

GSI GROUP INC
Form 10-Q
May 04, 2007
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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 30, 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)

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(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 Exchange Act). Yes No

As of April 25, 2007, there were 42,365,239 of the Registrant's common shares, no par value, issued and outstanding.

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GSI GROUP INC.

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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)**

	March 30, 2007	December 31, 2006
ASSETS		
Current		
Cash and cash equivalents	\$ 147,436	\$ 138,315
Accounts receivable, less allowance of \$722 (December 31, 2006 \$911) (notes 8 and 9)	59,653	54,546
Income taxes receivable (note 10)	6,856	5,755
Inventories (note 2)	71,174	72,703
Deferred tax assets (note 10)	7,927	7,925
Other current assets (note 2)	5,495	11,559
Total current assets	298,541	290,803
Property, plant and equipment, net of accumulated depreciation of \$30,371 (December 31, 2006 \$28,588)	33,408	33,511
Deferred tax assets (note 10)	20,136	20,099
Other assets (note 2)	713	710
Long-term investments (note 7)	744	693
Intangible assets, net of amortization of \$6,939 (December 31, 2006 \$6,380) (note 2)	14,442	14,965
Patents and acquired technology, net of amortization of \$36,660 (December 31, 2006 \$35,455) (note 2)	23,044	24,203
Goodwill (note 2)	26,421	26,421
	\$ 417,449	\$ 411,405
LIABILITIES AND STOCKHOLDERS EQUITY		
Current		
Accounts payable	\$ 17,092	\$ 14,002
Accrued compensation and benefits	10,461	13,455
Other accrued expenses (note 2)	15,621	15,846
Total current liabilities	43,174	43,303
Deferred compensation	668	2,740
Deferred tax liabilities (note 10)	12,357	12,342
Accrued long term restructuring (note 8)	1,159	1,141
Income taxes payable (note 10)	1,420	
Accrued pension liability (note 11)	8,847	8,806
Total liabilities	67,625	68,332
Commitments and contingencies (note 9)		
Stockholders' equity (notes 4)		
Common shares, no par value; Authorized shares: unlimited; Issued and outstanding: 42,235,689 (December 31, 2006 41,889,804)	313,395	310,635

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Additional paid-in capital	5,696	5,314
Retained earnings	32,339	29,431
Cumulative effect of adopting FIN No. 48 Accounting for Uncertainty in Income Taxes	146	
Accumulated other comprehensive loss	(1,752)	(2,307)
Total stockholders' equity	349,824	343,073
	\$ 417,449	\$ 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 amounts)**

	Three Months Ended	
	March 30, 2007	March 31, 2006
Sales	\$ 74,204	\$ 76,123
Cost of goods sold	44,769	44,470
Gross profit	29,435	31,653
Operating expenses:		
Research and development and engineering	7,657	7,454
Selling, general and administrative	14,039	15,004
Amortization of purchased intangibles	1,729	1,827
Restructuring	2,414	
Other	(161)	(96)
Total operating expenses	25,678	24,189
Income from operations	3,757	7,464
Other income	47	31
Interest income	1,545	887
Interest expense	(57)	(144)
Foreign exchange transaction (losses) gains	(371)	(709)
Income before income taxes	4,921	7,529
Income tax provision	1,721	2,425
Net income	\$ 3,200	\$ 5,104
Net income per common share:		
Basic	\$.08	\$ 0.12
Diluted	\$.08	\$ 0.12
Weighted average common shares outstanding (000 s)	42,001	41,868
Weighted average common shares outstanding for diluted net income per common share (000 s)	42,252	42,524

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, except share amounts)**

	Three Months Ended	
	March 30, 2007	March 31, 2006
Cash flows from operating activities:		
Net income	\$ 3,200	\$ 5,104
Adjustments to reconcile net income to net cash provided by operating activities:		
Loss (gain) on disposal of assets		(6)
Depreciation and amortization	4,124	3,549
Unrealized loss (gain) on derivatives	53	
Long term investment income	(47)	
Stock-based compensation	329	
Deferred income taxes	15	(2,324)
Changes in current assets and liabilities:		
Accounts receivable	(5,107)	(9,875)
Inventories	1,529	744
Other current assets	6,010	(284)
Accounts payable, accruals and taxes (receivable) payable	(2,173)	6,352
Cash provided by operating activities	7,933	3,260
Cash flows from investing activities:		
Sale of assets		6,113
Other additions to property, plant and equipment	(1,842)	(1,808)
Other disposals to property, plant and equipment	54	
Proceeds from the sale and maturities of short-term and long-term investments		26,800
Purchases of short-term and long-term investments		(22,514)
Decrease (increase) in other assets	(2)	(148)
Decrease (increase) in other liabilities	18	
Cash (used in) provided by investing activities	(1,772)	8,443
Cash flows from financing activities:		
Purchase of common shares	(474)	
Tax benefit of stock options	54	1,001
Issue of common shares from the exercise of stock options and warrants	3,233	4,244
Cash provided by financing activities	2,813	5,245
Effect of exchange rates on cash and cash equivalents	147	151
Increase in cash and cash equivalents	9,121	17,099
Cash and cash equivalents, beginning of period	138,315	69,286
Cash and cash equivalents, end of period	\$ 147,436	\$ 86,385

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 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, 2006. 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.

2. Supplementary Balance Sheet Information

The following tables provide details of selected balance sheet accounts.

Inventories

	March 30, 2007	December 31, 2006
Raw materials	\$ 33,933	\$ 36,839
Work-in-process	11,619	11,959
Finished goods	20,534	17,680
Demo inventory	5,088	6,225
Total inventories	\$ 71,174	\$ 72,703

Other Assets

	March 30, 2007	December 31, 2006
Short-term other assets:		
Prepaid VAT and VAT receivable	\$ 2,518	\$ 7,146
Other prepaid expenses	2,299	3,025
Other current assets	678	1,388
Total	\$ 5,495	\$ 11,559
Long-term other assets:		
Deposits and other	713	710
Total	\$ 713	\$ 710

Intangible Assets

	March 30, 2007		December 31, 2006	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Customer relationships	\$ 15,231	\$ (5,093)	\$ 15,204	\$ (4,651)
Trademarks, trade names and other	6,150	(1,846)	6,141	(1,729)
Total cost	21,381	\$ (6,939)	21,345	\$ (6,380)
Accumulated amortization	(6,939)		(6,380)	
Net intangible assets	\$ 14,442		\$ 14,965	

