

GSI GROUP INC
Form 10-Q
May 06, 2014
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 March 28, 2014

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 No. 001-35083

GSI Group Inc.

(Exact name of registrant as specified in its charter)

New Brunswick, Canada (State or other jurisdiction of	98-0110412
incorporation or organization)	(I.R.S. Employer
125 Middlesex Turnpike	Identification No.)
Bedford, Massachusetts, USA	01730
(Address of principal executive offices)	(Zip Code)
(781) 266-5700	
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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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 the definitions 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 (Do not check if a smaller reporting company) 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

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes No

As of April 28, 2014, there were 34,184,520 of the Registrant's common shares, no par value, issued and outstanding.

Table of Contents

GSI GROUP INC.

TABLE OF CONTENTS

Item No.	Page No.
<u>PART I FINANCIAL INFORMATION</u>	1
ITEM 1. <u>FINANCIAL STATEMENTS</u>	1
<u>CONSOLIDATED BALANCE SHEETS (unaudited)</u>	1
<u>CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)</u>	2
<u>CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (unaudited)</u>	3
<u>CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)</u>	4
<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)</u>	5
ITEM 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	17
ITEM 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	26
ITEM 4. <u>CONTROLS AND PROCEDURES</u>	26
<u>PART II OTHER INFORMATION</u>	27
ITEM 1. <u>LEGAL PROCEEDINGS</u>	27
ITEM 1A. <u>RISK FACTORS</u>	27
ITEM 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	27
ITEM 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	27
ITEM 4. <u>MINE SAFETY DISCLOSURES</u>	27
ITEM 5. <u>OTHER INFORMATION</u>	27
ITEM 6. <u>EXHIBITS</u>	28
<u>SIGNATURES</u>	29
<u>EXHIBIT INDEX</u>	30

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****GSI GROUP INC.****CONSOLIDATED BALANCE SHEETS****(In thousands of U.S. dollars or shares)****(Unaudited)**

	March 28, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 31,741	\$ 60,980
Accounts receivable, net of allowance of \$682 and \$575, respectively	61,314	48,552
Inventories	63,834	58,290
Income taxes receivable	5,455	5,715
Deferred tax assets	8,786	6,351
Prepaid expenses and other current assets	4,872	5,134
Assets of discontinued operations	16,135	16,088
Total current assets	192,137	201,110
Property, plant and equipment, net	31,448	31,303
Deferred tax assets	497	519
Other assets	11,957	9,426
Intangible assets, net	102,763	65,293
Goodwill	115,182	71,156
Total assets	\$ 453,984	\$ 378,807
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Current portion of long-term debt	\$ 7,500	\$ 7,500
Accounts payable	26,572	24,361
Income taxes payable	535	1,018
Deferred tax liabilities	214	214
Accrued expenses and other current liabilities	21,875	22,288
Liabilities of discontinued operations	7,336	6,398
Total current liabilities	64,032	61,779
Long-term debt	129,125	64,000
Deferred tax liabilities	4,389	

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Income taxes payable	8,018	5,596
Other liabilities	4,750	5,029
Total liabilities	210,314	136,404
Commitments and Contingencies (Note 13)		
Stockholders' Equity:		
Common shares, no par value; Authorized shares: unlimited; Issued and outstanding: 34,173 and 33,991, respectively	423,856	423,856
Additional paid-in capital	25,659	25,383
Accumulated deficit	(199,930)	(200,913)
Accumulated other comprehensive loss	(6,341)	(6,342)
Total GSI Group Inc. stockholders' equity	243,244	241,984
Noncontrolling interest	426	419
Total stockholders' equity	243,670	242,403
Total liabilities and stockholders' equity	\$ 453,984	\$ 378,807

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

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

	Three Months Ended	
	March 28, 2014	March 29, 2013
Sales	\$ 79,133	\$ 75,071
Cost of sales	47,028	44,440
Gross profit	32,105	30,631
Operating expenses:		
Research and development and engineering	5,857	5,816
Selling, general and administrative	19,618	18,689
Amortization of purchased intangible assets	1,744	2,236
Restructuring and acquisition related costs	818	2,428
Total operating expenses	28,037	29,169
Income from operations	4,068	1,462
Interest income (expense), net	(837)	(898)
Foreign exchange transaction gains (losses), net	(19)	1,219
Other income (expense), net	581	369
Income from continuing operations before income taxes	3,793	2,152
Income tax provision	937	403
Income from continuing operations	2,856	1,749
Income (loss) from discontinued operations, net of tax	(1,866)	369
Consolidated net income	990	2,118
Less: Net income attributable to noncontrolling interest	(7)	(36)
Net income attributable to GSI Group Inc.	\$ 983	\$ 2,082
Earnings per common share from continuing operations:		
Basic	\$ 0.08	\$ 0.05
Diluted	\$ 0.08	\$ 0.05
Earnings (loss) per common share from discontinued operations:		
Basic	\$ (0.05)	\$ 0.01

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Diluted		\$ (0.05)	\$ 0.01
Earnings per common share attributable to GSI Group Inc.:			
Basic		\$ 0.03	\$ 0.06
Diluted		\$ 0.03	\$ 0.06
Weighted average common shares outstanding	basic	34,227	33,983
Weighted average common shares outstanding	diluted	34,669	34,271

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

Table of Contents**GSI GROUP INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)****(In thousands of U.S. dollars)****(Unaudited)**

	Three Months Ended	
	March 28, 2014	March 29, 2013
Consolidated net income	\$ 990	\$ 2,118
Other comprehensive income (loss):		
Foreign currency translation adjustments, net of tax ⁽¹⁾	(63)	(5,694)
Pension liability adjustments, net of tax ⁽²⁾	64	949
Total other comprehensive income (loss)	1	(4,745)
Total consolidated comprehensive income (loss)	991	(2,627)
Less: Comprehensive (income) attributable to noncontrolling interest	(7)	(36)
Comprehensive income (loss) to GSI Group Inc.	\$ 984	\$ (2,663)

(1) The tax effect on this component of comprehensive income was nominal for the three months ended March 28, 2014 and \$1.3 million for the three months ended March 29, 2013.

(2) The tax effect on this component of comprehensive income was not material for all periods presented. See Note 4 for the total amount of pension liability adjustments reclassified out of accumulated other comprehensive loss.

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

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

	Three Months Ended	
	March 28,	March 29,
	2014	2013
Cash flows from operating activities:		
Consolidated net income	\$ 990	\$ 2,118
Less: Loss (income) from discontinued operations, net of tax	1,866	(369)
Income from continuing operations	2,856	1,749
Adjustments to reconcile income from continuing operations to net cash provided by continuing operations:		
Depreciation and amortization	4,829	5,259
Provision for inventory	465	840
Share-based compensation	1,439	1,531
Deferred income taxes	(1,990)	(981)
Earnings from equity investment	(573)	(361)
Non-cash interest expense	233	253
Non-cash restructuring and acquisition related charges	171	(414)
Other non-cash items	204	607
Changes in assets and liabilities which (used) provided cash, excluding effects from businesses purchased or classified as held for sale:		
Accounts receivable	(4,919)	(4,370)
Inventories	1,449	(452)
Prepaid expenses, income taxes receivable and other current assets	388	146
Accounts payable, accrued expenses, income taxes payable and other current liabilities	(2,519)	2,335
Other non-current assets and liabilities	763	138
Cash provided by operating activities of continuing operations	2,796	6,280
Cash used in operating activities of discontinued operations	(1,299)	(1,672)
Cash provided by operating activities	1,497	4,608
Cash flows from investing activities:		
Purchases of property, plant and equipment	(972)	(1,605)
Acquisition of business, net of cash acquired	(92,360)	(82,653)
Proceeds from the sale of property, plant and equipment	38	
Cash used in investing activities of continuing operations	(93,294)	(84,258)

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Cash used in investing activities of discontinued operations	(617)	(110)
Cash used in investing activities	(93,911)	(84,368)
Cash flows from financing activities:		
Borrowings under revolving credit facility	70,000	60,000
Repayments of long-term debt and revolving credit facility	(4,875)	(6,875)
Payments for debt issuance costs	(712)	(145)
Payments of withholding taxes from stock-based awards	(1,371)	(639)
Capital lease payments	(246)	(233)
Excess tax benefits from stock-based awards	160	
Other financing activities	235	
Cash provided by financing activities of continuing operations	63,191	52,108
Cash provided by financing activities of discontinued operations		
Cash provided by financing activities	63,191	52,108
Effect of exchange rates on cash and cash equivalents	(16)	(1,799)
Decrease in cash and cash equivalents	(29,239)	(29,451)
Cash and cash equivalents, beginning of period	60,980	65,788
Cash and cash equivalents, end of period	\$ 31,741	\$ 36,337
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 489	\$ 378
Cash paid for income taxes	1,026	449
Income tax refunds received		3

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

Table of Contents

GSI GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF March 28, 2014

(Unaudited)

1. Nature of Operations and Summary of Significant Accounting Policies

GSI Group Inc. and its subsidiaries (collectively referred to as the Company) design, develop, manufacture and sell precision photonic and motion control components and subsystems to Original Equipment Manufacturers (OEMs) in the medical equipment and advanced industrial technology markets. Our highly engineered enabling technologies include laser sources, scanning and beam delivery products, medical visualization and informatic