GSI GROUP INC
Form 10-K
April 13, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 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)

New Brunswick, Canada	**98-0110412**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
125 Middlesex Turnpike Bedford, Massachusetts, USA	**01730**
(Address of principal executive offices)	**(Zip Code)**

(781) 266-5700

(Registrant s telephone number, including area code)

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Class	**Name of Exchange on which Registered**
Common Shares, no par value	**NASDAQ**

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No x

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 x

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 or any amendment to this Form 10-K. ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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 ¨

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	x

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 Act). Yes ¨ No x

The aggregate market value of the Registrant s outstanding common shares held by non-affiliates of the Registrant, based on the closing price of the common shares on The NASDAQ Stock Market on the last business day of the Registrant s most recently completed second fiscal quarter (June 27, 2008) was approximately $150,504,163. For purposes of this disclosure, common shares held by officers and directors of the Registrant and by persons who hold more than 5% of the Registrant s outstanding common shares have been excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive.

There were approximately 47,901,978 of the Registrant s common shares, no par value, issued and outstanding on March 23, 2010.

DOCUMENTS INCORPORATED BY REFERENCE.

None.

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GSI GROUP INC.

FORM 10-K

YEAR ENDED DECEMBER 31, 2008

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As used in this report, the terms we, us, our, GSI Group , GSI , GSIG and the Company mean GSI Group Inc. and its subsidiaries, unles context indicates another meaning.

Unless otherwise noted, all dollar amounts in this report are expressed in United States dollars.

The following trademarks and trade names of GSI Group are used in this report: WaferMark , WaferRepair , WaferTrim , CircuitTrim , SVS , MicroE® and Westwind.

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EXPLANATORY NOTE

In August 2008, GSI Group Inc. (the Company) closed its acquisition of Excel Technology, Inc. (Excel). Delays in the integration of the financial accounting systems of the Company and Excel following the acquisition initially led to a delay of several weeks in the preparation of the Company s Quarterly Report on Form 10-Q for the quarterly period ended September 26, 2008 (the 2008 Q3 Report). Shortly thereafter and prior to filing the 2008 Q3 Report, the Company initiated an internal review of certain potential errors in the recognition of revenue related to sales to a customer in the first and second fiscal quarters of 2008 in the Company s Semiconductor Systems Segment, which were brought to the attention of the Audit Committee of the Company s Board of Directors (the Audit Committee) by Company management. Following this initial internal review, the Audit Committee, in consultation with the Company s outside legal counsel determined that it was appropriate to undertake an independent review of the potential revenue recognition issues brought to its attention.

On or about November 25, 2008, the Audit Committee initiated a broader independent review of sales transactions in the Semiconductor Systems Segment that contain arrangements with multiple deliverables for fiscal years 2007 and 2008. The review was subsequently expanded to include sales transactions in the Semiconductor Systems Segment, along with certain other sales transactions for fiscal years 2006, 2007 and 2008. To assist in its review, the Audit Committee retained independent legal counsel and forensic accounting experts.

On December 4, 2008, the Company announced that it identified errors in the recognition of revenue related to sales to a customer in the first and second fiscal quarters of 2008 in the Semiconductor Systems Segment and that the previously issued financial statements contained in the Company s Quarterly Reports on Form 10-Q for the periods ended March 28, 2008 and June 27, 2008 should no longer be relied upon.

Subsequently, the Company announced that it had identified additional revenue recognition errors related to the timing of revenue recognition from sales to certain Semiconductor Systems Segment customers during fiscal year 2007. The Audit Committee concluded, upon the recommendation of Company management, that the range of potential adjustments resulting from the identified errors is material to the financial statements of the Company for the periods indicated and as a result, the Audit Committee determined that the previously issued interim and annual historical financial statements for 2007 should no longer be relied upon. The Audit Committee thereafter expanded the scope of its investigation to include fiscal year 2006.

On March 30, 2009, the Company announced that it had identified additional revenue recognition errors related to the timing of revenue recognition from sales to certain Semiconductor Systems Segment customers during fiscal year 2006. The Audit Committee concluded, upon the recommendation of Company management, that the range of potential adjustments resulting from the identified errors is material to the financial statements of the Company for the periods indicated and as a result, the Audit Committee determined that the previously issued interim and annual historical financial statements for 2006 should no longer be relied upon.

The Audit Committee s advisors reported the results of the investigation to the Audit Committee on April 24, 2009. The Company voluntarily reported the investigation results to the Securities and Exchange Commission (SEC) on April 30, 2009. The Company later announced in May 2009 that it was reviewing sales transactions of its Semiconductor Systems Segment during fiscal years 2004 and 2005 to determine if adjustments needed to be made to those periods. Thereafter, on June 30, 2009, the Company announced that it was undertaking a preliminary review of the timing of revenue recognized in connection with multiple element arrangements in its Precision Technology Segment from 2004 through 2008 to determine if adjustments need to be made to those periods (collectively with the Audit Committee s review of transactions in the Semiconductor Systems Segment and any other related Company reviews of transactions in the Semiconductor Systems Segment and Precision Technology Segment, the Revenue Review). As is further explained in Note 2 of the Notes to Consolidated Financial Statements, in connection with the Revenue Review, the Company concluded that there were a number of adjustments required that primarily relate to revenue recognition and the corresponding adjustments to deferred revenue, cost of goods sold and other assets. Adjustments to revenue resulted in revenue and their related costs being deferred and recognized in subsequent periods once all revenue recognition criteria have been met. In addition, these adjustments did not affect the Company s cash balances. The transactions that are being restated as a result of the Revenue Review include transactions for which the complete facts required to make the appropriate assessment with respect to the timing of the revenue recognition were not communicated to the finance department at the time the initial revenue was booked. As of December 31, 2008, a substantial portion of the revenue deferred through the restatement remains deferred, pending the finalization of all deliverables under the terms of the arrangements with customers. The revenue adjustments, in aggregate for both the Semiconductor Systems and the Precision Technology Segments, primarily relate to:

- multiple-element arrangements for which objective and reliable evidence of fair value does not exist for one or more of the undelivered elements;

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for those arrangements whereby it was determined that customer acceptance was required in order to record revenue in accordance with the Company s policy, the correction of the timing of revenue for instances where customer acceptance could not be demonstrated until a period subsequent to the period of original revenue recognition;

contractual terms that resulted in arrangements being deemed to not be fixed or determinable at the outset of the arrangement (including extended payment terms and contracts whereby product quantity mix was subject to adjustment during the term of the arrangement); and

certain other revenue adjustments which were not individually, or in the aggregate, significant. These adjustments have been reflected in the restated consolidated financial statements and primarily relate to the accounting for separately priced extended warranty contracts.

In addition to adjustments from the Revenue Review, the Company has also identified and recorded the impact of certain adjustments which, due to their materiality, were not previously recorded. Certain of these adjustments affect revenue, cost of goods sold and operating expenses, as well as offsetting balance sheet accounts. These adjustments have been reflected in the accompanying consolidated financial statements.

In connection with its restatement, the Company and Ernst & Young LLP, its independent auditors, identified and reported to the Company s Audit Committee significant internal control matters that collectively constitute material weaknesses. Please see Item 9A. Controls and Procedures below for a description of these matters, and of certain of the measures that have been implemented during 2009, to date, as well as additional steps the Company plans to take to strengthen its controls.

The Company does not anticipate amending its previously filed annual reports on Form 10-K or any quarterly reports on Form 10-Q. The consolidated financial statements and related consolidated financial information contained in previously filed reports, including for the years ended December 31, 2007 and 2006 and for the first two quarterly reports during 2008 and the first three quarters of 2007, should no longer be relied upon. See Note 17 of the Notes to Consolidated Financial Statements for disclosure of quarterly results of operations for each quarter in 2007 and 2008.

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PART I

Cautionary Note Regarding Forward-Looking Statements

Except for historical information, the matters discussed in this Annual Report on Form 10-K are forward looking statements that involve risks, uncertainties and assumptions that, if they never materialize or if they prove incorrect, could cause our consolidated results to differ materially from those expressed or implied by such forward-looking statements. The Company makes such forward-looking statements under the provision of the Safe Harbor section of the Private Securities Litigation Reform Act of 1995. Actual future results may vary materially from those projected, anticipated, or indicated in any forward-looking statements as a result of various factors, including those set forth in Item 1A of this Annual Report on Form 10-K under the heading Risk Factors. Readers should also carefully review the risk factors described in the other documents that the Company files from time to time with the SEC. In this Annual Report on Form 10-K, the words anticipates, believes, expects, intends, future, could, estimates, plans, will, could, would, should, potential, continues and similar words or ex other words or expressions referencing future events, conditions or circumstances) identify forward-looking statements. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. The forward-looking statements contained in this Annual Report include, without limitation, statements about our reorganization proceedings under Chapter 11 of the U.S. Bankruptcy Code, our ability to continue as a going concern, the value of our common shares, our delisting proceedings with NASDAQ, our internal controls over our accounting for revenue recognition and income tax transactions, our internal controls over our financial close process, our results of operations and our financial condition. All forward-looking statements included in this document are based on information available to us on the date hereof. We will not undertake and specifically decline any obligation to update any forward-looking statements.

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Item 1. Business
OVERVIEW

GSI Group Inc. and its subsidiaries (collectively referred to as the Company) design, develop, manufacture and sell photonics-based solutions (consisting of lasers, laser systems and electro-optical components), precision motion devices, associated precision motion control technology and systems. Its customers incorporate its technology into their products or manufacturing processes, for a wide range of applications in a variety of markets, including: industrial, scientific, electronics, semiconductor, medical and aerospace. The Company s products enable customers to make advances in materials and processing technology and to meet extremely precise manufacturing specifications.

The Company s products are grouped into three segments: Precision Technology, Semiconductor Systems and Excel Technology, Inc. (Excel). The Company strives to create shareholder value through:

- Organic sales growth by delivering a consistent stream of successful new product launches,
- Generating high levels of cash flow from operations, and
- Acquiring and successfully integrating businesses that have complementary and established core competencies.

GSI Group Inc., founded in 1968 as General Scanning, Inc., was initially incorporated in Massachusetts. General Scanning developed, manufactured and sold components and subsystems for high-speed micro positioning of laser beams. In 1999 General Scanning merged with Lumonics Inc., a Canadian company that developed, manufactured and sold laser-based, advanced manufacturing systems for electronics, semiconductor, and general industrial applications. GSI Lumonics Inc., the post-merger entity, continued under the laws of the Province of New Brunswick, Canada. In 2005, the Company renamed itself GSI Group Inc.

In addition to the restatement of the Company s financial results, which is discussed in the preceding Explanatory Note and further described in detail in Note 2 of Notes to Consolidated Financial Statements, a number of significant events have occurred since August 2008 and through the filing of this Annual Report on Form 10-K. Each of these recent events is discussed below. Following the discussion of these recent events is a discussion of the Company s continuing operations.

SIGNIFICANT RECENT EVENTS

Acquisition of Excel Technology, Inc. in August 2008

In August 2008, the Company acquired Excel, a designer, manufacturer and marketer of photonics-based solutions consisting of lasers, laser-based systems, precision motion devices and electro-optical components, primarily for industrial and scientific applications. Excel, which was headquartered in East Setauket, New York, manufactures its products in plants located in the United States and Germany, and sells its products to customers worldwide, both directly and indirectly through resellers and distributors. The Company acquired Excel in exchange for a cash payment of $368.7 million, including transaction costs, a portion of which was financed by entering into a loan agreement for $210.0 million. This loan is further discussed in the section below titled Chapter 11 Bankruptcy Filing , and in Note 8 of Notes to Consolidated Financial Statements. Subsequent to the acquisition of Excel, the Company established a third segment which is comprised solely of the operations of the newly acquired entity. See Note 4 of Notes to Consolidated Financial Statements for further details regarding the Excel transaction.

Divesture of General Optics Business in October 2008

On October 8, 2008, the Company completed the sale of its General Optics business, located in Moorpark, California, (the U.S. Optics Business) for a sale price of $21.6 million, which represented a gain of $8.7 million, net of tax. The sale of the U.S. Optics Business is reported as Gain on Disposal of Discontinued Operations in our consolidated statements of operations for the year ended December 31, 2008. This business was part of the Company s Precision Technology Segment. The results of operations of the U.S. Optics Business have been reclassified and reported as income from discontinued operations in our consolidated statements of operations. See Note 5 of Notes to Consolidated Financial Statements for further details regarding the sale of the U.S. Optics Business.

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NASDAQ Delisting Determination

On November 3, 2009, the NASDAQ Hearing Panel (the Panel) of the NASDAQ Stock Market (NASDAQ) notified the Company that it had determined to delist the Company s common shares from the NASDAQ Global Select Market and to suspend trading in the Company s common shares effective at the open of market on November 5, 2009. The Panel s determination was made in connection with the Company s non-compliance with the filing requirements set forth in Listing Rule 5250(c)(1) due to the delayed filing of certain of our periodic reports. As permitted by NASDAQ rules, the Company timely appealed the Panel s determination to the NASDAQ Listing and Hearing Review Council (the Listing Council). On January 15, 2010, the Listing Council notified the Company that it affirmed the Panel s decision to delist the Company s securities. On March 15, 2010, the Company received notification from the NASDAQ Stock Market, LLC Board of Directors (the NASDAQ Board) that the NASDAQ Board has declined to call for review the January 15, 2010 decision of the Listing Council. Accordingly, pursuant to Listing Rule 5825, the Listing Council s decision represents the final decision of NASDAQ. In accordance with Listing Rule 5830 and Rule 12d2-2 under the Securities Exchange Act of 1934, NASDAQ filed an application on Form 25 with the SEC on April 5, 2010, to delist the Company s securities from NASDAQ. The application will become effective ten days after filing.

The Company s common shares are currently quoted on the Pink OTC Markets Inc., continuing under the trading symbol GSIGQ. The Company intends to seek relisting of its common shares on a national exchange as soon as possible once it becomes current in its reporting obligations.

Chapter 11 Bankruptcy Filing

In connection with the Company s failure to file the 2008 Q3 Report, as described in the Explanatory Note, on December 12, 2008, the Company announced that it had received four letters from certain noteholders of the 11% Senior Notes due in 2013, in the principal amount of $210.0 million (the Senior Notes), issued by GSI Group Corporation (GSI US), alleging that the Company had failed to comply with a covenant in the Senior Note Indenture (the Indenture), relating to the Senior Notes, as a result of the Company s failure to file its 2008 Q3 Report within the time period specified by the rules and regulations of the SEC. These noteholders further alleged that, if such failure continued for 60 days from the date that the Company received notices of failure from holders comprising at least 25% of the aggregate principal amount of Senior Notes then outstanding, then such failure would constitute an event of default. Although the Company asserted that the letters did not constitute proper notice as required pursuant to the terms of the Indenture, and notified the trustee under the Indenture as such, the Company continued to work diligently to complete the review by its Audit Committee and to file its 2008 Q3 Report to avoid any claim of an Event of Default from occurring under the Indenture. Upon receipt of the letters from the noteholders, the Company commenced discussions with certain of the noteholders. On February 11, 2009, the Company announced that it entered into forbearance agreements with certain noteholders holding greater than 75% of the outstanding aggregate principal amount of the Senior Notes, pursuant to which such noteholders agreed to forebear from taking any action or exercising any remedies under the Indenture as a result of the Company s delayed periodic reports until February 27, 2009, pursuant to other terms and conditions more specifically set forth therein. On June 30, 2009, the Company announced that it reached an agreement on a non-binding term sheet with certain noteholders to consensually restructure the Company s outstanding obligations under the Senior Notes.

Following negotiations between the Company and certain noteholders about the restructuring, on November 20, 2009 (the Petition Date), GSI Group Inc. (GSIG) and two of its United States subsidiaries, GSI US and MES International, Inc. (MES and, collectively with GSIG and GSI US, the Debtors), filed voluntary petitions for relief (the Chapter 11 Petitions) under Chapter 11 of the United States Bankruptcy Code (the Bankruptcy Code) in the United States Bankruptcy Court for the District of Delaware (the Court) (the Chapter 11 Cases). Following the Petition Date, the Debtors will continue to operate their business as debtors-in-possession under the jurisdiction of the Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Court.

On November 19, 2009, in anticipation of filing the Chapter 11 Petitions, the Debtors entered into a Noteholder Restructuring Support Agreement with eight of ten of the beneficial holders (the Consenting Noteholders) of the Senior Notes, representing Consenting Noteholders holding approximately 88.1% of the outstanding principal amount of the Senior Notes. Pursuant to the Noteholder Restructuring Support Agreement, the Consenting Noteholders have agreed, subject to certain conditions, to support the Joint Chapter 11 Plan of Reorganization proposed by the Debtors, which was filed with the Chapter 11 Petitions.

On March 16, 2010, the Debtors entered into an Amended and Restated Plan Noteholder Restructuring Support Agreement (as amended, the Plan Support Agreement) with Consenting Noteholders holding approximately 88.1% of the outstanding principal amount of the Senior Notes. Pursuant to the Plan Support Agreement, the Consenting Noteholders

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have agreed to support a modified plan, in substantially the form of the Second Modified Joint Chapter 11 Plan of Reorganization for the Debtors as filed with the Court on March 16, 2010, and attached as Exhibit A to the Amended Plan Support Agreement (the Second Modified Plan).

On April 9, 2010, the Debtors filed their Third Modified Joint Chapter 11 Plan of Reorganization (as modified, the Plan) with the Court, which reflected further modifications to the Second Modified Plan. The terms of the Plan are hereafter described under the heading The Third Modified Joint Chapter 11 Plan of Reorganization.

The Third Modified Joint Chapter 11 Plan of Reorganization

Pursuant to the Plan, which is subject to Court approval, the holders of claims under the Senior Notes (the Senior Note Claims) would, in exchange for the Senior Note Claims, receive their pro rata portion of (i) shares of new convertible preferred stock of GSIG (the Preferred Shares), which, on an as-converted basis, would represent approximately 53.8% of GSIG s post-consummation outstanding shares, (ii) new secured notes in the aggregate amount of $110 million, (iii) excess cash available under the Plan to the extent certain allowed claims exceed $22.5 million and (iv) a cash payment (the Cash Payment) in an amount of $69,315 for each day from and including the Petition Date until the plan distribution date. Under the terms of the Plan and because the Debtors commenced the Chapter 11 Cases by November 20, 2009, this Cash Payment would be reduced by $2.1 million. On the effective date of the Plan, GSIG would also pay any and all interest accrued on the Senior Note Claims until the Petition Date. As of the Petition Date, there is approximately $6.03 million in accrued and unpaid interest with respect to the Senior Notes. The Preferred Shares would have a 1x liquidation preference and be mandatorily redeemable after 8 years for cash or, if certain circumstances are met, common shares of GSIG. The Preferred Shares would be voted on an as-converted basis together with GSIG s common shares and share *pari passu* in any dividend declared on common shares, but not have any guaranteed fixed dividend rights. The interest rate on the new secured notes would be 12.25% and, at GSI US s option, subject to GSIG s compliance with a fixed charge coverage ratio defined in the indenture for the new secured notes to be entered into upon the effective date of the Plan, would be payable in kind at a compounded rate of 13%. The new secured notes would be issued by GSI US, guaranteed by GSIG, ten of GSI US s United States subsidiaries, and two of GSIG s Canadian subsidiaries and secured by substantially all the assets of GSI US and the guarantors.

As part of the Plan, GSIG s wholly owned subsidiary, GSI Group Limited, would, in exchange for claims under an unsecured note in the principal amount (as fixed pursuant to the Plan) of $20 million, payable by GSI US to GSI Group Limited (the GSI UK Note Claim), receive (i) Preferred Shares, which, on an as-converted basis, would represent approximately 5.1% of GSIG s post-consummation outstanding shares, (ii) approximately $10.5 million of the new secured notes, (iii) its pro rata share of the excess cash available under the Plan to the extent certain allowed claims exceed $22.5 million and (iv) its pro rata share of the Cash Payment, as adjusted. On the effective date of the Plan, GSIG would also pay interest accrued on the GSI UK Note Claim until the Petition Date.

As contemplated by the Plan, existing shareholders would (i) retain 41.1% of GSIG s post-consummation outstanding shares, which would be issued in common shares and (ii) receive one series of three-year warrants to purchase a number of common shares equal to 10% of 111% of the post consummation outstanding shares of GSIG (that is, the number of shares of GSIG that would equal 10% of the shares of GSIG, including the Preferred Shares on an as-converted basis, before taking into account the number of shares represented by such warrants) at a strike price of $2.50 per share.

Under the proposed Plan, all classes of claims, including all claims by vendors and suppliers, would be unimpaired and paid in full, except for the Senior Note Claims, the GSI UK Note Claim and the equity interest in GSIG.

The Plan provides that its effectiveness is subject to customary conditions, including, without limitation, that the effective date occurs on or before May 20, 2010, unless such date is extended pursuant to the Plan Support Agreement.

The Plan contemplates that the Debtors will continue to operate their businesses in substantially their current form. On November 23, 2009, the Debtors obtained the Court s approval of so-called first day motions providing for the continued payment of vendors and suppliers under normal terms in the ordinary course of business for goods and services provided to the Debtors prior to and after the Petition Date. On December 18, 2009, the Court approved the Plan Support Agreement. The Court further approved the Debtors Disclosure Statement with respect to the Plan on January 8, 2010, and set a date for consideration of confirmation of the Plan for April 16, 2010.

The Plan provides that, following the effective date of the Plan, GSIG s Board of Directors would be comprised of seven directors, to include its Chief Executive Officer, three members to be appointed by the beneficial holders of the Senior Notes, two members to be appointed by the current shareholders of GSIG and one member to be appointed by the current board of

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directors of GSIG, which member will be selected from the members of GSIG s current board of directors as of the date of the Plan. The Plan anticipates that the current officers of GSIG would continue as officers of GSIG following the effective date of the Plan.

The recoveries summarized above and the other terms of the Company s restructuring are more fully described in the Plan.

The Plan Support Agreement

The Debtors proposed financial restructuring, as set forth in the Plan, has the support of Consenting Noteholders holding approximately 88.1% of the principal amount of the outstanding Senior Notes, representing 80% of all holders of the Senior Notes. The Plan Support Agreement was approved by the Court on December 18, 2009, and as noted above, was amended and restated on March 16, 2010.

The Plan Support Agreement requires the Consenting Noteholders, and their successors and assigns, (i) to timely file a notice with the Court indicating that the votes previously submitted by the Consenting Noteholders with respect to the Plan shall constitute and be deemed votes accepting and in favor of the Plan, (ii) not to object to confirmation of the Plan and not to object to, or otherwise commence, any proceeding to oppose or alter the Plan or support an alternative restructuring, (iii) not to withdraw, change or revoke their votes with respect to the Plan, except as otherwise permitted in the Plan Support Agreement, and (iv) except as otherwise permitted in the Plan Support Agreement, not to take any other action, including commencing any legal proceeding, that is inconsistent with, or that would materially prevent, hinder or delay the consummation of, the restructuring.

The support of the Consenting Noteholders under the Plan Support Agreement will terminate under certain circumstances, including, without limitation, if (i) the Debtors are in material breach of any obligations under the Plan Support Agreement, (ii) the Debtors file any motion or pleading with the Court that is inconsistent in a material respect with the Plan Support Agreement or the Plan, (iii) the Court grants relief that is materially inconsistent with the Plan Support Agreement or the Plan, (iv) the Debtors fail to achieve certain deadlines with respect to the approval of the Plan Support Agreement or the disclosure statement or confirmation or effectiveness of the Plan, (v) a trustee is appointed in the Chapter 11 Cases or any of the Chapter 11 Cases is dismissed or converted to a case under Chapter 7 of the Bankruptcy Code or if the Debtors make a motion for such appointment, dismissal or conversion, (vi) the Court enters an order invalidating, disallowing, subordinating, recharacterizing or limiting the principal and interest components of the Senior Note Claims or disgorging any amounts paid prior to the Petition Date from any holder of the Senior Note Claims or (vii) there is a Material Adverse Change to GSIG (as defined in the Plan Support Agreement).

The Plan Support Agreement provides that GSIG shall use its best efforts to (i) support and complete the restructuring and all transactions contemplated by the Plan, (ii) take any and all necessary and appropriate actions in furtherance of the restructuring, (iii) complete the restructuring and all transactions contemplated under the Plan within set time-frames, (iv) obtain any and all required regulatory and/or third-party approvals for the restructuring, and (v) not directly or indirectly seek, solicit, support, consent to, or participate in the negotiation or formulation of alternate plans of reorganization, certain other corporate transactions, such as mergers, dissolutions, or a sale of substantially all of GSIG s assets or any other action that is inconsistent with the reorganization as contemplated by the Plan Support Agreement.

Companies Creditors Arrangement Act

On April 8, 2010, the Debtors commenced certain parallel proceedings to the Chapter 11 Cases before the Court of Queen s Bench of New Brunswick (the NB Court), pursuant to section 46 of the Companies Creditors Arrangement Act, for an order of the NB Court recognizing the foreign main proceeding constituting the Chapter 11 Cases and seeking relief from certain actions by the NB Court.

SEC Investigation

As discussed in the Explanatory Note to the Annual Report on Form 10-K, we have conducted a Revenue Review of certain of our historic revenue transactions. On May 14, 2009, we received a notice from the SEC indicating that the SEC is conducting a formal investigation relating to our historical accounting practices and the restatement of our historical consolidated financial statements. The Company is cooperating fully with the SEC s investigation.

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Going Concern

Operating in bankruptcy imposes significant risks and uncertainties on our business. See Item 1A Risk Factors Risks Relating to Bankruptcy for a discussion of the risks and uncertainties relating to our business and investing in our securities as a result of the Chapter 11 Cases.

The Company believes that when it emerges from bankruptcy it will be sufficiently capitalized. The Company expects that it will have assets that exceed its liabilities, and that those assets, as well as the net assets derived from its continuing operations, will be sufficient to meet the Company s obligations, including the obligations with respect to the payment of interest, and repayment of principal under the New Term Loan. Notwithstanding the Company s expectation upon its emergence from bankruptcy, uncertainties inherent in the bankruptcy process raise substantial doubt about the Company s ability to continue as a going concern. In particular, until the Plan is confirmed by the Court, the Company may be required to pay the Senior Note Claims under the original terms of the Senior Notes. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

THE COMPANY S CONTINUING OPERATIONS

The Company operates in three segments, Precision Technology, Semiconductor Systems and Excel, which are described below.

Precision Technology Segment

The Company s Precision Technology Segment designs, manufactures, and markets lasers, optical scanners, optics, air bearing spindles, encoders, and thermal printers to customers worldwide. The Company s OEM products include those based on its core competencies in laser, precision motion and motion control technology. The Company sells the products in the Precision Technology Segment both directly and indirectly through resellers and distributors.

The Precision Technology Segment has six major product lines, including lasers, scanners, optics, printed circuit board spindles, encoders and thermal printers.

Product Line	Key End Markets	Description
Lasers	Industrial, Electronics, Automotive, Medical, Packaging and Aerospace	Applications include welding, cutting, drilling, surface marking, and deep engraving of metal and plastic parts.
Scanners	Industrial Electronics, Aerospace, and Medical Applications	High precision motors that, when coupled with a mirror, can direct a laser beam with a high degree of accuracy. Applications include laser marking and coding, laser machining and welding, high density via hole drilling of printed circuit boards, retinal scanning, laser-based vision correction, high resolution printing, 2D or 3D imaging, and laser projection and entertainment.
Optics	Aerospace, Telecommunications, And Industrial	Super flat and super polished optics, and high performance mirrors primarily used with a scanner to direct a laser light. Applications include all of the above (Scanners), and in addition, the deflection of laser beams in aircraft gyroscopes, and bending optical light beams that transmit telecommunications data.
Printed Circuit Board Spindles	Electronics	High-speed air bearing spindles used to drill very small and precise holes in printed circuit boards. Other applications include: semiconductors, industrial and printing.
Encoders	Electronics	Linear and rotary electro-optical tracking devices that measure movement with sub-micron accuracy. Applications include: motion control of semiconductor and electronic manufacturing equipment, confocal microscopes, positioning magnetic rings on hard drives, precision manufacturing and coordinate measuring systems.
Thermal Printers	Medical	Rugged paper tape printers for the medical instruments and defibrillator markets.

Semiconductor Systems Segment

The Company s Semiconductor Systems Segment designs, develops and sells production systems that process semiconductor wafers using laser beams and high precision motion technology. The Company sells manufacturing systems to

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integrated device manufacturers and wafer processors. The Company s systems perform laser based processing on all of the following types of semiconductors: general wafers used for logic or memory purposes, dynamic random access memory (DRAM, NAND) chips and high performance analog chips.

Semiconductor manufacturers main technology challenge is to meet the trend toward ever shrinking circuit sizes demanded by consumers of micro-electronics like cell phones. As semiconductor manufacturers put more memory on smaller dye, the two critical challenges for production system suppliers are the ability to provide systems that can process wafers with manufacturing accuracy to the sub-micron level and to increase the wafer processing throughput.

The Semiconductor Systems Segment has three major product lines.

Product Line	Key End Markets	Description
WaferRepair	Semiconductor - DRAM and Flash Memory chips	Wafer Repair is used to raise production yields for 300mm and 200mm DRAM and NAND wafers to commercially acceptable levels.
WaferTrim	Semiconductor - high performance analog and mixed signal devices	Wafer Trim systems enable production of high performance integrated circuits by precisely trimming analog and mixed signal integrated circuits with a laser beam to achieve a specified electrical resistance.
WaferMark	Semiconductor - silicon suppliers and integrated circuit factories	WaferMark systems are used to mark silicon wafers with characters or markings at various stages of the wafer and integrated circuit manufacturing process. The marks are designed to aid process control and device traceability.

The Semiconductor Systems Segment also includes two smaller product lines, CircuitTrim and SVS CircuitTrim systems are used in the production of thick and thin film resistive components for surface mount technology electronic circuits, known as chip resistors, as well as thick and thin film hybrid circuits, and for adjusting the performance of complete multi-chip modules. SVS inspection equipment is used to inspect pre- and post- reflow solder paste and component placement on printed circuit boards.

Excel Segment

The Company s Excel Segment designs, manufactures and markets photonics-based solutions consisting of lasers, laser-based systems, precision motion devices and electro-optical components, primarily for industrial and scientific applications. The Company sells the products in the Excel Segment to customers worldwide, both directly and indirectly through resellers and distributors.

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The Excel Segment has four major product lines.

Product Line	Key End Markets	Description
Lasers and Laser-Based Systems	Industrial, Scientific and Homeland Security	Applications include cutting, marking, engraving and micro-machining, scientific research, remote sensing and automation.
Scanners	Industrial, Medical, Scientific, Military and Academic	High precision motors that, when coupled with a mirror, can direct a laser beam with a high degree of accuracy. Applications include product laser marking and coding, laser machining and welding, high density via hole drilling of printed circuit boards, scanning microscopy, retinal scanning and Optical Coherence Tomography imaging for laser-based biomedical diagnostics, laser-based vision correction, high resolution printing, holographic storage, semiconductor wafer inspection and processing, 2D or 3D imaging and laser projection and entertainment.
Optics	Scanning	Thin-filmed optics primarily used with a scanner to direct a laser light. Applications include optical scanners, laser systems, professional motion picture cameras and a myriad of other industrial and scientific applications, as well as interferometry and research and development.
Light and Color Measurement	Aerospace, Automotive, Lighting, Motion Picture, Research and Development and related industries	Color metrology systems are used by a wide variety of industries for research, quality control and on-line testing, including portable battery operated Spectro radio meter, photometers and video photometers.

Products and Services

The Company s sales and gross margin contributions in 2008 were derived from the following business segments (dollars in thousands):

	Sales	Gross Margin Percentage
Precision Technology	$ 146,616	33.5%
Semiconductor Systems	88,494	31.1%
Excel	55,612	37.2%
Intersegment sales eliminations(1)	(2,254)	(14.8)%
Total	$ 288,468	33.8%

(1) Sales of the Precision Technology Segment s products to the Semiconductor Systems Segment.

Customers

The Company has a diverse group of customers that includes some of the largest global leaders in their industries. Many of the Company s customers participate in several market segments. In 2008, 2007 and 2006, no single customer accounted for 10% or more of sales.

Customers of our Semiconductor Systems Segment include some of the major semiconductor and silicon wafer producers. Most of these customers are end users who use our systems in their factories to manufacture products that include silicon wafers, memory chips, analog and hybrid micro-circuits in volume. A large number of them are based in Asia.

Customers of our Precision Technology and Excel Segments include a large number of original equipment manufacturers who integrate our products into their systems for sale to end users. Some of our Precision Technology and Excel products are also sold directly to end users. Precision Technology Segment and Excel Segment customers include

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leaders in the semiconductor equipment, industrial systems, electronics, automotive, data storage, and medical equipment markets. A typical OEM customer will evaluate a Precision Technology Segment or Excel Segment product before deciding to incorporate it into a product or system. Customers generally choose suppliers based on a number of factors, including product performance, reliability, price, breadth of the supplier s product offering, and the geographical coverage offered by the supplier. Once Precision Technology Segment and Excel Segment products have been designed into a given OEM customer s product or system, there are generally significant barriers to subsequent supplier changes.

Manufacturing

The Company manufactures Precision Technology Segment products at facilities in Bedford, Massachusetts; Poole, Rugby and Taunton, United Kingdom and Suzhou, China. Semiconductor Systems Segment products are manufactured, assembled and tested in Bedford, Massachusetts. The Company manufactures Excel Segment products at facilities in Lexington, Massachusetts, East Setauket, New York; Orlando, Florida; Chatsworth, Oxnard and Santa Clara, California; Cambridge, Massachusetts; Mukilteo, Washington, and Ludwigsburg, Germany. Most of the Company s products are manufactured under ISO 9001 certification. Manufacturing functions are performed internally when management chooses to maintain control over critical portions of the production process or for cost related reasons. To the extent practical, the Company outsources the remaining portions of the production process. The Semiconductor Systems Segment focuses on outsourcing low value parts and modules and internally retains the tasks of final assembly of subsystems, testing and quality control.

All volume manufacturing of legacy laser products are moving from the Rugby, U.K. facilities, to other Company (including former Excel) laser manufacturing sites. The restructuring was significantly completed in 2009 and is projected to generate annual pretax savings in the range of $2.0 to $3.0 million.

Research and Development and Engineering

The Company continues to make a strong commitment to research and development for core technology programs directed at creating new products, product enhancements and new applications for existing products, as well as funding research into future market opportunities. Each of the markets the Company serves is generally characterized by rapid technological change and product innovation. The Company believes that continued timely development of new products and product enhancements to serve existing and new markets is necessary to remain competitive.

In 2008, 2007 and 2006 respectively, the Company incurred research and development and engineering expenses of $33.4 million, $29.9 million and $30.1 million, which represents 11.6%, 10.3% and 11.6% of sales, respectively.

Marketing, Sales and Distribution

The Company sells its products worldwide through use of a direct sales force team and through distributors and sales agents. In the case of products sold through the Company s direct sales force, or local sales, applications and service teams work closely with our customers and leverage incremental supporting organizations from the Company to ensure customer satisfaction with our products. Our distributors work with customers in a similar fashion.

Precision Technology products are sold worldwide mostly through direct sales, as well as through distributors, primarily to OEMs. Precision Technology businesses have sales and service centers located in Massachusetts, Michigan, California, United Kingdom, Germany, Switzerland, Taiwan, China, Singapore and Japan. Sumitomo Heavy Industries Ltd. (a significant shareholder of the Company) is a key distributor for certain products in Japan. Because of the fundamental nature and relatively small physical size of the products, the Precision Technology Segment generally employs a factory direct strategy in support of its worldwide customer base except in its laser product line where parts and field technical support is significant.

Semiconductor Systems products are sold directly, or, in some territories, through distributors. End users include semiconductor integrated device manufacturers and electronic component and assembly firms. Sales activities are directed from the product business unit sites in North America, Europe, Japan and Asia Pacific. Field offices are located close to key customers manufacturing sites to maximize sales and support effectiveness. Significant revenues are derived from the sales of parts, and the provisioning of services relating to the installed base of equipment previously sold to customers. The Company maintains field offices in Germany, Japan, South Korea, China, Taiwan and Singapore.

Excel products are sold worldwide mostly through direct sales, as well as through distributors, primarily to OEMs. Excel Segment businesses have sales and service centers located in Massachusetts, Florida, New York, Washington, California, United Kingdom, Germany, Italy, France, Malaysia, India and Japan. The Company also engages independent manufacturers representatives for the sale of its Excel Segment products. Foreign sales of the Company s Excel Segment products are made primarily through foreign equipment distribution organizations. With the Company s acquisition of

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Excel, the Company also has a 50% equity ownership in a joint venture based in Mumbai, India. This joint venture markets, sells, installs and provides application support for certain of Excel s products in the southern Asian region.

Competition

The industries in which the Company participates are dynamic and highly competitive. The Company s markets in the photonics industry are characterized by intense competition and rapid technological change. Accordingly, the Company believes that it must continue to improve and refine its existing products and systems and develop new applications for its technology.

Competitive factors in the Company s Precision Technology and Excel Segments include: product performance, price, quality, features, flexibility, compatibility of products with existing systems, technical support, product breadth, market presence, on-time delivery and the Company s overall reputation. The main competitive factors in the Semiconductor Systems Segment include product performance, throughput and price. The Company believes that its products offer a number of competitive advantages, however, some of its competitors are substantially larger and have greater financial and other resources than the Company.

The table below illustrates the competition faced in the markets that the Company serves.

Segment	Product Line	Main Competitor(s)
Precision Technology	Lasers	Rofin-Sinar, Trumpf-Haas, IPG Photonics, Unitek-Miyachi, Lasag, and other specialized lasers and systems manufacturers
	Scanners	Fragmented among numerous suppliers, including Scanlabs GmbH
	Optics	Fragmented among numerous suppliers
	Printed circuit board spindles	ABL (owned by Hitachi), Mechatronics, Precise
	Encoders	Renishaw and Heidenhain
	Thermal printers	Advanced Printing Solutions
Semiconductor Systems	All semiconductor product lines	Electro Scientific Industries, Innolas, Shibaura, Omron
Excel	Lasers and laser-based systems	Rofin-Sinar, Coherent, Newport (Spectra-Physics), Electrox, Foba, Laservall, SEI s.p.A., Cheval Frere, Fotona, E.O. Technics, Trump-Haas, IPG Photonics, Hans Laser, Electro Scientific Industries, ULS, Clark-MXR, Femtolaser, Thales Laser, Cyber Laser, New Wave Research, Quantel Lasers, Big Sky Lasers, Amplitide, Litron, Ekspla, and other specialized lasers and systems manufacturers
	Scanners	Fragmented among numerous suppliers
	Optics	Fragmented among numerous suppliers
	Light and color measurement	Minolta and Topcon

Sources of Supply

The Company depends on an uninterrupted supply of a large number of parts and components. Many of those parts and components are critical, and are available from a limited number of suppliers. The Company procures some components from a single source. The Company also relies on a limited number of independent contractors to manufacture subassemblies for some of its products. A disruption of this supply chain could potentially result in substantial manufacturing delays and additional costs. If suppliers or subcontractors experience difficulties that result in a reduction or interruption in supply to the Company, or fail to meet any of its manufacturing or quality requirements, the Company s business could be harmed unless or until it is able to secure alternative sources. These components and manufacturing services may not continue to be available to the Company at favorable prices, or at all.

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In the Precision Technology Segment, the Company sources most of the parts externally. However, the Company also manufactures many parts, including some critical parts, internally, particularly in the air bearing spindle business. The Company also purchases fully-functional electronics as well as certain key components, such as laser diodes, from external sources.

In the Semiconductor Systems Segment, the Company purchases major subsystems, such as lasers, motion stages, vision systems and software, fully-functional electronics and frames and racks, from the merchant market. Its optics components are both internally manufactured and externally purchased. In some cases, upper level assemblies and entire systems are outsourced to electronic manufacturing services companies.

In the Excel Segment, the Company relies upon unaffiliated suppliers for the material components and parts used to assemble its products. Most parts and components purchased from suppliers are available from multiple sources.

To date, the Company has not experienced any significant delays in obtaining parts and components for its products. The Company believes that it will be able to continue to obtain most required components and parts from a number of different suppliers, although there can be no assurance thereof. The Company cannot guarantee that its suppliers will continue to perform in a satisfactory fashion.

Patents and Intellectual Property

The Company relies upon a combination of copyrights, patents, trademarks, trade secret laws and restrictions on disclosure to protect our intellectual property rights. The Company holds approximately 400 issued patents, approximately 240 in the United States and approximately 160 in foreign countries. These patents are set to expire from 2010 through 2027. Additionally, the Company has approximately 230 pending patents, approximately 45 in the United States and approximately 185 in foreign countries. The issued patents cover various products in many of our key product categories, particularly semiconductor systems, optical scanning products, encoders, air bearing spindles, and lasers. In addition, we also have trademarks registered in the United States and foreign countries. We will continue to actively pursue application for new patents and trademarks as we deem appropriate. However, there can be no assurance that any other patents will be issued to the Company or that such patents, if and when issued, will provide any protection or benefit to the Company.

Although the Company believes that its patents and pending patent applications are important, the Company relies upon several additional factors that are essential to our business success, including: market position, technological innovation, know-how and product performance. There can be no assurance that the Company will realize any of these advantages.

We also protect our proprietary rights by controlling access to our proprietary information and by maintaining confidentiality agreements with our employees and consultants, and certain of our customers and suppliers. There can be no assurance, however, that other companies are not investigating or developing other technologies that are similar to ours. It is also possible that, despite our efforts, other parties may use, obtain or try to copy our technology and products, and that the steps we take to protect our propriety information may not provide meaningful protection in the event of misappropriation or disclosure. Further, policing authorized use of our intellectual property rights is difficult and time consuming and may involve initiating claims or litigation against third parties for infringement of our propriety rights, which could be costly. In particular, our efforts to protect our intellectual property rights may not be effective in some foreign countries where we operate or se