

GSI GROUP INC  
Form 10-Q  
May 05, 2008  
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**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 March 28, 2008

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)

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**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)

(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, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (check one).

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

As of April 18, 2008, there were 42,003,323 of the Registrant's common shares, no par value, issued and outstanding.

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**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)**

	<b>March 28, 2008</b>	<b>December 31, 2007</b>
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 170,652	\$ 171,714
Accounts receivable, less allowance of \$408 (December 31, 2007 \$372)	72,629	73,527
Income taxes receivable (note 10 )	13,129	12,241
Inventories (note 2)	66,926	65,522
Deferred tax assets (note 10)	8,264	8,249
Other current assets (note 2)	6,926	7,394
<b>Total current assets</b>	<b>338,526</b>	<b>338,647</b>
Property, plant and equipment, net of accumulated depreciation of \$33,103 (December 31, 2007 \$32,263)	33,439	30,817
Deferred tax assets (note 10)	9,982	9,887
Other assets (note 2)	1,051	713
Long-term investments (note 7)	975	854
Intangible assets, net of amortization of \$9,203 (December 31, 2007 \$8,603) (note 2)	12,349	12,817
Patents and acquired technology, net of amortization of \$41,348 (December 31, 2007 \$40,122) (note 2)	18,993	20,054
Goodwill (note 2)	26,421	26,421
<b>Total Assets</b>	<b>\$ 441,736</b>	<b>\$ 440,210</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current Liabilities		
Accounts payable	\$ 14,505	\$ 17,504
Income taxes payable (note 10)	1,018	1,411
Accrued compensation and benefits	8,537	10,369
Deferred revenue	11,688	9,949
Deferred tax liabilities (note 10)	286	286
Other accrued expenses (note 2)	9,729	9,353
<b>Total current liabilities</b>	<b>45,763</b>	<b>48,872</b>
Deferred tax liabilities (note 10)	7,645	7,589
Accrued long term restructuring (note 8)	1,019	938
Income taxes payable (note 10)	3,253	3,537
Accrued pension liability (note 11)	4,681	4,481
Other long term liabilities	1,106	676
<b>Total liabilities</b>	<b>63,467</b>	<b>66,093</b>
Commitments and contingencies (note 9)		

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### Stockholders' equity (notes 4)

Common shares, no par value; Authorized shares: unlimited; Issued and outstanding: 41,855,293(December 31, 2007 42,161,592)	307,875	310,970
Additional paid-in capital	9,043	8,245
Retained earnings	50,436	48,329
Accumulated other comprehensive income	10,915	6,573
<b>Total stockholders' equity</b>	<b>378,269</b>	<b>374,117</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 441,736</b>	<b>\$ 440,210</b>

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 per share amounts)**

	<b>Three Months Ended</b>	
	<b>March 28, 2008</b>	<b>March 30, 2007</b>
Sales	\$ 71,680	\$ 74,204
Cost of goods sold	44,353	44,769
Gross profit	27,327	29,435
Operating expenses:		
Research and development and engineering	7,875	7,657
Selling, general, administrative and other	16,317	13,939
Amortization of purchased intangibles	1,679	1,729
Restructuring expense (benefit) (note 8)	(317)	2,353
Total operating expenses	25,554	25,678
Income from operations	1,773	3,757
Other income (expense)	121	47
Interest income	1,166	1,545
Interest expense	(18)	(57)
Foreign exchange transaction (losses) gains	59	(371)
Income before income taxes	3,101	4,921
Income tax provision	994	1,721
Net income	\$ 2,107	\$ 3,200
Net income per common share:		
Basic	\$ 0.05	\$ 0.08
Diluted	\$ 0.05	\$ 0.08
Weighted average common shares outstanding (000 s)	41,972	42,001
Weighted average common shares outstanding for diluted net income per common share (000 s)	42,204	42,252

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)**

	<b>Three Months Ended</b>	
	<b>March 28, 2008</b>	<b>March 30, 2007</b>
<b>Cash flows from operating activities:</b>		
Net income for the year	\$ 2,107	\$ 3,200
Adjustments to reconcile net income to net cash provided by operating activities:		
Earnings from equity investment	(106)	(47)
Depreciation and amortization	3,867	4,124
Unrealized loss on derivatives	14	53
Stock-based compensation	790	329
Deferred income taxes	(53)	15
Changes in current assets and liabilities:		
Accounts receivable	557	(5,107)
Inventories	(870)	1,529
Other current assets	290	6,010
Accounts payable, accruals and taxes receivable	(2,660)	(2,173)
Cash provided by operating activities	3,936	7,933
<b>Cash flows (used in) from investing activities:</b>		
Other additions to property, plant and equipment	(4,202)	(1,842)
Other disposals to property, plant and equipment		54
Increase in other assets	(338)	(2)
Decrease in other liabilities	501	18
Cash (used in) from investing activities	(4,039)	(1,772)
<b>Cash flows from (used in) financing activities:</b>		
Purchase of treasury stock	(3,113)	(474)
Excess tax benefit of stock options		54
Issue of share capital (net of issue costs)	18	3,233
Cash provided by (used in) financing activities	(3,095)	2,813
Effect of exchange rates on cash and cash equivalents	2,136	147
Increase (decrease) in cash and cash equivalents	(1,062)	9,121
Cash and cash equivalents, beginning of period	171,714	138,315
Cash and cash equivalents, end of period	\$ 170,652	\$ 147,436
Supplemental disclosure of cash flow information:		
Cash paid for Interest Expense	\$ 7	\$ 914
Cash paid for Taxes	2,777	1,245

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

**Table of Contents****GSI GROUP INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****(U.S. GAAP and tabular amounts in thousands of U.S. dollars, except per share amounts)****1. Basis of Presentation**

These unaudited interim consolidated financial statements have been prepared by GSI Group Inc. in United States (U.S.) dollars and in accordance with accounting principles generally accepted in the U.S. for interim financial statements and the rules and regulations promulgated by the U.S. Securities and Exchange Commission, including the instructions to Form 10-Q and the provisions of Regulation S-X pertaining to interim financial statements. Accordingly, these interim consolidated financial statements do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. The consolidated financial statements reflect all adjustments and accruals, consisting only of adjustments and accruals of a normal recurring nature, which management considers necessary for a fair presentation of financial position and results of operations for the periods presented. The consolidated financial statements include the accounts of GSI Group Inc. and its wholly-owned subsidiaries (the Company). Intercompany transactions and balances have been eliminated. The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2007. The results for interim periods are not necessarily indicative of results to be expected for the year or for any future periods. The amounts are stated in thousands of U.S. dollars, unless otherwise indicated.

**Comparative amounts**

Certain prior year amounts have been reclassified to conform to the current year presentation in the financial statements and notes as of the three months ended March 28, 2008. For the period ended March 30, 2007, rental income of \$61 thousand from the Munich, Germany facility excess space sub-lease has been reclassified from other expense to restructuring expense to offset the related rental expenses for that facility. Additionally, a reduction in other operating expenses of \$100 thousand for sublease income from our Rugby, United Kingdom facility has been included with selling, general and administrative expenses. These reclassifications had no effect on the previously reported results or financial position.

**2. Supplementary Balance Sheet Information**

The following tables provide details of selected balance sheet accounts.

**Inventories**

	<b>March 28, 2008</b>	<b>December 31, 2007</b>
Raw materials	\$ 27,872	\$ 28,584
Work-in-process	15,517	14,623
Finished goods	19,227	18,009
Demo inventory	4,310	4,306
<b>Total inventories</b>	<b>\$ 66,926</b>	<b>\$ 65,522</b>

**Other Assets**

	<b>March 28, 2008</b>	<b>December 31, 2007</b>
Short-term other assets:		
Prepaid VAT and VAT receivable	\$ 1,500	\$ 1,951



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Other prepaid expenses	2,646	2,968
Poole, United Kingdom buildings held for sale	1,813	1,813
Other current assets	967	662
Total	\$ 6,926	\$ 7,394
Long-term other assets:		
Deposits and other	1,051	713
Total	\$ 1,051	\$ 713

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On March 31, 2008 the Company entered in to an agreement to sell one of its three properties located in Poole, United Kingdom for \$3.3 million. The transaction yielded a gain of approximately \$1.5 million and was completed on April 30, 2008.

**Intangible Assets**

	<b>March 28, 2008</b>		<b>December 31, 2007</b>	
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Cost</b>	<b>Accumulated Amortization</b>
Customer relationships	\$ 15,356	\$ (6,887)	\$ 15,259	\$ (6,411)
Trademarks, trade names and other	6,196	(2,316)	6,161	(2,192)
<b>Total cost</b>	<b>21,552</b>	<b>\$ (9,203)</b>	<b>21,420</b>	<b>\$ (8,603)</b>
Accumulated amortization	(9,203)		(8,603)	
<b>Net intangible assets</b>	<b>\$ 12,349</b>		<b>\$ 12,817</b>	

	<b>March 28, 2008</b>		<b>December 31, 2007</b>	
	<b>Cost</b>	<b>Accumulated Amortization</b>	<b>Cost</b>	<b>Accumulated Amortization</b>
Patents and acquired technology	\$ 60,341	\$ (41,348)	\$ 60,176	\$ (40,122)