917
<b>TOTAL LIABILITIES</b>	<b>22,603</b>	<b>21,439</b>
<b>COMMITMENTS AND CONTINGENCIES (NOTES 6 AND 7)</b>		
<b>STOCKHOLDERS' EQUITY</b>		
Common stock - \$.10 par value:		
authorized - 18,000,000 shares		
issued - 8,209,925 shares in 2002 and 2001	819	819

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Additional paid-in capital	17,464	17,464
Retained earnings	6,509	5,399
Common shares in treasury at cost:		
1,473,006 in 2002 and 1,529,100 in 2001	(5,964)	(6,029)
-----		
TOTAL STOCKHOLDERS' EQUITY	18,828	17,653
-----		
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 41,431	\$ 39,092
=====		

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)	Years Ended December 31		
	2002	2001	2000
=====			
SALES	\$ 38,178	\$ 37,219	\$ 38,869
Cost of sales	26,268	26,129	27,662
Selling, general and administrative expenses	5,983	5,592	5,481
Depreciation and amortization	3,227	3,427	2,916
-----			
TOTAL COSTS AND EXPENSES	35,478	35,148	36,059
-----			
Operating Income before Casualty Loss	2,700	2,071	2,810
Casualty Loss	--	--	(245)
-----			
OPERATING INCOME	2,700	2,071	2,565
Interest expense, net	872	1,315	989
Other (income) expense, net	--	258	64
-----			
Income from Continuing Operations before Income Taxes	1,828	498	1,512
-----			
Income tax expense	718	209	635
-----			
INCOME FROM CONTINUING OPERATIONS	1,110	289	877
Income (Loss) from Discontinued Operations, net of income taxes	--	--	(454)
Loss on Disposal of Discontinued Operations	--	--	(1,663)
-----			
NET INCOME (LOSS)	1,110	289	(1,240)
-----			
OTHER COMPREHENSIVE INCOME (LOSS)			
Cash flow hedges:			
Cumulative effect, accounting for derivatives, net of related income taxes of \$48	--	(65)	--
Less: reclassification adjustment for derivative losses included in net income, net of related income taxes of \$48	--	65	--
Minimum pension liability adjustment	--	--	--
-----			
OTHER COMPREHENSIVE INCOME	--	--	--
-----			

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COMPREHENSIVE INCOME (LOSS)	\$	1,110	\$	289	\$	(1,240)
=====						
NET INCOME (LOSS) PER COMMON SHARE						
Continuing Operations:						
Basic	\$	.17	\$	.04	\$	.13
Diluted		.15		.04		.13
Discontinued Operations:						
Basic and Diluted	\$	--	\$	--	\$	(.32)
Net Income (Loss):						
Basic	\$	.17	\$	.04	\$	(.19)
Diluted	\$	.15	\$	.04	\$	(.19)

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(DOLLARS IN THOUSANDS EXCEPT SHARE AMOUNTS)

	SHARES OUTSTANDING	COMMON STOCK (\$.10 PAR VALUE)	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS
=====				
JANUARY 1, 2000	6,712,219	\$ 819	\$ 17,364	\$ 6,350
Net loss	--	--	--	(1,240)
Treasury stock purchases	(10)	--	--	--
-----				
DECEMBER 31, 2000	6,712,209	819	17,364	5,110
Net income	--	--	--	289
Treasury stock purchases	(50,000)	--	--	--
Common stock warrants issued	--	--	100	--
Shares outstanding adjustment	18,616	--	--	--
-----				
DECEMBER 31, 2001	6,680,825	819	17,464	5,399
Net income	--	--	--	1,110
Treasury stock issued	56,094	--	--	--
-----				
DECEMBER 31, 2002	6,736,919	\$ 819	\$ 17,464	\$ 6,509
=====				

See notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS

(DOLLARS IN THOUSANDS)	YEARS ENDED DECEMBER 31		
	2002	2001	2000
<b>OPERATING ACTIVITIES</b>			
Net income (loss)	\$ 1,110	\$ 289	\$ (1,240)
Loss from discontinued operations	--	--	2,117
Depreciation and amortization	3,227	3,427	2,916
Deferred income taxes	507	109	200
Gain (loss) on disposal of assets	7	(11)	(53)
Non-cash directors' fees	65	--	--
Changes in assets and liabilities:			
Accounts receivable, net	292	600	(104)
Inventories and other assets	(974)	493	(865)
Accounts payable, accrued liabilities and other	(63)	(264)	158
Net cash provided by continuing operations	4,171	4,643	3,129
Net cash used in discontinued operations	--	--	(975)
<b>CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>4,171</b>	<b>4,643</b>	<b>2,154</b>
<b>INVESTING ACTIVITIES</b>			
Net proceeds from sale of discontinued operations	--	--	371
Capital expenditures	(5,880)	(3,297)	(9,463)
Proceeds from sale of assets	--	3	259
Net cash used in continuing operations	(5,880)	(3,294)	(8,833)
Net cash used in discontinued operations	--	--	(254)
<b>CASH USED IN INVESTING ACTIVITIES</b>	<b>(5,880)</b>	<b>(3,294)</b>	<b>(9,087)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from subordinated debt	--	900	--
Proceeds from stock warrants	--	100	--
Proceeds from tax exempt bonds	--	--	9,050
Tax exempt bond funds held by bond trustee	--	1,219	(1,219)
Deferred financing	--	(76)	(321)
Purchase of treasury stock	--	(49)	--
Payment on bonds	(587)	(562)	--
Proceeds from long-term obligations	18,240	16,425	16,534
Payment on long-term obligations	(16,794)	(18,510)	(17,217)
Net cash (used in) provided by continuing operations	859	(553)	6,827
Net cash used in discontinued operations	--	--	(5)
<b>CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES</b>	<b>859</b>	<b>(553)</b>	<b>6,822</b>
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(850)</b>	<b>796</b>	<b>(111)</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>853</b>	<b>57</b>	<b>168</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<b>\$ 3</b>	<b>\$ 853</b>	<b>\$ 57</b>

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### CASH PAID DURING THE YEAR FOR:

Interest	\$	980	\$	1,292	\$	1,082
Income taxes	\$	150	\$	412	\$	118

See notes to consolidated financial statements.

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2002, 2001, and 2000

#### DESCRIPTION OF BUSINESS

Kinark Corporation ("Kinark" and the "Company") is engaged in hot dip galvanizing and coatings for corrosion protection of fabricated steel products through its wholly owned subsidiary, North American Galvanizing Company ("NAG"). Subsequent to the sale of the subsidiaries discussed in Note 1, galvanizing operations represents all of Kinark's business operations. NAG provides metals corrosion protection with eleven regionally located galvanizing plants. The Company grants unsecured credit to its customers on terms standard for this industry, typically net 30 to 45 days.

#### (1) DISCONTINUED OPERATIONS

On June 26, 2000, the Company sold its Lake River Corporation ("Lake River") and North American Warehousing Company ("NAW") subsidiaries, comprising the Company's bulk liquids terminal and public warehousing businesses for \$371,000 cash.

These transactions resulted in a net loss on the disposal of business segments of approximately \$1,246,000 and \$417,000 for Lake River and NAW, respectively. The Lake River and NAW segments are accounted for as discontinued operations, and accordingly, amounts in the financial statements and related notes for all periods shown have been re-stated to reflect these segments as discontinued operations.

Combined sales and loss from operations for Lake River and NAW for the year 2000 (through June 26, 2000) were \$3,403,000 and \$454,000, net of taxes of \$268,000, respectively.

#### (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**PRINCIPLES OF CONSOLIDATION.** The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. All intercompany transactions are eliminated in consolidation.

**ESTIMATES.** The preparation of financial statements in conformity with accounting principles generally accepted in the United State of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the balance sheet dates and the reported amounts of revenues and expenses for each of the years. Actual results will be determined based on the outcome of future events and could differ significantly from the estimates.

**CASH AND CASH EQUIVALENTS.** Cash and cash equivalents include interest bearing deposits with original maturities of three months or less.

**INVENTORIES.** Inventories consist of raw zinc "pigs," molten zinc in galvanizing kettles and other chemicals and materials used in the galvanizing process. Inventories are stated at the lower of cost or market with market value based on estimated realizable value from the galvanizing process. Zinc cost is determined on a last-in first-out (LIFO) basis. Other inventories are valued primarily on an average cost basis. Inventories consist of the following:

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(DOLLARS IN THOUSANDS)	2002	2001
Zinc	\$ 5,929	\$ 5,138
Other	225	261
	\$ 6,154	\$ 5,399

The approximate raw zinc replacement cost based on year-end market prices was \$3,668,000 and \$3,190,000 at December 31, 2002 and 2001, respectively. Management estimates the cost of zinc inventories will be recovered from revenue generated by its galvanizing services in the normal course of business. In 2001, inventory quantities were reduced resulting in liquidation of LIFO inventory layers which reduced net income by \$17,000.

GOODWILL. Goodwill represents the excess of purchase price over the fair value of net assets acquired in business combinations. On January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" ("SFAS No. 142"), although certain provisions of SFAS No. 142 were applicable to goodwill and other intangible assets acquired in transactions completed after June 30, 2001. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets and requires that goodwill and intangible assets with an indefinite life no longer be amortized but instead be reviewed, at least annually, for impairment. The Company assessed initial impairment under the transition rules of SFAS 142 in the second quarter of 2002 and determined that goodwill was not impaired at January 1, 2002. Management selected May 31 as the date of its annual goodwill impairment test. Based upon the impairment test performed at May 31, 2002, management determined that goodwill was not impaired.

The following pro forma results of operations reflect elimination of goodwill amortization included in the three years ended December 31, 2002, as if SFAS No. 142 had been in effect at that time (Dollars in thousands except per share amounts).

	2002	2001	2000
Reported net income (loss)	\$ 1,110	\$ 289	\$ (1,240)
Add back: Goodwill amortization	--	188	188
Adjusted net income (loss)	\$ 1,110	\$ 477	\$ (1,052)

Earnings per share:

Reported net income per share			
Basic	\$ 0.17	\$ 0.04	\$ (.19)
Diluted	0.15	0.04	(.19)
Goodwill amortization			
Basic	\$ --	\$ 0.03	\$ 0.03
Diluted	--	0.02	0.03
Adjusted net income per share			
Basic	\$ 0.17	\$ 0.07	\$ (.16)
Diluted	0.15	0.06	(.16)

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DEPRECIATION AND AMORTIZATION. Plant and equipment, including assets under

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capital leases, are depreciated on the straight-line basis over their estimated useful lives, generally at rates of 2% to 6% for buildings and 10% to 20% for equipment, furnishings, and fixtures. In 2001 the Company adopted the units of production method of depreciation, based on projected total tonnage to be processed over the estimated life of the respective equipment, for new galvanizing plants or for significant expansions of existing plants.

During 2002, the Company removed fully depreciated assets totaling \$2,198,000 from the accounting records.

**ENVIRONMENTAL EXPENDITURES.** The Company expenses or capitalizes, where appropriate, environmental expenditures that relate to current operations as they are incurred. Such expenditures are expensed when they are attributable to past operations and are not expected to contribute to current or future revenue generation. The Company records liabilities when remediation or other environmental assessment or clean-up efforts are probable and the cost can be reasonably estimated.

**LONG-LIVED ASSETS.** Long-lived assets and certain intangibles to be held and used or disposed of are reviewed for impairment on an annual basis or when events or circumstances indicate that such impairment may have occurred. The Company has determined that no impairment loss need be recognized for the years ended December 31, 2002, 2001 or 2000.

**SELF-INSURANCE.** The Company is self-insured for workers' compensation and certain health care claims for its active employees. The Company carries excess insurance providing coverage for medical claims exceeding \$60,000 and workers' compensation claims exceeding \$125,000 per occurrence, respectively. The reserves for workers' compensation benefits and health care claims represent estimates for reported claims and for claims incurred but not reported using loss development factors. Such estimates are generally based on historical trends and risk assessment methodologies; however, the actual results may vary from these estimates since the evaluation of losses is inherently subjective and susceptible to significant changing factors.

**REVENUE RECOGNITION.** The Company generated revenues by providing galvanizing and other coating services to customers' products. Revenue is recognized when the galvanizing process is completed. Freight billed to customers is recorded as revenue.

**DERIVATIVE FINANCIAL INSTRUMENTS.** The Company periodically utilizes commodity collar contracts as derivative instruments which are intended to offset the impact of potential fluctuations in the market price of zinc. The Company had no derivative instruments outstanding at December 31, 2002 and 2001, and did not utilize derivatives in the year ended December 31, 2002.

On January 1, 2001 the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"). The statement, as amended, establishes accounting and reporting standards for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives, at fair value, as either assets or liabilities in the balance sheet with an offset either to shareholder's equity and comprehensive income or income depending upon the classification of the derivative. The derivative instruments identified at January 1, 2001, under the provisions of SFAS No. 133 had been previously designated in hedging relationships that addressed the variable cash flow

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exposure of forecasted purchases of zinc. Under the transition provisions of SFAS No. 133, on January 1, 2001 the Company recorded an after-tax,



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cumulative-effect-type transition charge of \$65,000 to accumulated other comprehensive income related to these derivatives. The transition adjustment was charged to other expense during 2001 as the derivatives expired. The Company did not apply subsequent hedge accounting for the derivatives existing at January 1, 2001. Accordingly, changes in the fair value of these derivatives subsequent to January 1, 2001 were recorded in other (income) expense.

STOCK OPTIONS. The Company accounts for its stock option plans in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", under which no compensation cost has been recognized for stock option awards. Had compensation cost for the Company's stock option plans been determined according to the methodology of Statement of Financial Accounting Standard No.123, "Accounting for Stock Based Compensation" ("SFAS No. 123"), the Company's pro forma net earnings (loss) and basic and diluted earnings (loss) per share for 2002, 2001 and 2000, would have been as follows:

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	Year Ended December 31		
	2002	2001	2000
Net Income (Loss), as reported	\$ 1,110	\$ 289	\$ (1,240)
Deduct: Total stock-based employee compensation expense determined under fair value based methods, net of tax	\$ (11)	\$ (12)	\$ (25)
Pro forma net income (loss)	\$ 1,099	\$ 277	\$ (1,265)
Earnings per share:			
Basic - as reported	\$ 0.17	\$ 0.04	\$ (0.19)
Basic - pro forma	\$ 0.16	\$ 0.04	\$ (0.19)
Diluted - as reported	\$ 0.15	\$ 0.04	\$ (0.19)
Diluted - pro forma	\$ 0.16	\$ 0.04	\$ (0.19)

The fair value of options granted under the Company's stock option plans was estimated using the Black-Scholes option-pricing model with the following assumptions used:

	Year Ended December 31		
	2002	2001	2000
Volatility	66%	66%	66%
Discount Rate	5%	5%	5%
Dividend Yield	0%	0%	0%
Fair Value	\$ 0.68	\$ 0.63	\$ 0.67

INCOME TAXES. Net deferred income tax assets and liabilities on the consolidated balance sheet reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes and the benefit of net operating loss and other tax credit carry-forwards. Valuation allowances are established

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against deferred tax assets to the extent management believes it is more likely

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than not that the assets will not be realized. No valuation allowance was considered necessary at December 31, 2002 and 2001.

NEW ACCOUNTING STANDARDS. In June 2001, the FASB issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS No. 143") which addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. It applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development and/or the normal operation of a long-lived asset, except for certain obligations of lessees. This statement is effective for financial statements issued for fiscal years beginning after June 15, 2002. The adoption of this Standard had no effect on the Company's consolidated financial position or results of operations.

In August 2001, the FASB issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144") which addresses financial accounting and reporting for the impairment or disposal of long-lived assets by requiring that one accounting model be used for long-lived assets to be disposed of by sale, whether previously held and used or newly acquired, and by broadening the presentation of discontinued operations to include more disposal transactions. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001, and interim periods within those fiscal years. The adoption of this standard had no impact on the Company's consolidated financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 62, Amendment of FASB Statement No. 13, and Technical Corrections." SFAS 145 will require gains and losses on extinguishments of debt to be classified as income or loss from continuing operations rather than as extraordinary items as previously required under SFAS 4. SFAS 145 also amends SFAS 13 to require certain modifications to capital leases be treated as a sale-leaseback and modifies the accounting for sub-leases when the original lessee remains a secondary obligor or guarantor. Accordingly, most gains or losses from extinguishments of debt for fiscal years beginning after May 15, 2002 shall not be reported as extraordinary. Upon adoption, any gain or loss on extinguishment of debt previously classified as an extraordinary item in prior periods presented must be reclassified to conform with the provisions of SFAS 145. SFAS 145's amendment and technical correction to SFAS 13 is effective for all transactions occurring after May 15, 2002. Management does not expect a material impact on the financial statements upon adoption of this statement.

In July 2002, FASB issued SFAS 146, "Accounting for Costs Associated with Exit or Disposal Activities." The statement addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." SFAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when a liability is incurred. Under Issue 94-3, a liability for an exit cost as generally defined in Issue 94-3 was recognized at the date of an entity's commitment to an exit plan. The provisions of this Statement are effective for exit or disposal activities that are initiated after December 31, 2002. Management does not expect a material impact on the financial statements upon adoption of this statement.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of

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Indebtedness of Others." This interpretation elaborates on the disclosures to be

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made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued. It also requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligations it has undertaken in issuing the guarantee. The initial recognition and initial measurement provisions of the interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim or annual periods ending after December 15, 2002.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123." SFAS No. 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. SFAS No. 148 also amends the disclosure requirements of SFAS No. 123, "Accounting for Stock Based Compensation" to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company does not anticipate that the adoption of SFAS No. 148 will have a material impact on its consolidated financial position, results of operations or financial statement disclosures.

RECLASSIFICATION. Certain reclassifications have been made to prior periods to conform to the 2002 presentation.

### (3) LONG-TERM OBLIGATIONS

	December 31	
(DOLLARS IN THOUSANDS)	2002	2001
Revolving line of credit	\$ 4,390	\$ 4,759
Term loan	2,584	3,538
Construction loan	2,768	--
9.5% note due 2015	21	22
Capital leases	--	18
	9,763	8,337
Less current portion	(1,283)	(976)
	\$ 8,480	\$ 7,361

LONG-TERM DEBT. In November 2001, the Company amended a three-year bank credit agreement that was scheduled to expire in September 2002. The amended bank credit agreement provides a (i) a \$9,000,000 maximum revolving line of credit for working capital and general corporate purposes, (ii) a \$3,692,595 term loan and (iii) a \$3,000,000 advancing construction loan facility. In September 2002, the maturity of the revolving line facility was extended to June 30, 2004 to coincide with the maturities of the term and advancing construction loans.

At the December 31, 2002, the Company had additional borrowing capacity of \$1,421,000, net of outstanding irrevocable letters of credit, under the bank revolving line of credit based on the borrowing base calculated under the agreement. At December 31, 2002, the Company had outstanding irrevocable letters of credit for workers' compensation claims totaling \$400,000.

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Substantially all of the Company's accounts receivable, inventories, fixed assets and the common stock of its subsidiary are pledged as collateral under the agreement, and the credit agreement is secured by a full and unconditional guaranty from NAG. Amounts borrowed under the agreement bear interest at the prime rate of Bank One, Oklahoma or the LIBOR rate, at the option of the Company, subject to a rate margin adjustment determined by the Company's consolidated debt service ratio. In the event the Company fails to maintain a consolidated debt service coverage ratio for any fiscal quarter of at least 1.25 to 1.00, the Applicable LIBOR Rate Margin will be increased to 5.75% and the Applicable Prime Rate Margin will be increased to 3.00%. Thereafter, the increased rate margin will remain in effect until such time as the Company has maintained a consolidated debt service coverage ratio greater than or equal to 1.25 to 1.00 for a subsequent fiscal quarter.

In the event the Company fails to maintain a consolidated capital expenditures to EBITDA ratio for any fiscal quarter of at least 1.00 to 1.00, the increase in the Applicable LIBOR Rate Margin ranges from 3.75% to 5.75%, and the increase in the Applicable Prime Rate Margin ranges from 1.00% to 3.00%.

Amounts borrowed under the bank credit facilities bore interest ranging from 4.50% to 9.75% during the three years ended December 31, 2002, and an effective rate of 4.50% at December 31, 2002 and 4.75% at December 31, 2001. Interest expense capitalized in connection with construction in progress was \$148,641, \$15,979 and \$211,966 in 2002, 2001 and 2000, respectively.

Term loan payments are based on thirty-five (35) installments with equal monthly payments of principal and interest, and the loan may be prepaid without penalty. The revolving line of credit may be paid down without penalty, or additional funds may be borrowed up to the revolver limit. Construction loan payments are based on one hundred eight (108) installments of equal monthly payments of principal, plus interest at the prime rate of Bank One: interest is subject to a rate margin adjustment determined by the Company's consolidated debt service ratio. The credit agreement requires the Company to maintain compliance with covenant limits for current ratio, debt to tangible net worth ratio, debt service coverage ratio and a capital expenditures ratio. The Company was in compliance with the covenants at December 31, 2002.

Aggregate maturities of long-term debt of \$9,763,000, exclusive of subordinated notes and bonds are payable as follows: \$1,283,000 (2003), \$8,461,000 (2004), \$2,000 (2005), \$2,000 (2006), \$2,000 (2007) and \$13,000 (thereafter).

CAPITAL LEASES. Capital leases consisting of a telephone system and material handling equipment used in NAG's operations were paid in full in 2002.

#### (4) BONDS PAYABLE

During the first quarter of 2000, the Company issued \$9,050,000 of Harris County Industrial Development Corporation Adjustable Rate Industrial Development Bonds, Series 2000 (the "Bonds"). The Bonds are senior to other debt of the Company. All of the bond proceeds, which were held in trust by Bank One Trust Company, N.A. ("Trustee"), were used by NAG for the purchase of land and construction of a hot dip galvanizing plant in Harris County, Texas. The galvanizing plant was completed and began operation in the first quarter of 2001.

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The Bonds bear interest at a variable rate (5.25% at December 31, 2002 and 2001) that can be converted to a fixed rate upon certain conditions outlined in the bond agreement. The Bonds are subject to annual sinking fund redemption, which was \$587,000 in 2002 and increases annually thereafter to a maximum redemption

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of \$960,000 on June 15, 2012. The Company makes monthly payments of principal and interest of approximately \$86,000 into a sinking fund. The final maturity date of the Bonds is June 15, 2013. The Company has the option of early redemption of the Bonds at par unless the bonds are converted to a fixed interest rate, in which case they are redeemable at a premium during a period specified in the bond agreement. The Company's obligation under the bond agreement is secured through a letter of credit with a bank which must remain in effect as long as any Bonds are outstanding. The letter of credit is collateralized by substantially all the assets of the Company.

### (5) SUBORDINATED DEBT

In February 2001, the Company completed a \$1,000,000 Private Placement of unsecured subordinated debt. The Company utilized the proceeds to partially fund construction of a new galvanizing facility in St. Louis, Missouri. Participation in the Private Placement was offered to accredited investors, which included the Company's directors and eligible stockholders holding a minimum of 100,000 shares of common stock. The amount outstanding on these notes, net of discount, was \$937,000 and \$917,000 at December 31, 2002 and 2001, respectively. The notes, which mature February 17, 2006 and bear interest at 10% payable annually, were issued with warrants to purchase 666,666 shares of common stock of the Company. Terms of the warrants, which expire February 17, 2008, permit the holder to purchase shares of the Company's common stock at any time prior to the expiration date. The exercise price of \$.856 per share reflects the fair value of the Company's common stock at the time the warrants were issued, as determined by an independent financial advisor.

### (6) COMMITMENTS

The Company leases its headquarters office, and certain manufacturing buildings and equipment under non-cancelable operating leases. The Company also leases certain facilities to third parties under non-cancelable operating leases. These operating leases generally provide for renewal options and periodic rate increases and are typically renewed in the normal course of business. Lease expense was \$629,000 in 2002, \$653,000 in 2001 and \$335,000 in 2000.

Minimum annual rental commitments at December 31, 2002 are as follows:

(DOLLARS IN THOUSANDS)	Operating Leases
2003	\$ 673
2004	571
2005	507
2006	415
2007	380
Thereafter	327
	\$ 2,873

The Company has commitments with domestic and foreign zinc producers to purchase zinc used in its hot dip galvanizing operations. Commitments for the future delivery of zinc either reflect rates then quoted on the London Metals Exchange and are not subject to price adjustment or are based on such quoted prices at the time of delivery. At December 31, 2002, the aggregate commitments for the

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procurement of zinc at fixed prices were \$4.0 million. The Company reviews these fixed price contracts for losses using the same methodology employed to estimate the market value of its zinc inventory. The Company had unpriced commitments for the purchase of approximately 1.2 million pounds of zinc at December 31, 2002.

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### (7) CONTINGENCIES

NAG was notified in 1997 by the Illinois Environmental Protection Agency ("IEPA") that it was a potentially responsible party under the Comprehensive Environmental Response, Compensation, and Liability Information System (CERCLIS) in connection with cleanup of an abandoned site formerly owned by Sandoval Zinc Co. ("Sandoval"). The IEPA notice includes NAG as one of 59 organizations which arranged for the treatment and disposal of hazardous substances at Sandoval. Based on current information and the stage of investigation, NAG's share of probable future costs, if any, cannot be estimated at this time.

The Company will continue to have additional environmental compliance costs associated with operations in the galvanizing business. The Company is committed to complying with the environmental legislation and regulations affecting its operations. Due to the uncertainties associated with future environmental technologies, regulatory interpretations, and prospective legislative activity, management cannot estimate potential costs in this area.

Various litigation arising in the ordinary course of business is pending against the Company. Management believes that resolution of the Company's litigation and environmental matters should not materially affect the Company's consolidated financial position or liquidity. Should future developments cause the Company to record an additional liability for environmental matters, litigation or customer claims, the recording of such a liability could have a material impact on the results of operations and cash flows for the period involved.

### (8) INCOME TAXES

The provision for income taxes consists of the following:

	Years Ended December 31,		
(DOLLARS IN THOUSANDS)	2002	2001	2000
Current	\$ 211	\$ 100	\$ 435
Deferred	507	109	200
Income tax expense	\$ 718	\$ 209	\$ 635

The reconciliation of income taxes at the federal statutory rate to the Company's effective tax rate is as follows:

	Years Ended December 31,		
(DOLLARS IN THOUSANDS)	2002	2001	2000
Taxes at statutory rate	\$ 622	\$ 169	\$ 514
State tax net of federal benefit	73	20	30
Goodwill amortization	--	71	71
Other	23	(51)	20
Taxes at effective tax rate	\$ 718	\$ 209	\$ 635

At December 31, 2002, alternative minimum tax credit carry-forwards of approximately \$461,000 are available as carry-forwards to future years.

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The tax effects of significant items comprising the Company's net deferred tax asset (liability) consist of the following:

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(DOLLARS IN THOUSANDS)	December 31,	
	2002	2001
=====		
Deferred tax assets:		
Alternative minimum tax	\$ 461	\$ 533
Reserves not currently deductible	443	583
-----		
	\$ 904	\$ 1,116
=====		
Deferred tax liabilities:		
Differences between book and tax basis of property	1,647	1,352
-----		
	\$ (743)	\$ (236)
=====		
As reported in the balance sheet:		
Deferred tax assets	\$ 444	\$ 583
Deferred tax liabilities	1,187	819
-----		
	\$ (743)	\$ (236)
=====		

(9) STOCK OPTION PLANS

At December 31, 2002 and 2001, 1,042,000 shares of the Company's common stock were reserved for issuance under the terms of the stock option plans for key employees and directors. The plans generally provide options to purchase Company stock at fair value as of the date the option is granted. Options generally become exercisable in installments specified by the applicable plan and must be exercised within ten years of the grant date

Under Option	Number of Shares	Weighted-Avg. Exercise Price
-----		
Balance at Jan. 1, 2000	399,500	\$ 2.98
Granted	28,333	1.24
Canceled	(20,500)	3.58
-----		
Balance at Dec. 31, 2000	407,333	2.70
Granted	30,000	1.05
Canceled	(60,000)	3.50
-----		
Balance at Dec. 31, 2001	377,333	2.44
Granted	75,000	1.26
-----		
Balance at Dec. 31, 2002	452,333	\$ 2.24
=====		

At December 31, 2002, 2001 and 2000, options for 377,333, 347,333 and 364,625 shares, respectively, were exercisable.

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Information about stock options as of December 31, 2002:

Options Outstanding

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Range of Exercise Prices	Number Outstanding	Weighted-Avg. Remaining Contractual Life	Weighted-Avg. Exercise Price
\$1.00 to \$1.39	133,333	8.3 years	\$ 1.16
\$2.00	15,000	6.5	2.00
\$2.50 to \$3.00	234,500	3.0	2.50
\$3.06 to \$3.50	62,000	4.4	3.30
\$4.50	7,500	1.2	4.50
	452,333		

Options Exercisable at December 31, 2002

Weighted-Avg. Exercise Price	Number Exercisable
\$ 1.05	30,000
1.06	7,708
1.25	625
1.31	20,000
2.00	15,000
2.50	233,000
3.00	1,500
3.06	15,000
3.25	15,000
3.38	15,000
3.50	17,000
4.50	7,500
	377,333

(10) EARNINGS PER SHARE RECONCILIATION

For the Year Ended December 31	Income (Numerator)	Shares (Denominator)	Per Share Amount
2000			
Income from continuing operations	\$877,000	--	--
Basic EPS	--	6,712,212	\$.13
Effect of dilutive stock options	--	--	--
Diluted EPS	\$877,000	6,712,212	\$.13

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2001

Income from continuing operations	\$289,000	--	--
Basic EPS	--	6,698,972	\$.04



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Effect of dilutive stock options and warrants	--	666,666	--
<hr style="border-top: 1px dashed black;"/>			
Diluted EPS	\$289,000	7,365,638	\$.04
<hr style="border-top: 3px double black;"/>			

2002

Income from continuing operations	\$1,110,000	--	--
Basic EPS		6,717,088	\$.17
Effect of dilutive stock options and warrants	--	671,996	(.02)
<hr style="border-top: 1px dashed black;"/>			
Diluted EPS	\$1,110,000	7,389,084	\$.15
<hr style="border-top: 3px double black;"/>			

The number of options excluded from the calculation of diluted earnings per share due to the option price exceeding the share market price are 319,000, 347,333 and 364,625, at December 31, 2002, 2001 and 2000, respectively.

### (11) EMPLOYEE BENEFIT PLAN

The Company offers a 401(k) defined contribution plan to its eligible employees. Employees not covered by a bargaining contract become eligible to enroll in this benefit plan after one year of service with the Company. Company contributions to this benefit plan were \$233,000 in 2002, \$205,000 in 2001 and \$243,000 in 2000. Assets of the defined contribution plan consisted of short-term investments, intermediate bonds, long-term bonds and listed stocks.

### (12) STOCKHOLDERS' EQUITY

In August 1998, the Board of Directors authorized the Company to repurchase up to \$1,000,000 of its common stock in open market transactions. Repurchases of the Company's common stock totaled 50,000 shares at a cost of \$49,000 in 2001 and 55,321 shares at a cost of \$139,000 in 1999. In 2002, Directors of the Company could elect to receive shares of the Company's common stock in lieu of a cash payment for up to all of their fee for board service. Under this program, the Company issued 56,094 shares from Treasury Stock in 2002, with a fair value of \$65,000.

### (13) FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of financial instruments included in current assets and liabilities approximates fair value. The fair value of the Company's long-term debt is estimated to approximate carrying value based on the borrowing rates currently available to the Company for loans with similar terms and average maturities.

### (14) UNION CONTRACTS

NAG's one-year labor agreement with the United Steel Workers Union covering approximately 70 production workers at its Tulsa galvanizing plants expires March 31, 2003. In order to facilitate their discussions, management and the union historically have extended the contract. While there can be no assurance, NAG anticipates that a mutually acceptable agreement will result from these discussions.

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### (15) SEGMENT DISCLOSURES

Subsequent to the sale of Lake River and NAW in June 2000, the Company's sole business is hot dip galvanizing and coatings, which is conducted through its

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wholly owned subsidiary, North American Galvanizing Company.

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QUARTERLY RESULTS (UNAUDITED)

Quarterly Results of Operations for the Years Ended December 31, 2002 and 2001 were:

(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)	2002			
	Mar 31	Jun 30	Sep 30	Dec 31
SALES	\$ 9,217	\$ 10,103	\$ 9,915	\$ 8,9
GROSS PROFIT	2,852	3,237	3,094	2,7
NET INCOME	\$ 224	\$ 392	\$ 338	\$ 1
Basic and Diluted Earnings per Common Share				
Basic	\$ .03	\$ .06	\$ .05	\$ .
Diluted	.03	.05	.05	.

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(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)	2001			
	Mar 31	Jun 30	Sep 30	Dec 31
SALES	\$ 8,982	\$ 9,262	\$ 9,812	\$ 9,112
GROSS PROFIT	2,637	2,635	3,238	2,512
NET INCOME (LOSS)	\$ 47	\$ 2	\$ 297	\$ (10)
Basic and Diluted Earnings per Common Share	\$ --	\$ --	\$ .04	\$ --

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SELECTED FINANCIAL HIGHLIGHTS

The following is a summary of selected financial data of the Company (Dollars in Thousands, Except per Share Amounts)

FOR THE YEARS ENDED DECEMBER 31,	2002**	2001	2000
Sales	\$ 38,178	\$ 37,219	\$ 38,869
Operating income percent of sales	\$ 2,700 7.1%	\$ 2,071 5.6%	\$ 2,565 6.6%
Net Earnings (Loss)	\$ 1,110	\$ 289	\$ (1,240)
Basic Earnings (Loss) per common share	\$ .17	\$ .04	\$ (.19)
Diluted Earnings (Loss) per common share	\$ .15	\$ .04	\$ (.19)

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Capital Expenditures	\$ 5,880	\$ 3,297	\$ 9,463
Depreciation & Amortization	\$ 3,227	\$ 3,427	\$ 2,916
Weighted average shares outstanding*	7,389,084	7,365,638	6,712,212

AT DECEMBER 31,	2002	2001	2000
Working Capital	\$ 7,032	\$ 7,606	\$ 7,639
Total Assets	\$ 41,431	\$ 39,092	\$ 40,676
Long-Term Obligations	\$ 16,700	\$ 16,178	\$ 17,907
Stockholders' Equity	\$ 18,828	\$ 17,653	\$ 17,313
Book Value Per Share	\$ 2.79	\$ 2.64	\$ 2.58
Common Shares Outstanding	6,736,919	6,680,825	6,712,209

\* Weighted average shares outstanding include the dilutive effect of stock options and warrants, if applicable. All amounts for all years presented prior to 2000 have been restated to reflect discontinued operations.

\*\* On January 1, 2002, the Company adopted SFAS 142 "Goodwill and Other Intangible Assets" and ceased amortizing goodwill. In each of the four years ended December 31, 2001, the Company recorded goodwill amortization of approximately \$188,000 after tax.