

GSI GROUP INC  
Form 10-Q  
November 02, 2007  
Table of Contents

---

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

---

**Form 10-Q**

---

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

For the quarterly period ended September 28, 2007

Or

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

Commission File No. 000-25705

---

**GSI Group Inc.**

(Exact name of registrant as specified in its charter)

---

**New Brunswick, Canada**  
(State or other jurisdiction of incorporation or organization)

**98-0110412**  
(I.R.S. Employer Identification No.)

**39 Manning Road**

**Billerica, MA**  
(Address of principal executive offices)

**(978) 439-5511**

**01821**  
(Zip Code)

Edgar Filing: GSI GROUP INC - Form 10-Q

(Registrant's telephone number, including area code)

---

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 such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES  NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

As of October 19, 2007 there were approximately 42,716,203 of the Registrant's common shares, no par value, issued and outstanding.

---

**Table of Contents**

**GSI GROUP INC.**

**TABLE OF CONTENTS**

<b>Item No.</b>		<b>Page No.</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>		
ITEM 1.	<b><u>FINANCIAL STATEMENTS</u></b>	3
	<b><u>CONSOLIDATED BALANCE SHEETS (unaudited)</u></b>	3
	<b><u>CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)</u></b>	4
	<b><u>CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)</u></b>	5
	<b><u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)</u></b>	6
ITEM 2.	<b><u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u></b>	17
ITEM 3.	<b><u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u></b>	25
ITEM 4.	<b><u>CONTROLS AND PROCEDURES</u></b>	26
<b><u>PART II OTHER INFORMATION</u></b>		
ITEM 1.	<b><u>LEGAL PROCEEDINGS</u></b>	26
ITEM 1A	<b><u>RISK FACTORS</u></b>	26
ITEM 6.	<b><u>EXHIBITS</u></b>	27
<b><u>SIGNATURES</u></b>		28

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****GSI GROUP INC.****CONSOLIDATED BALANCE SHEETS****(Unaudited)****(U.S. GAAP and in thousands of U.S. dollars, except share amounts)**

	September 28,	December 31,
	2007	2006
<b>ASSETS</b>		
Current		
Cash and cash equivalents	\$ 161,745	\$ 138,315
Accounts receivable, less allowance of \$287 (December 31, 2006 \$911) (note 1, 6)	74,078	54,546
Income taxes receivable (note 10)	8,028	5,755
Inventories (note 2)	71,070	72,703
Deferred tax assets (note 10)	8,180	7,925
Other current assets (note 2)	5,962	11,559
<b>Total current assets</b>	<b>329,063</b>	<b>290,803</b>
Property, plant and equipment, net of accumulated depreciation of \$32,691 (December 31, 2006 \$28,588)	31,498	33,511
Deferred tax assets (note 10)	18,664	20,099
Other assets (note 2)	2,562	710
Long-term investments (note 7)	833	693
Intangible assets, net of amortization of \$8,104 (December 31, 2006 \$6,380) (note 2)	13,475	14,965
Patents and acquired technology, net of amortization of \$39,074 (December 31, 2006 \$35,455) (note 2)	21,299	24,203
Goodwill (note 2)	26,421	26,421
	<b>\$ 443,815</b>	<b>\$ 411,405</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current		
Accounts payable	\$ 15,340	\$ 14,002
Accrued compensation and benefits	11,045	13,455
Deferred Revenue (note 1)	13,077	2,965
Other accrued expenses (note 2)	10,274	12,881
<b>Total current liabilities</b>	<b>49,736</b>	<b>43,303</b>
Deferred compensation	663	2,740
Deferred tax liabilities (note 10)	12,442	12,342
Accrued long term restructuring (note 8)	983	1,141
Income taxes payable (note 10)	1,798	
Accrued pension liability (note 11)	9,035	8,806
<b>Total liabilities</b>	<b>74,657</b>	<b>68,332</b>
Commitments and contingencies (note 9)		

Edgar Filing: GSI GROUP INC - Form 10-Q

Stockholders' equity (note 4,5)

Common shares, no par value; Authorized shares: unlimited; Issued and outstanding: 42,635,080 (December 31, 2006 41,889,804)	315,555	310,635
Additional paid-in capital	7,490	5,314
Retained earnings	43,727	29,431
Cumulative effect of adopting FIN No. 48 Accounting for Uncertainty in Income Taxes	(136)	
Accumulated other comprehensive loss	2,522	(2,307)
Total stockholders' equity	369,158	343,073
	\$ 443,815	\$ 411,405

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

**Table of Contents****GSI GROUP INC.****CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(U.S. GAAP and in thousands of U.S. dollars, except share and per share amounts)**

	Three Months Ended		Nine Months Ended	
	September 28, 2007	September 29, 2006	September 28, 2007	September 29, 2006
Sales	\$ 83,952	\$ 81,627	\$ 231,273	\$ 234,151
Cost of goods sold	49,262	48,057	137,393	136,640
Gross profit	34,690	33,570	93,880	97,511
Operating expenses:				
Research and development	7,529	7,594	22,915	22,435
Selling, general and administrative	15,381	16,878	44,247	47,635
Amortization of purchased intangibles	1,693	1,734	5,112	5,075
Restructuring and other (note 8)	1,915	(142)	5,843	(452)
Total operating expenses	26,518	26,064	78,117	74,693
Income from operations	8,172	7,506	15,763	22,818
Other income (expense)	19	8	113	39
Interest income	1,708	1,249	4,921	3,211
Interest expense	(26)	(63)	(107)	(729)
Foreign exchange transaction gains (losses)	682	(589)	248	(1,158)
Income before income taxes	10,555	8,111	20,938	24,181
Income tax provision (note 10)	2,782	2,380	6,643	7,163
Net income	\$ 7,773	\$ 5,731	\$ 14,295	\$ 17,018
Net income per common share:				
Basic	\$ 0.18	\$ 0.14	\$ 0.34	\$ 0.41
Diluted	\$ 0.18	\$ 0.14	\$ 0.34	\$ 0.40
Weighted average common shares outstanding (000 s)	42,654	41,815	42,344	41,912
Weighted average common shares outstanding for diluted net income per common share (000 s)	42,936	42,011	42,578	42,279

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

**Table of Contents****GSI GROUP INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(U.S. GAAP and in thousands of U.S. dollars)**

	Three Months Ended		Nine Months Ended	
	September 28, 2007	September 29, 2006	September 28, 2007	September 29, 2006
<b>Cash flows from operating activities:</b>				
Net income	\$ 7,773	\$ 5,731	\$ 14,295	\$ 17,018
Adjustments to reconcile net income to net cash provided by operating activities:				
Loss/(Gain) on disposal of assets		6		(187)
Depreciation and amortization	3,975	3,880	12,301	10,817
Unrealized loss/(gain) on derivatives	424	101	18	(18)
Stock-based compensation	810	473	1,831	534
Deferred income taxes	644	1,724	446	(5,024)
Earnings from equity investment	(23)		(117)	
Changes in current assets and liabilities:				
Accounts receivable	(1,974)	8,573	(18,225)	286
Inventories	3,695	(928)	4,545	(7,479)
Other current assets	(99)	644	5,738	2,351
Accounts payable, accruals and taxes (receivable) payable	(7,113)	(4,367)	1,354	12,057
Cash provided by operating activities	8,112	15,837	22,186	30,355
<b>Cash flows from investing activities:</b>				
Acquisition of business			(3,006)	
Sale of assets		(161)		6,293
Other additions to property, plant and equipment	(817)	(1,377)	(4,111)	(5,745)
Proceeds from the sale and maturities of short-term and long-term investments				49,271
Purchases of short-term and long-term investments		(67)		(22,581)
(Increase) decrease in other assets and liabilities	567	520	593	291
Cash provided by (used in) investing activities	(250)	(1,085)	(6,524)	27,529
<b>Cash flows used in financing activities:</b>				
Purchase of treasury shares	(1,655)		(2,414)	(3,773)
Excess Tax benefit of stock options	87		345	1,001
Issue of common shares from the exercise of stock options	1,005		7,334	4,250
Cash (used in) provided by financing activities	(563)		5,265	1,478
Effect of exchange rates on cash and cash equivalents				