KOREA ELECTRIC POWER CORP
Form 6-K
April 27, 2006

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

For the Month of April 2006

KOREA ELECTRIC POWER CORPORATION

(Translation of registrant s name into English)

167, Samseong-dong, Gangnam-gu, Seoul 135-791, Korea

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F __X__ Form 40-F ______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ______

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ______

Indicate by check mark whether the registrant by furnishing the information contained in this form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ______ No __X__

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-____ .

This Report of Foreign Private Issuer on Form 6-K is deemed filed for all purposes under the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, including by reference in the Registration Statement on Form F-3

(Registration No. 33-99550) and the Registration Statement on Form F-3 (Registration No. 333-9180).

KOREA ELECTRIC POWER CORPORATION

Non-consolidated Financial Statements

December 31, 2005 and 2004

(With Independent Auditors   Report Thereon)

Independent Auditors Report

Based on a report originally issued in Korean

The Board of Directors and Stockholders

Korea Electric Power Corporation:

We have audited the accompanying non-consolidated balance sheets of Korea Electric Power Corporation (the Company) as of December 31, 2005 and 2004, and the related non-consolidated statements of income, appropriation of retained earnings and cash flows for the years then ended. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the Republic of Korea. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Korea Electric Power Corporation as of December 31, 2005 and 2004, and the results of its operations, the appropriation of its retained earnings, and its cash flows for the years then ended in conformity with the Korea Electric Power Corporation Act, the Accounting Regulations for Government Invested Enterprises and accounting principles generally accepted in the Republic of Korea.

The accompanying non-consolidated financial statements as of and for the years ended December 31, 2005 and 2004 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the non-consolidated financial statements expressed in Korean Won have been translated into dollars on the basis set forth in note 2 to the financial statements.

Without qualifying our opinion, we draw attention to the following:

As discussed in note 1(b) to the non-consolidated financial statements, accounting principles and auditing standards and their application in practice vary among countries. The accompanying non-consolidated financial statements are not intended to present the financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries other than the Republic of Korea. In addition, the procedures and practices utilized in the Republic of Korea to audit such financial statements may differ from those generally accepted and applied in other countries. Accordingly, this report and the accompanying financial statements are for use by those knowledgeable about Korean accounting principles, the Korea Electric Power Corporation Act, the Accounting Regulations for Government Invested Enterprises, and Korean accounting procedures and auditing standards and their application in practice.

As discussed in notes 1(e) and 1(u) to the non-consolidated financial statements, effective January 1, 2005, the Company adopted Statement of Korea Accounting Standards (SKAS) No. 15 *Investments in Associates* and No. 16 *Income Taxes* . As allowed by these standards, prior year balances were not reclassified to conform with the current year presentation.

As discussed in note 27 to the non-consolidated financial statements, the Company had sales and purchases with related parties, including the six power generation subsidiaries for the year ended December 31, 2005 and related receivables and payables as of December 31, 2005. Also, as of December 31, 2005, the Company has short-term borrowings and long-term borrowings (including current portion) from Korea Development Bank (KDB). The Company is providing debt guarantees to its foreign subsidiaries. In addition, KDB, one of the Company s major shareholders, is providing guarantees for some of the Company s foreign currency debt.

Seoul, Korea

January 27, 2006

This report is effective as of January 27, 2006, the audit report date. Certain subsequent events or circumstances, which may occur between the audit report date and the time of reading this report, could have a material impact on the accompanying non-consolidated financial statements and notes thereto. Accordingly, the readers of the audit report should understand that there is a possibility that the above audit report may have to be revised to reflect the impact of such subsequent events or circumstances, if any.

Korea Electric Power Corporation

Non-consolidated Balance Sheets

December 31, 2005 and 2004

(In millions of Korean Won and in thousands of U.S. dollars)

	Won		U.S. dollars (note 2)	
Assets	**2005**	**2004**	**2005**	**2004**
Property, plant and equipment (notes 3 and 5):	(Won) 43,163,840	40,125,462	$ 42,609,911	39,610,525
Less: accumulated depreciation	(10,854,375)	(9,107,944)	(10,715,078)	(8,991,060)
Less: construction grants	(3,640,966)	(3,182,366)	(3,594,242)	(3,141,527)
	28,668,499	27,835,152	28,300,591	27,477,938
Construction in-progress	2,118,540	2,110,396	2,091,353	2,083,313
	30,787,039	29,945,548	30,391,944	29,561,251
Investments and other assets:				
Investment securities (note 6)	26,797,485	25,462,887	26,453,588	25,136,118
Long-term loans (note 7)	180,084	163,525	177,773	161,427
Currency and interest rate swaps (note 22)	549,668	312,611	542,614	308,599
Intangible assets (note 4)	235,040	233,016	232,023	230,026
Other non-current assets (notes 8 and 19)	151,854	148,158	149,906	146,256
	27,914,131	26,320,197	27,555,904	25,982,426
Current assets:				
Cash and cash equivalents (notes 9 and 19)	208,513	445,863	205,837	440,141
Trade receivables, less allowance for doubtful accounts of (Won)44,330 in 2005 and (Won)33,810 in 2004 (note 27)	2,041,366	1,576,542	2,015,169	1,556,310
Other accounts receivable, less allowance for doubtful accounts of (Won)5,232 in 2005 and (Won)19,944 in 2004 and present value discount of nil in 2005 and (Won)14,125 in 2004 (notes 19, 21 and 27)	263,041	465,821	259,665	459,843
Short-term financial instruments (note 10)	38,000	46,000	37,512	45,410
Inventories (note 11)	92,741	70,484	91,551	69,580
Deferred income tax assets (note 25)	207,860		205,192	
Other current assets (notes 7 and 12)	74,150	46,869	73,199	46,267
	2,925,671	2,651,579	2,888,125	2,617,551
Total assets	(Won) 61,626,841	58,917,324	$ 60,835,973	58,161,228

Korea Electric Power Corporation

Non-consolidated Balance Sheets, Continued

December 31, 2005 and 2004

(In millions of Korean Won and in thousands of U.S. dollars, except share data)

	Won		U.S. dollars (note 2)	
Liabilities and Shareholders Equity	**2005**	**2004**	**2005**	**2004**
Stockholders equity:				
Common stock of (Won)5,000 par value Authorized - 1,200,000,000 shares Issued - 641,567,712 shares in 2005 and 640,748,573 shares in 2004 (note 13)	(Won) 3,207,839	3,203,743	$ 3,166,672	3,162,629
Capital surplus (notes 3 and 13)	14,422,727	14,372,895	14,237,637	14,188,446
Retained earnings (note 14):				
Appropriated	22,209,291	19,554,340	21,924,275	19,303,395
Unappropriated	2,444,451	3,379,107	2,413,082	3,335,742
Capital adjustments (note 15)	(78,646)	(233,151)	(77,636)	(230,159)
Total shareholders equity	42,205,662	40,276,934	41,664,030	39,760,053
Long-term liabilities:				
Long-term borrowings, net (notes 18 and 27)	10,430,342	10,118,184	10,296,488	9,988,336
Accrual for retirement and severance benefits, net (note 20)	450,422	439,701	444,641	434,058
Reserve for self insurance	98,618	93,352	97,353	92,154
Currency and interest rate swaps (note 22)	56,388	158,060	55,665	156,032
Deferred income tax liabilities (note 25)	2,300,950	1,822,513	2,271,422	1,799,125
Other long-term liabilities	401,270	381,942	396,119	377,040
	13,737,990	13,013,752	13,561,688	12,846,745
Current liabilities:				
Trade payables (note 27)	2,103,862	1,377,976	2,076,863	1,360,292
Other accounts payable (note 27)	358,007	506,049	353,412	499,555
Short-term borrowings (note 17)	71,000	200,172	70,089	197,603
Current portion of long-term borrowings, net (note 18)	2,328,206	2,198,443	2,298,328	2,170,230
Income tax payable	97,189	677,599	95,942	668,903
Accrued interest expense	81,749	95,858	80,700	94,628
Other current liabilities (note 21)	643,176	570,541	634,921	563,219
	5,683,189	5,626,638	5,610,255	5,554,430
Total liabilities	19,421,179	18,640,390	19,171,943	18,401,175
Commitments and contingencies (note 29)				
Total shareholders equity and liabilities	(Won) 61,626,841	58,917,324	$ 60,835,973	58,161,228

See accompanying notes to non-consolidated financial statements.

Korea Electric Power Corporation

Non-consolidated Statements of Income

For the years ended December 31, 2005 and 2004

(In millions of Korean Won and in thousands of U.S. dollars, except earnings per share)

	Won		U.S. dollars (note 2)	
	2005	**2004**	**2005**	**2004**
Operating revenues:				
Sale of electricity (notes 27 and 32)	(Won) 24,995,344	23,490,001	$ 24,674,575	23,188,550
Other operating revenues (note 27)	116,987	109,912	115,486	108,501
	25,112,331	23,599,913	24,790,061	23,297,051
Operating expenses (notes 27 and 29):				
Power generation, transmission and distribution costs (note 23)	3,964,824	3,687,105	3,913,942	3,639,788
Purchased power	18,543,717	16,766,232	18,305,742	16,551,068
Other operating costs	122,680	112,369	121,106	110,927
Selling and administrative expenses (note 24)	1,155,193	1,061,048	1,140,370	1,047,430
	23,786,414	21,626,754	23,481,160	21,349,213
Operating income	1,325,917	1,973,159	1,308,901	1,947,838
Other income (expense):				
Interest income	16,001	36,079	15,796	35,616
Interest expense	(472,979)	(562,971)	(466,909)	(555,747)
Gain on foreign currency	235,946	616,592	232,918	608,680

transactions and translation, net				
Donations (note 31)	(108,636)	(81,682)	(107,241)	(80,634)
Rental income (note 28)	128,469	130,237	126,820	128,565
Equity income of affiliates, net (note 6)	1,912,194	1,793,808	1,887,655	1,770,788
Gain on disposal of property, plant and equipment, net	22,359	5,887	22,072	5,811
Valuation gain on currency and interest rate swaps, net (note 22)	127,363	20,806	125,729	20,539
Other, net	(5,593)	56,848	(5,523)	56,118
	1,855,124	2,015,604	1,831,317	1,989,736
Income before income taxes	3,181,041	3,988,763	3,140,218	3,937,574
Income taxes (note 25)	(732,430)	(1,107,993)	(723,031)	(1,093,774)

Table of Contents

GSI GROUP INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands of U.S. dollars)

(Unaudited)

	Three Months Ended		**Nine Months Ended**	
	September 28, 2012	**September 30, 2011**	**September 28, 2012**	**September 30, 2011**
Consolidated net income (loss)	$ (2,515)	$ 8,816	$ 3,765	$ 25,153
Other comprehensive income (loss):				
Foreign currency translation adjustments	2,070	(1,661)	1,924	1,348
Pension liability adjustments, net of tax [(1)]	120	76	612	227
Total other comprehensive income (loss)	2,190	(1,585)	2,536	1,575
Total consolidated comprehensive income (loss)	(325)	7,231	6,301	26,728
Less: Comprehensive (income) loss attributable to noncontrolling interest	(19)	29	(45)	(35)
	$ (344)	$ 7,260	$ 6,256	$ 26,693

Comprehensive income (loss)
attributable to GSI Group Inc.

(1) The tax effect on the component of comprehensive income is nominal for all periods presented.

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)

	Nine Months Ended	
	September 28, 2012	September 30, 2011
Cash flows from operating activities:		
Consolidated net income	$ 3,765	$ 25,153
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,429	11,463
Share-based compensation	3,479	2,518
Deferred income taxes	(657)	59
Earnings from equity investment	(364)	(1,302)
Non-cash interest expense	796	540
Non-cash restructuring charges	3,599	48
Other non-cash items	91	685
Changes in operating assets and liabilities:		
Accounts receivable	(5,766)	(1,453)
Inventories	(62)	(4,021)
Prepaid expenses, income taxes receivable and other current assets	1,935	5,958
Deferred revenue	(2,975)	(11,055)
Accounts payable, accrued expenses and income taxes payable	6,183	4,017
Other non-current assets and liabilities	1,046	(1,888)
Cash provided by operating activities	21,499	30,722
Cash flows from investing activities:		
Purchases of property, plant and equipment	(3,734)	(2,607)
Proceeds from the sale of property, plant and equipment	283	
Cash used in investing activities	(3,451)	(2,607)
Cash flows from financing activities:		
Payments for debt issuance cost	(92)	
Payments of withholding taxes from stock-based awards	(100)	
Capital lease payments	(596)	
Repayments of long-term debt	(7,500)	(35,000)
Repayments of borrowings under the revolving credit facility	(13,000)	
Cash used in financing activities	(21,288)	(35,000)
Effect of exchange rates on cash and cash equivalents	1,268	759
Decrease in cash and cash equivalents	(1,972)	(6,126)
Cash and cash equivalents, beginning of period	54,835	56,781
Cash and cash equivalents, end of period	$ 52,863	$ 50,655

Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 1,441	$ 9,940
Cash paid for income taxes	686	1,581
Income tax refunds received	222	14
Supplemental disclosure of non cash investing and financing activity:		
Issuance of PIK notes		532

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

6

Table of Contents

GSI GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

AS OF SEPTEMBER 28, 2012

(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 laser-based solutions, optical control devices, and associated precision technologies. Our technology is incorporated into customer products or manufacturing processes for a wide range of applications in a variety of markets, including: electronics, industrial, medical, and scientific. Our products enable customers to make advances in materials and processing technology and to meet extremely precise manufacturing specifications.

The accompanying unaudited consolidated financial statements have been prepared in U.S. dollars and in accordance with U.S. generally accepted accounting principles, applied on a consistent basis. The accounting policies underlying these unaudited consolidated financial statements are those set forth in Note 3 to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011. Those policies are not presented herein, except to the extent that new policies have been adopted, or there is material current period activity or changes to our policies. As discussed in Note 2, the Company classified the Semiconductor Systems and Laser Systems businesses as held for sale beginning in the second quarter of 2012. As a result, certain prior period information included in the consolidated statements has been reclassified to conform to the current period presentation.

The interim consolidated financial statements include the accounts of the Company and its 50% owned joint venture, Excel Laser Technology Private Limited (Excel SouthAsia JV). Intercompany transactions and balances have been eliminated.

The Company s unaudited interim financial statements are prepared on a quarterly basis ending on the Friday closest to the end of the calendar quarter, with the exception of the fourth quarter which always ends on December 31.

The unaudited interim consolidated financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC), the instructions to Form 10-Q and the provisions of Regulation S-X pertaining to interim financial statements. Accordingly, certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to such rules and regulations. The interim consolidated financial statements and notes included in this report should be read in conjunction with the financial statements and notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

In the opinion of management, these interim consolidated financial statements include all significant adjustments and accruals necessary for a fair presentation of the results of the interim periods presented. The results for interim periods are not necessarily indicative of results to be expected for the year or for any future periods.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of sales and expenses during the reporting periods. The Company evaluates its estimates based on historical experience, current conditions and various other assumptions that it believes are reasonable under the circumstances. Estimates and assumptions are reviewed on an on-going basis and the effects of revisions are reflected in the period in which they are deemed to be necessary. Actual results could differ significantly from those estimates.

Recent Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board (the FASB) issued Accounting Standard Update (ASU) No. 2011-08, Intangibles Goodwill and Other (Topic 350) Testing Goodwill for Impairment (ASU 2011-08), to allow entities to use a qualitative approach to test goodwill for impairment. ASU 2011-08 permits an entity to first perform a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying value. If it is concluded that this is the case, it is necessary to perform the currently prescribed two-step goodwill impairment test. Otherwise, the two-step goodwill impairment test is not required. ASU 2011-08 became effective for the Company in the second quarter of 2012. The adoption of ASU 2011-08 did not have an impact on the Company s consolidated financial statements.

In July 2012, the FASB issued ASU 2012-02, Testing Indefinite-Lived Intangible Assets for Impairment . Similar to goodwill impairment testing guidance under ASU 2011-08, the revised standard allows entities to use a qualitative approach to test indefinite-lived intangible assets for impairment. ASU 2012-02 permits entities to perform a qualitative assessment by considering events and circumstances which would impact the fair value of the entity s indefinite-lived intangible assets to determine whether it is more likely than not that the fair value of the entity s indefinite-lived intangible assets are impaired. If it is determined that this is the case, it is

Table of Contents

GSI GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS OF SEPTEMBER 28, 2012

(Unaudited)

necessary to perform the currently prescribed two-step impairment test. Otherwise, the two-step impairment test is not required. The revised standard is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The adoption of this amendment will not have a material impact on the Company s consolidated financial statements.

2. Discontinued Operations

Beginning in 2011, the Company initiated a strategic review of its businesses to focus its growth priorities and simplify the Company s business model. In June 2012, the Company committed to a plan for the sale of the Semiconductor Systems operating segment, sold under the GSI brand name, and Laser Systems product lines, sold under the Control Laser and Baublys brand names. In October 2012, the Company sold certain assets and liabilities of the Laser Systems business for $7 million, subject to working capital adjustments. The Company expects to sell the Semiconductor Systems business by the end of the second quarter of 2013. The Company began accounting for these businesses as discontinued operations beginning in the second quarter of 2012. The Company includes all current and historical results of these businesses in income (loss) from discontinued operations, net of tax, in the accompanying consolidated statements of operations. The Company classified the assets and liabilities for these businesses for the current and prior period in the consolidated balance sheets as current assets and current liabilities, respectively. The Company s consolidated statements of cash flows include the cash flows from both continuing and discontinued operations.

The major components of the assets and liabilities of discontinued operations as of September 28, 2012 and December 31, 2011 are as follows (in thousands):

	September 28, 2012	December 31, 2011
Accounts receivable, net	$ 7,687	$ 11,320
Inventories	12,103	14,271
Other assets	1,379	2,616
Property, plant and equipment	6,227	7,456
Assets of discontinued operations	$ 27,396	$ 35,663
Accounts payable, accrued expenses and other current liabilities	$ 6,869	$ 8,861
Deferred revenue	2,017	5,061
Other liabilities	802	884
Liabilities of discontinued operations	$ 9,688	$ 14,806

The following table presents the Semiconductor Systems and Laser Systems operating results which are reported as discontinued operations in the Company s consolidated statement of operations and were historically included in the Semiconductor Systems and Laser Products segments, respectively (in thousands):

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Sales from discontinued operations	$ 9,618	$ 14,553	$ 38,342	$ 47,669
Income (loss) from discontinued operations before income taxes	$ (4,825)	$ 1,545	$ (3,973)	$ 6,223
Income (loss) from discontinued operations, net of tax	$ (4,570)	$ 1,489	$ (3,834)	$ 6,081

3. Bankruptcy Disclosures

On November 20, 2009, GSI Group Inc. and two of its United States subsidiaries filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code (the Chapter 11 Cases). On May 27, 2010, the Bankruptcy Court entered an order confirming and approving the plan of reorganization (the Final Chapter 11 Plan). The transactions contemplated under the Final Chapter 11 Plan were consummated on July 23, 2010. The Chapter 11 Cases were closed on September 2, 2011, and the Company no longer has any legal or material financial constraint relating to those cases.

Post-Emergence Professional Fees

Post-emergence professional fees represent costs incurred subsequent to bankruptcy emergence for financial and legal advisors to assist with matters in finalizing the bankruptcy process, including bankruptcy claim matters. Post-emergence professional fees totaled $0.1 million and $0.3 million during the three and nine months ended September 30, 2011 with no comparable amounts during the three and nine months ended September 28, 2012.

Table of Contents

GSI GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS OF SEPTEMBER 28, 2012

(Unaudited)

4. Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss is as follows (in thousands):

	Total accumulated other comprehensive loss	Foreign currency translation adjustments	Pension liability adjustments
Balance at December 31, 2011	$ (5,024)	$ 2,809	$ (7,833)
Other comprehensive income	2,536	1,924	612
Balance at September 28, 2012	$ (2,488)	$ 4,733	$ (7,221)

During the nine months ended September 28, 2012 and September 30, 2011, the Company reclassified $0.6 million and $0.2 million, respectively, of pension liability adjustments from accumulated other comprehensive loss into net income attributable to GSI Group Inc. The tax effects on the components of comprehensive income were nominal for all periods presented.

5. Earnings per Share

Basic earnings per common share is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the period. For diluted earnings per common share, the denominator also includes the dilutive effect of outstanding restricted stock awards and restricted stock units determined using the treasury stock method. For periods in which net losses are generated the dilutive potential common shares are excluded from the calculation of diluted earnings per share as the effect would be anti-dilutive.

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Numerators:				
Income from continuing operations	$ 2,055	$ 7,327	$ 7,599	$ 19,072
Income (loss) from discontinued operations, net of tax	(4,570)	1,489	(3,834)	6,081

Less: Net (income) loss attributable to noncontrolling interest	(19)	29	(45)	(35)
Net income (loss) attributable to GSI Group Inc.	$ (2,534)	$ 8,845	$ 3,720	$ 25,118
Denominators:				
Weighted average common shares outstanding basic	33,803	33,489	33,755	33,472
Dilutive potential common shares	109	99	159	100
Weighted average common shares outstanding diluted	33,912	33,588	33,914	33,572
Antidilutive common shares excluded from above	424	183	141	118
Basic Earnings (Loss) per Common Share:				
From continuing operations	$ 0.06	$ 0.22	$ 0.23	$ 0.57
From discontinued operations	$ (0.14)	$ 0.04	$ (0.11)	$ 0.18
Basic earnings (loss) per share attributable to GSI Group Inc.	$ (0.07)	$ 0.26	$ 0.11	$ 0.75
Diluted Earnings (Loss) per Common Share:				
From continuing operations	$ 0.06	$ 0.22	$ 0.22	$ 0.57
From discontinued operations	$ (0.14)	$ 0.04	$ (0.11)	$ 0.18
Diluted earnings (loss) per share attributable to GSI Group Inc.	$ (0.07)	$ 0.26	$ 0.11	$ 0.75

6. Fair Value Measurements

Accounting Standards Codification (ASC) 820 establishes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable and the third is considered unobservable:

Level 1: Quoted prices for identical assets or liabilities in active markets which the Company can access.

Level 2: Observable inputs other than those described in Level 1.

Level 3: Unobservable inputs.

Table of Contents

GSI GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS OF SEPTEMBER 28, 2012

(Unaudited)

The Company s cash equivalents are investments in money market accounts, which represent the only asset the Company measures at fair value on a recurring basis. Cash equivalents of $6.9 million and $4.1 million as of September 28, 2012 and December 31, 2011, respectively, are classified as Level 1 in the fair value hierarchy because they are valued at quoted prices in active markets. The fair values of cash, accounts receivable, income taxes receivable, accounts payable, income taxes payable, and accrued expenses and other current liabilities approximate their carrying values because of their short-term nature. See Note 9 to Consolidated Financial Statements for discussion of the estimated fair value of the Company s outstanding debt.

7. Goodwill and Intangible Assets

Goodwill

Goodwill is recorded when the consideration for a business combination exceeds the fair value of net tangible and identifiable intangible assets acquired. There were no changes in the carrying amount of goodwill during the three and nine months ended September 28, 2012. The Company performed its annual goodwill impairment test at the beginning of the second quarter and noted no impairment of goodwill.

Goodwill by reportable segment as of September 28, 2012 and December 31, 2011 is as follows (in thousands):

	Reportable Segment		
	Laser Products	Precision Motion and Technologies	Total
Goodwill	$ 67,926	$ 108,306	$ 176,232
Accumulated impairment of goodwill	(54,099)	(77,555)	(131,654)
Total	$ 13,827	$ 30,751	$ 44,578

Intangible Assets

Intangible assets as of September 28, 2012 and December 31, 2011, respectively, are summarized as follows (in thousands):

	September 28, 2012			December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizable intangible assets:						

Patents and acquired technologies	$ 61,622	$ (50,067)	$ 11,555	$ 61,279	$ (47,350)	$ 13,929
Customer relationships	33,230	(18,382)	14,848	33,115	(16,514)	16,601
Trademarks, trade names and other	5,770	(3,730)	2,040	5,692	(3,452)	2,240
Amortizable intangible assets	100,622	(72,179)	28,443	100,086	(67,316)	32,770
Non-amortizable intangible assets:						
Trade names	13,027		13,027	13,027		13,027
Totals	$ 113,649	$ (72,179)	$ 41,470	$ 113,113	$ (67,316)	$ 45,797

All definite-lived intangible assets are amortized on a straight-line basis over their remaining useful life. Amortization expense was $1.5 million and $1.9 million for the three months ended September 28, 2012 and September 30, 2011, respectively, and $4.4 million and $5.8 million for the nine months ended September 28, 2012 and September 30, 2011, respectively.

10

Table of Contents

GSI GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS OF SEPTEMBER 28, 2012

(Unaudited)

8. Supplementary Balance Sheet Information

The following tables provide the details of selected balance sheet items as of the periods indicated (in thousands):

Inventories

	September 28, 2012	December 31, 2011
Raw materials	$ 32,150	$ 30,406
Work-in-process	12,373	12,943
Finished goods	6,929	6,563
Demo and consigned inventory	1,979	1,627
Total inventories	$ 53,431	$ 51,539

Accrued Expenses and Other Current Liabilities

	September 28, 2012	December 31, 2011
Accrued compensation and benefits	$ 6,095	$ 7,512
Accrued warranty	2,852	3,035
Customer deposits	2,540	380
Other	7,822	8,000
Total	$ 19,309	$ 18,927

Accrued Warranty

	Nine Months Ended	
	September 28, 2012	September 30, 2011
Balance at beginning of the period	$ 3,035	$ 3,174
Provision charged to cost of goods sold	1,958	1,787
Use of provision	(2,191)	(1,927)
Foreign currency exchange rate changes	50	15

Balance at end of period	$ 2,852	$ 3,049

9. Debt

Debt consisted of the following (in thousands):

	September 28, 2012	December 31, 2011
Senior Credit Facility term loan	$ 10,000	$ 10,000
Total current portion of long-term debt	$ 10,000	$ 10,000
Senior Credit Facility term loan	$ 22,500	$ 30,000
Senior Credit Facility revolving credit facility	15,000	28,000
Total long-term debt	$ 37,500	$ 58,000
Total Senior Credit Facility	$ 47,500	$ 68,000

Senior Credit Facility

The Company s senior secured credit agreement (the Credit Agreement) provides for a $40.0 million, 4-year, term loan facility due in quarterly installments of $2.5 million beginning in January 2012 and a $40.0 million, 4-year, revolving credit facility (collectively, the Senior Credit Facility) that matures in 2015. The Credit Agreement also provides for an additional uncommitted $25.0 million incremental facility, subject to the satisfaction of certain customary covenants.

Table of Contents

GSI GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS OF SEPTEMBER 28, 2012

(Unaudited)

Fair Value of Debt

As of September 28, 2012 and December 31, 2011, the outstanding balance of the Company s Senior Credit Facility approximated fair value based on current rates available to the Company for debt of the same maturity, and is classified as Level 2 within the fair value hierarchy.

10. Share-Based Compensation

The table below summarizes activities relating to restricted stock units issued and outstanding under the 2010 Incentive Award Plan during the nine months ended September 28, 2012:

	Restricted Stock Units (In thousands)	Weighted Average Grant Date Fair Value
Unvested at December 31, 2011	741	$ 10.94
Granted	317	11.42
Vested	(162)	11.54
Forfeited	(5)	9.62
Unvested at September 28, 2012	891	$ 11.01
Expected to vest as of September 28, 2012	880	

The total fair value of restricted stock units that vested during the nine months ended September 28, 2012 was $1.9 million based on the market price of the underlying stock on the day of vesting.

The Company recognized share-based compensation expense, including expense associated with fully vested deferred stock units granted during the period, totaling $1.2 million and $0.8 million during the three months ended September 28, 2012 and September 30, 2011, respectively, and $3.5 million and $2.5 million during the nine months ended September 28, 2012 and September 30, 2011, respectively. Share-based compensation expense is primarily included in selling, general, and administrative expense in the Company s consolidated statements of operations and as an increase to additional paid-in capital on the Company s consolidated balance sheets. With the exception of the fully vested, non-forfeitable deferred stock units granted, the Company generally recognizes share-based compensation expense on a straight-line basis over the requisite service period, typically three years, net of estimated forfeitures. The forfeiture rate is determined based on anticipated forfeitures and actual experience.

11. Employee Benefit Plans

The net periodic pension cost for the U.K. defined benefit pension plan includes the following components (in thousands):

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Components of the net periodic pension cost:				
Interest cost	$ 343	$ 377	$ 1,028	$ 1,134
Expected return on plan assets	(315)	(393)	(943)	(1,182)
Amortization of actuarial loss	98	56	293	169
Net periodic pension cost	$ 126	$ 40	$ 378	$ 121

The net periodic pension cost for the Japan defined benefit pension plan for the three and nine months ended September 28, 2012 and September 30, 2011 was not material.

12. Income Taxes

At the end of each interim reporting period, the Company determines its estimated annual effective tax rate, which is revised, as required, at the end of each successive interim period based on facts known at that time. The estimated annual effective tax rate is applied to the year-to-date pre-tax income at the end of each interim period. The tax effect of significant unusual items is reflected in the period in which they occur. Since the Company is incorporated in Canada, it is required to use Canada s statutory tax rate of 25.0% in the determination of the estimated annual effective tax rate. The Company s reported effective tax rate on income from continuing operations of 21.5% and 15.7% for the three and nine months ended September 28, 2012, respectively, differs from the expected Canadian federal statutory rate of 25.0% primarily due to the release of a portion of the Company s valuation allowance and income earned in jurisdictions with varying tax rates.

12

Table of Contents

GSI GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS OF SEPTEMBER 28, 2012

(Unaudited)

The Company maintains a valuation allowance on its deferred tax assets in certain jurisdictions. A valuation allowance is required when, based upon an assessment of various factors, including recent operating loss history, anticipated future earnings, and prudent and reasonable tax planning strategies, it is more likely than not that some portion of the deferred tax assets will not be realized.

In conjunction with the Company s ongoing review of its actual results and anticipated future earnings, the Company continuously reassesses the possibility of releasing the remaining valuation allowance currently in place on its deferred tax assets. It is reasonably possible that a significant portion of the valuation allowance will be released within the next twelve months. Such a release will be reported as a reduction to income tax expense without any impact on cash flows in the quarter in which it is released.

13. Restructuring, Restatement Related Costs and Other

The following table summarizes restructuring, restatement related costs and other expenses in the accompanying consolidated statements of operations (in thousands):

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
2011 restructuring	$ 974	$	$ 5,626	$
2012 restructuring	1,711		1,711	
Germany restructuring	43	14	59	74
Restructuring charges	2,728	14	7,396	74
Restatement related costs and other charges				62
Total restructuring, restatement related costs and other	$ 2,728	$ 14	$ 7,396	$ 136

2011 Restructuring

In November 2011, the Company announced a strategic initiative (2011 restructuring), which aims to consolidate operations to reduce our cost structure and improve operational efficiency. As part of this initiative, the Company expects to eliminate facilities in 2012 and 2013 through consolidation of certain manufacturing, sales and distribution facilities and exit of businesses. The following represents the expected, actual and remaining number of facilities (including facilities of discontinued operations) to be eliminated as part of the 2011 restructuring plan:

	Expected September 28, 2012	Actual September 28, 2012	Remaining September 28, 2012
Total facilities 2011 restructuring	12	5	7

Expected and actual cash charges, including severance and relocation costs, facility closure costs and consulting costs and non-cash charges related to accelerated depreciation for changes in estimated useful lives of certain long-lived assets for which the Company intends to exit were as follows (in thousands):

	Three Months Ended September 28, 2012	Nine Months Ended September 28, 2012	Cumulative Costs for Plan September 28, 2012	Expected Cumulative Costs September 28, 2012
Cash charges	$ 974	$ 3,735	$ 4,797	$ 5,500
Non-cash charges		1,891	2,796	3,000
Total restructuring costs	$ 974	$ 5,626	$ 7,593	$ 8,500

Table of Contents

GSI GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS OF SEPTEMBER 28, 2012

(Unaudited)

The following summarizes restructuring costs for each segment and unallocated corporate costs related to the 2011 restructuring plan (in thousands):

	Three Months Ended September 28, 2012	Nine Months Ended September 28, 2012	Cumulative Costs for Plan September 28, 2012
Laser Products	$ 371	$ 4,335	$ 5,978
Precision Motion and Technologies	452	652	864
Unallocated Restructuring Costs(1)	151	639	751
Total restructuring costs	$ 974	$ 5,626	$ 7,593

(1) Represents consulting and severance restructuring costs related to corporate and shared service functions.

2012 Restructuring

During the third quarter of 2012, we initiated a program to identify additional cost savings due to the continued uncertainty and volatility of the macroeconomic environment (2012 restructuring). We expect total cash costs expected to be incurred under the program to be approximately $2.0 million. We incurred $1.7 million of severance costs associated with the 2012 restructuring program during the three and nine months ended September 28, 2012.

The following summarizes the total costs associated with the 2012 restructuring program for each segment for the three and nine months ended September 28, 2012 (in thousands):

	Three and Nine Months Ended September 28, 2012
Laser Products	$ 501
Precision Motion and Technologies	885
Unallocated Restructuring Costs	325

Total restructuring costs	$ 1,711

Germany Restructuring

The Company records restructuring charges related to the Company s Munich, Germany facility as a result of the restructuring program undertaken beginning in 2000 for the Precision Motion and Technologies segment. These charges primarily relate to the accretion of the restructuring liability and revised future lease payment assumptions. The following summarizes restructuring costs for the Precision Motion and Technologies segment related to the Germany restructuring (in thousands):

	Three Months Ended September 28, 2012	Nine Months Ended September 28, 2012	Cumulative Costs for Plan September 28, 2012
Precision Motion and Technologies	$ 43	$ 59	$ 4,750

Rollforward of Accrued Expenses Related to Restructuring

The following table summarizes the accrual activities, by component, related to the Company s restructuring charges recorded in the accompanying consolidated balance sheets (in thousands):

	Total	Severance	Facility	Accelerated Depreciation	Other
Balance at December 31, 2011	$ 1,561	$ 470	$ 1,062	$	$ 29
Restructuring charges	7,396	3,396	432	1,891	1,677
Cash payments	(4,153)	(2,128)	(840)		(1,185)
Non-cash write-offs or other adjustments	(2,110)	(45)	(175)	(1,891)	1
Balance at September 28, 2012	$ 2,694	$ 1,693	$ 479	$	$ 522

14

Table of Contents

GSI GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS OF SEPTEMBER 28, 2012

(Unaudited)

14. Commitments and Contingencies

Operating Leases

The Company leases certain equipment and facilities under operating lease agreements. There have been no material changes to the Company s operating leases or other commitments through September 28, 2012 from those discussed in Note 12 to Consolidated Financial Statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2011, other than the new seven-year lease agreement for the existing Bedford facility signed in May 2012. Under the terms of the new lease, the lease term is extended from May 2013 to May 2019. The Company will pay annual rent of $1.5 million through the end of the lease term.

Legal Proceedings

During the third quarter of 2005, the Company s French subsidiary, GSI Lumonics SARL (GSI France), filed for bankruptcy protection, which was granted on July 7, 2005. On April 18, 2006, the commercial court of Le Creusot (France) ordered GSI France to pay approximately 0.7 million Euros to SCGI in the context of a claim filed by SCGI that a Laserdyne 890 system delivered in 1999 had unresolved technical problems. No appeal was lodged. On May 6, 2011, GSI Group Ltd. was served with summons from the official receiver of GSI France demanding that GSI Group Ltd. and the Company s German subsidiary, GSI Group GmbH, appear before the Paris commercial court. GSI Group GmbH was subsequently served with a separate summons from the official receiver. The cases against GSI Group Ltd. and GSI Group GmbH were subsequently combined into a single case (docket number 2011/088718). The receiver claimed (i) that the bankruptcy proceedings initiated against GSI France in 2005 should be extended to GSI Group Ltd. and GSI Group GmbH on the ground that GSI France s decisions were actually made by GSI Group Ltd. and that GSI Group GmbH made financial advances for no consideration, which would reveal in both cases confusion of personhood, or (ii) alternatively, that GSI Group Ltd. be ordered to pay approximately 3.1 million Euros (i.e. the aggregate of GSI France s liabilities, consisting primarily of approximately 0.7 million Euros to SCGI and approximately 2.4 million Euros to GSI Group GmbH) on the ground that GSI Group Ltd. is liable in tort for having disposed of GSI France s assets freely and for having paid all of GSI France s debts except for the liability to SCGI. On June 19, 2012, the receiver withdrew its claim with respect to extending the bankruptcy proceedings to GSI Group Ltd. and GSI Group GmbH, and as a result only the tort claim remains pending before the court. The Company currently does not believe a loss is probable. Accordingly, no accrual has been made in the Company s accompanying consolidated financial statements with respect to this claim.

The Company is also subject to various legal proceedings and claims that arise in the ordinary course of business. The Company does not believe that the outcome of these claims will have a material adverse effect upon its financial condition or results of operations but there can be no assurance that any such claims, or any similar claims, would not have a material adverse effect upon its financial condition or results of operations.

IRS Claim

On April 5, 2010, the IRS filed amended proofs of claim aggregating approximately $7.7 million with the Bankruptcy Court as part of the Company s proceedings under Chapter 11 of the Bankruptcy Code. On July 13, 2010, the Company filed a complaint, *GSI Group Corporation v. United States of America*, in Bankruptcy Court in an attempt to recover refunds totaling approximately $18.8 million in federal income taxes the Company asserts it overpaid to the IRS relating to tax years 2000 through 2008, together with applicable interest. The complaint includes an objection to the IRS proofs of claim which the Company believes are not allowable claims and should be expunged in their entirety. Those tax proceedings remain pending, and their resolution in the ordinary course was not affected by the closing of the Chapter 11 Cases.

Guarantees and Indemnifications

In the normal course of its operations, the Company executes agreements that provide for indemnification and guarantees to counterparties in transactions such as business dispositions, sale of assets, sale of products and operating leases. Additionally, the by-laws of the Company require it to indemnify certain current or former directors, officers, and employees of the Company against expenses incurred by them in connection with each proceeding in which he or she is involved as a result of serving or having served in certain capacities. Indemnification is not available with respect to a proceeding as to which it has been adjudicated that the person did not act in good faith in the reasonable belief that the action was in the best interests of the Company. On June 5, 2009, the Board of Directors of the Company approved a form of indemnification agreement to be implemented by the Company with respect to its directors and officers. The form of indemnification agreement provides, among other things, that each director and officer of the Company who signs the indemnification agreement shall be indemnified to the fullest extent permitted by applicable law against all expenses, judgments, fines and amounts paid in settlement actually and reasonably incurred by such officer or director in connection with any proceeding by reason of his or her relationship with the Company. In addition, the form of indemnification agreement provides for the advancement of expenses incurred by such director or officer in connection with any proceeding covered by the indemnification agreement, subject to the conditions set forth therein and to the extent such advancement is not prohibited by law. The indemnification agreement also sets out the procedures for determining entitlement to indemnification, the requirements relating to notice and defense of claims for which indemnification is sought, the procedures for enforcement of indemnification rights, the limitations on and exclusions from indemnification, and the minimum levels of directors and officers liability insurance to be maintained by the Company.

Table of Contents

GSI GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (continued)

AS OF SEPTEMBER 28, 2012

(Unaudited)

15. Segment Information

Reportable Segments

The Company evaluates the performance of, and allocates resources to, its segments based on sales and gross profit. The Company reports operating expenses and assets on a consolidated basis to the chief operating decision maker, which is the Chief Executive Officer. The Company s reportable segments have been identified based on commonality of end markets, customers and technologies amongst the Company s individual product lines, which is consistent with the Company s operating structure and associated management structure.

The Company previously operated in three reportable segments: Laser Products, Precision Motion and Technologies and Semiconductor Systems. The Company committed to a plan for the sale of the Semiconductor Systems and Laser Systems businesses in the second quarter of 2012. As a result, these businesses have been reported as discontinued operations in the consolidated financial statements. Reportable segment financial information has been revised to exclude these businesses. The remaining reportable segments and their principal activities consist of the following:

Laser Products

The Laser Products segment designs, manufactures and markets photonics-based solutions to customers worldwide. The segment serves highly demanding photonics-based applications such as cutting, welding, marking and scientific research. The segment sells these products both directly utilizing a highly technical sales force and indirectly through resellers and distributors.

Precision Motion and Technologies

The Precision Motion and Technologies segment designs, manufactures and markets air bearing spindles, encoders, thermal printers, laser scanning devices, and light and color measurement systems to customers worldwide. The vast majority of the segment s product offerings in precision motion and optical control technologies are sold to original equipment manufacturers (OEM s). The segment sells these products both directly utilizing a highly technical sales force and indirectly through resellers and distributors.

Reportable Segment Financial Information

The following represents sales and gross margin of the Company s reportable segments (in thousands):

	Three Months Ended	Nine Months Ended

	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Sales				
Laser Products	$ 28,336	$ 29,763	$ 80,350	$ 86,609
Precision Motion and Technologies	41,184	48,941	124,735	152,207
Total	$ 69,520	$ 78,704	$ 205,085	$ 238,816

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Gross Profit				
Laser Products	$ 9,489	$ 11,719	$ 27,365	$ 34,204
Precision Motion and Technologies	19,660	23,374	60,549	72,599
Corporate [(1)]	(296)	(508)	(713)	(1,476)
Total	$ 28,853	$ 34,585	$ 87,201	$ 105,327

(1) Corporate costs primarily represent unallocated overhead related to discontinued operations.

16

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the Consolidated Financial Statements and Notes included in Item 1 of this Quarterly Report on Form 10-Q. The MD&A contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. These forward-looking statements include, but are not limited to, anticipated financial performance; expected liquidity and capitalization; expectations regarding our restructuring plans; drivers of revenue growth; management s plans and objectives for future operations, expenditures and product development and investments in research and development; business prospects; potential of future product releases; anticipated sales performance; industry trends; market conditions; changes in accounting principles and changes in actual or assumed tax liabilities; expectations regarding tax exposure; anticipated reinvestment of future earnings; anticipated expenditures in regard to the Company s benefit plans; future acquisitions and dispositions and anticipated benefits from prior acquisitions; anticipated outcomes of legal proceedings and litigation matters; and anticipated use of currency hedges. These forward-looking statements are neither promises nor guarantees, but involve risks and uncertainties that may cause actual results to differ materially from those contained in the forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements for many reasons, including, but not limited to, the following: economic and political conditions and the effects of these conditions on our customers businesses and level of business activity; our significant dependence upon our customers capital expenditures, which are subject to cyclical market fluctuations; our dependence upon our ability to respond to fluctuations in product demand; our ability to continually innovate; delays in our delivery of new products; our reliance upon third party distribution channels subject to credit, business concentration and business failure risks beyond our control; fluctuations in our quarterly results, and our failure to meet or exceed the expectations of securities analysts or investors; customer order timing and other similar factors beyond our control; changes in interest rates, credit ratings or foreign currency exchange rates; risk associated with our operations in foreign countries; our increased use of outsourcing in foreign countries; our failure to comply with local import and export regulations in the jurisdictions in which we operate; our history of operating losses and our ability to sustain our profitability; our exposure to the credit risk of some of our customers and in weakened markets; violations of our intellectual property rights and our ability to protect our intellectual property against infringement by third parties; risk of losing our competitive advantage; our ability to make acquisitions or divestitures that provide business benefits; our failure to successfully integrate future acquisitions into our business; our ability to retain key personnel; our restructuring and realignment activities and disruptions to our operations as a result of consolidation of our operations; product defects or problems integrating our products with other vendors products; disruptions in the supply of or defects in raw materials, certain key components or other goods from our suppliers; production difficulties and product delivery delays or disruptions; changes in governmental regulation of our business or products; disruption in our information technology systems or our failure to implement new systems and software successfully; our failure to realize the full value of our intangible assets; any requirement to make additional tax payments and/or recalculate certain of our tax attributes depending on the resolution of the complaint we filed against the U.S. government; our ability to utilize our net operating loss carryforwards and other tax attributes; fluctuations in our effective tax rates and audit of our estimates of tax liabilities; being subject to U.S. federal income taxation even though we are a non-U.S. corporation; being subject to the Alternative Minimum Tax for U.S. federal income tax purposes; any need for additional capital to adequately respond to business challenges or opportunities and repay or refinance our existing indebtedness, which may not be available on acceptable terms or at all; volatility in the market for our common shares; our dependence on significant cash flow to service our indebtedness and fund our operations; our ability to access cash and other assets *of our subsidiaries; the influence over our business of several significant shareholders; provisions of our articles of incorporation may delay or prevent a change in control; our significant existing indebtedness and restrictions in our new senior secured credit agreement that may limit our ability to engage in certain activities; our intention not to pay dividends in the near future; and our failure to maintain appropriate internal controls in the future. Other important risk factors that could affect the outcome of the events set forth in these statements and that could affect the Company s operating results and financial condition are discussed in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011, and elsewhere in such Annual Report on Form 10-K. In this Quarterly Report on Form 10-Q, the words anticipates , believes , expects , intends , future , could , estimates , plans , would potential , continues , and similar words or expressions (as well as other words or expressions referencing future events, conditions or circumstances) identify forward-looking statements. Readers should not place undue reliance on any such forward-looking statements, which speak only as of the date they are made. Management and the Company disclaim any obligation to publicly update or revise any such statement to reflect any change in its expectations or in events, conditions, or circumstances on which any such statements may be based, or that may affect the likelihood that actual results will differ from those contained in the forward-looking statements.*

Accounting Period

GSI Group Inc. and its subsidiaries (collectively referred to as the Company , we , us , our) interim financial statements are prepared on a quarterly basis ending on the Friday closest to the end of the calendar quarter, with the exception of the fourth quarter which always ends on December 31.

Table of Contents

Business Overview

We design, develop, manufacture and sell laser-based solutions, optical control devices, and associated precision technologies. Our technology is incorporated into customer products or manufacturing processes for a wide range of applications in a variety of markets, including: electronics, industrial, medical, and scientific. Our products enable customers to make advances in materials and processing technology and to meet extremely precise manufacturing specifications.

Our Laser Products segment designs, manufactures and markets photonics-based solutions to customers worldwide. The segment serves highly demanding photonics-based applications such as cutting, welding, marking and scientific research. The segment sells these products both directly utilizing a highly technical sales force and indirectly through resellers and distributors.

Our Precision Motion and Technologies segment designs, manufactures and markets precision motion and optical control technologies, consisting of air bearing spindles, encoders, thermal printers, laser scanning devices, and light and color measurement systems to customers worldwide. The vast majority of the segment s product offerings are sold to original equipment manufacturers (OEM s). The segment sells these products both directly utilizing a highly technical sales force and indirectly through resellers and distributors.

Strategy

Our strategy is to drive sustainable, profitable growth through short-term and long-term initiatives, including:

- strengthening our strategic position in scanning solutions, fiber lasers, and medical components through continual investment in differentiated new products and solutions;
- expanding our market access and reach, particularly in higher growth, emerging regions, through investment in internal sales channels as well as external channel partners;
- broadening our product and service offerings through the acquisition of innovative and complementary technologies and solutions;
- streamlining our existing operations through site consolidations and strategic divestitures and expanding our business through strategic acquisitions; and
- expanding operating margins by establishing a continuous improvement culture through formalized productivity programs and initiatives; and attracting, retaining, and developing talented and motivated employees.

Significant Events and Updates

Appointment and Departure of Executive Officers

In October 2012, Matthijs Glastra joined the Company as corporate officer and Group President of our Laser Products segment. Mr. Glastra brings significant experience in the opto-electronics space, most recently as Chief Executive Officer of Philips Entertainment Lighting and formerly as Chief Operating Officer of Phillips Lumileds. In September 2012, David Clarke, our former Vice President, Group President of Laser Products and President of Synrad, departed the organization after 18 years of service with the Company.

Discontinued Operations Update

Beginning in 2011, we initiated a strategic review of our businesses to focus our growth priorities and simplify our business model. In June 2012, we committed to a plan for the sale of the Semiconductor Systems operating segment, sold under the GSI brand name, and Laser Systems product lines, sold under the Control Laser and Baublys brand names, and began accounting for these businesses as discontinued operations in the second quarter of 2012. In October 2012, we sold certain assets and liabilities of the Lasers Systems business for $7 million, subject to working capital adjustments. We continue to make progress in the marketing of the Semiconductor Systems business and expect to sell this business by the end of the second quarter of 2013.

2011 Restructuring Plan Update

We have continued to make progress on our 2011 restructuring program that began in the fourth quarter of 2011, with a goal of eliminating up to twelve (12) facilities. These reductions are expected to be achieved through a combination of site consolidations and divestitures, with divestitures resulting in the elimination of up to six facilities. Five facilities have been eliminated as of September 28, 2012. During the third quarter of 2012, we completed the closure of our optics production facility in California, substantially completed the consolidation of our German operations, and began executing on the consolidation of our laser scanners business into our corporate headquarters located in Bedford, Massachusetts. We expect to substantially complete the consolidation and exit of up to seven additional facilities in 2012 and 2013.

We incurred $1.0 million and $5.6 million of charges during the three and nine months ended September 28, 2012, respectively, related to the 2011 restructuring plan. These consisted of cash charges of $1.0 million and $3.7 million during the three and nine months ended September 28, 2012, respectively, and non-cash charges of $0 million and $1.9 million during the three and nine months ended September 28, 2012, respectively, primarily related to accelerated depreciation resulting from changes in estimated useful lives of certain long-lived assets for which we intend to exit.

Table of Contents

We expect to incur cash charges of up to $5.5 million related to the 2011 restructuring plan, of which $4.8 million had been recorded through September 28, 2012. Additionally, we expect to incur non-cash restructuring charges, related to accelerated depreciation, of up to $3.0 million, of which $2.8 million had been recorded through September 28, 2012.

2012 Restructuring Plan

During the third quarter of 2012, we initiated a program (the 2012 restructuring program) to identify additional cost savings due to the continued uncertainty and volatility of the macroeconomic environment. This program aims to identify an additional $1.0 million to $2.0 million of annualized cost savings beyond the savings expected from the 2011 restructuring program. We incurred $1.7 million of severance costs associated with the 2012 restructuring program during the three months ended September 28, 2012, and we expect to incur a total of $2.0 million of cash charges related to the plan. We expect to substantially complete this program during the fourth quarter of 2012. The severance costs incurred include $0.5 million of severance for David Clarke, our former Vice President, Group President of Laser Products and President of Synrad.

Overview of Financial Results

Overall sales for the three months ended September 28, 2012 decreased $9.2 million, or 11.7%, compared to the prior year comparable period primarily as a result of a steep downturn in the capital equipment market, particularly in the microelectronics market. We currently expect this downturn to continue into 2013. To a lesser extent, the decrease was attributable to lower specialty laser sales, which serve scientific end markets. The year-over-year comparison is also affected by our adoption of Accounting Standards Update (ASU) 2009-13, Revenue Recognition (Topic 605) Multiple-Deliverable Revenue Arrangements (ASU 2009-13), which amended the revenue recognition guidance for multi-element arrangements. Following our adoption of ASU 2009-13 as of the beginning of 2011, we did not defer any revenue on new multiple-element orders received from customers during the period but delivered over multiple periods. For orders that had been deferred under multi-element arrangements, delivered over multiple periods, entered into prior to the adoption of ASU 2009-13, we recognized $1.3 million of net revenue with net gross profit of $0.6 million in the three months ended September 30, 2011, with no comparable amount for the three months ended September 28, 2012.

Income from operations for the three months ended September 28, 2012 of $3.8 million decreased $7.0 million, or 65.0%, versus the prior year comparable period. This decrease was primarily attributable to a decrease in gross margin as a result of lower sales volume, product mix, and a $2.7 million charge in connection with our 2011 and 2012 restructuring programs, compared to a less than $0.1 million restructuring charge for the prior year comparable period. Partially offsetting the decrease in income from operations was lower spending on operating costs resulting from restructuring actions taken in the fourth quarter of 2011 and the first half of 2012.

Diluted earnings per share (EPS) from continuing operations of $0.06 in the three months ended September 28, 2012 decreased $0.16 from the prior year comparable period. The decrease was largely because of a drop in operating profit of $7.0 million, partially offset by a $2.6 million reduction in interest expense for the three months ended September 28, 2012 as a result of the reduction in our overall debt levels since we refinanced our debt during the second half of 2011.

Results of Operations for the Three and Nine Months Ended September 28, 2012 Compared with the Three and Nine Months Ended September 30, 2011

The following table sets forth our unaudited results of operations as a percentage of sales for the periods indicated:

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	58.5	56.1	57.5	55.9
Gross profit	41.5	43.9	42.5	44.1
Operating expenses:				
Research and development and engineering	8.0	7.8	8.2	7.5
Selling, general and administrative	23.2	21.1	24.0	21.8
Amortization of purchased intangible assets	0.9	1.1	1.0	1.2
Restructuring, restatement related costs and other	3.9	0.0	3.6	0.1
Post-emergence professional fees	0.0	0.1	0.0	0.1
Total operating expenses	36.0	30.1	36.8	30.7
Income from operations	5.5	13.8	5.7	13.4

Table of Contents

Interest expense, net	(0.9)	(4.1)	(1.0)	(4.3)
Foreign exchange transaction gains (losses), net	(1.0)	0.9	(0.5)	0.0
Other income (expense), net	0.2	(0.2)	0.2	0.5
Income from continuing operations before income taxes	3.8	10.4	4.4	9.6
Income tax provision	0.8	1.1	0.7	1.6
Income from continuing operations	3.0	9.3	3.7	8.0
Income (loss) from discontinued operations, net of tax	(6.6)	1.9	(1.9)	2.5
Consolidated net income (loss)	(3.6)	11.2	1.8	10.5
Less: Net (income) loss attributable to noncontrolling interest	0.0	0.0	0.0	0.0
Net income (loss) attributable to GSI Group Inc.	(3.6)%	11.2%	1.8%	10.5%

Sales

The following table sets forth sales by segment for the periods noted (dollars in thousands):

	Three Months Ended			
	September 28, 2012	**September 30, 2011**	**Increase (Decrease)**	**Percentage Change**
Laser Products	$ 28,336	$ 29,763	$ (1,427)	(4.8)%
Precision Motion and Technologies	41,184	48,941	(7,757)	(15.8)%
Total	$ 69,520	$ 78,704	$ (9,184)	(11.7)%

	Nine Months Ended			
	September 28, 2012	**September 30, 2011**	**Increase (Decrease)**	**Percentage Change**
Laser Products	$ 80,350	$ 86,609	$ (6,259)	(7.2)%
Precision Motion and Technologies	124,735	152,207	(27,472)	(18.0)%
Total	$ 205,085	$ 238,816	$ (33,731)	(14.1)%

Laser Products

Laser Products segment sales for the three months ended September 28, 2012 decreased by $1.4 million, or 4.8%, primarily due to a decline in sales of our specialty lasers, sold into the scientific markets. This product line was negatively impacted by continued economic challenges and as a consequence of rationalizing certain specialty laser products. This decrease was partially offset by an increase in sales volume of our sealed Co2 lasers quarter over quarter and a significant increase in demand for our fiber lasers.

Laser Products segment sales for the nine months ended September 28, 2012 decreased by $6.3 million, or 7.2%, primarily due to a significant decline in sales of our specialty lasers as a result of economic challenges and a delay in government funding in the scientific market.

Precision Motion and Technologies

Precision Motion and Technologies segment sales for the three months ended September 28, 2012 decreased by $7.8 million, or 15.8%, primarily due to a significant decline in demand in the microelectronics market, principally related to mechanical drilling of printed circuit boards. The decline in demand in this market resulted in a decline of approximately 40% in sales of our Westwind spindles product line as compared to the prior year comparable period. In addition, we also experienced a decrease in sales volume in certain scanning technology components as a consequence of the downturn in the microelectronics market. The decrease in our Precision Motion and Technologies segment sales was also partially attributable to approximately $1.2 million of net revenue recognized in the three months ended September 30, 2011, with no comparable amount for the three months ended September 28, 2012, for orders that had been deferred under multiple-element arrangements, delivered over multiple periods, entered into prior to the adoption of ASU 2009-13.

Precision Motion and Technologies segment sales for the nine months ended September 28, 2012 decreased by $27.5 million, or 18.0%, primarily due to similar business dynamics that we experienced during the three months ended September 28, 2012. We recognized approximately $7.1 million of net revenue during the nine months ended September 30, 2011, with no comparable amount for the nine months ended September 28, 2012, for orders that had been deferred under multiple-element arrangements, delivered over multiple periods, entered into prior to the adoption of ASU 2009-13. Although overall sales of our Precision Motion and Technologies segment declined, we experienced stronger sales of our optical encoders due to an increase in sales volume associated with an upgrade program for a customer in the data storage industry and strong growth in our light and color measurement business.

Table of Contents

Gross Profit

The following table sets forth the gross profit and gross profit margin for each of our reportable segments for the periods noted (dollars in thousands):

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Gross profit:				
Laser Products	$ 9,489	$ 11,719	$ 27,365	$ 34,204
Precision Motion and Technologies	19,660	23,374	60,549	72,599
Corporate	(296)	(508)	(713)	(1,476)
Total	$ 28,853	$ 34,585	$ 87,201	$ 105,327
Gross profit margin:				
Laser Products	33.5%	39.4%	34.1%	39.5%
Precision Motion and Technologies	47.7%	47.8%	48.5%	47.7%
Total	41.5%	43.9%	42.5%	44.1%

Gross profit and gross profit margin can be influenced by a number of factors, including product mix, pricing, volume, manufacturing efficiencies and utilization, costs for raw materials and outsourced manufacturing, headcount, inventory and warranty expenses, and shipping and handling costs.

Laser Products

Laser Products segment gross profit for the three months ended September 28, 2012 decreased $2.2 million, or 19.0%, primarily due to the 4.8% decrease in sales. Laser Products segment gross profit margin was 33.5% for the three months ended September 28, 2012, compared with a gross profit margin of 39.4% for the prior year comparable period. The 5.9 percentage point decrease in gross profit margin was primarily due to a significant ramp-up in manufacturing costs for our fiber lasers product line to meet the demand expectations for this business over the next twelve months, higher sales of our lower margin fiber lasers and an increase in sales in Europe related to a high energy specialty laser project within the scientific market.

Laser Products segment gross profit for the nine months ended September 28, 2012 decreased by $6.8 million, or 20.0%. Laser Products segment gross profit margin was 34.1% during the nine months ended September 28, 2012, compared with a gross profit margin of 39.5% during the prior year comparable period. The decrease in gross profit and 5.4 percentage point decrease in gross profit margin was due to similar factors that affected our gross profit and gross profit margin during the three months ended September 28, 2012.

Precision Motion and Technologies

Precision Motion and Technologies segment gross profit for the three months ended September 28, 2012 decreased $3.7 million, or 15.9%, primarily due to a significant drop in sales in our Westwind Spindles product line, primarily due to a significant decline in demand in the microelectronics market. In addition, we recognized approximately $0.5 million of net gross profit during the three months ended September 30, 2011, with no comparable amount for the three months ended September 28, 2012, for orders that had been deferred under multiple-element arrangements, delivered over multiple periods, entered into prior to the adoption of ASU 2009-13. Precision Motion and Technologies segment gross profit margin remained flat quarter over quarter with gross profit margin of 47.7% during the three months ended September 28, 2012, compared with a gross profit margin of 47.8% during the prior year comparable period.

Precision Motion and Technologies segment gross profit for the nine months ended September 28, 2012 decreased by $12.1 million, or 16.6%, due to similar factors that affected our gross profit during the three months ended September 28, 2012 as well as approximately $3.0 million of net gross profit recognized during the nine months ended September 30, 2011, with no comparable amount for the nine months ended September 28, 2012, for orders that had been deferred under multiple-element arrangements, delivered over multiple periods, entered into prior to the adoption of ASU 2009-13. Precision Motion and Technologies segment gross profit margin was 48.5% during the nine months ended September 28, 2012, compared with a gross profit margin of 47.7% during the prior year comparable period. The overall increase in gross profit margin was due to stronger sales of optical encoders related to an increase in sales volume associated with an upgrade program for a customer in the data storage industry.

Table of Contents

Operating Expenses

The following table sets forth operating expenses for the periods noted (dollars in thousands):

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Research and development and engineering	$ 5,545	$ 6,183	$ 16,933	$ 17,942
Selling, general and administrative	16,125	16,627	49,174	52,037
Amortization of purchased intangible assets	663	874	1,988	2,853
Restructuring, restatement related costs and other	2,728	14	7,396	136
Post-emergence professional fees		63		296
Total	$ 25,061	$ 23,761	$ 75,491	$ 73,264

Research and Development and Engineering Expenses

Research and development and engineering (R&D) expenses are primarily comprised of labor, other employee-related expenses and materials. R&D expenses were $5.5 million, or 8.0% of sales, during the three months ended September 28, 2012, compared with $6.2 million, or 7.8% of sales, during the prior year comparable period. R&D expenses decreased in terms of total dollars primarily due to savings achieved as a result of our 2011 restructuring plan.

R&D expenses were $16.9 million, or 8.2% of sales, during the nine months ended September 28, 2012, compared with $17.9 million, or 7.5% of sales, during the nine months ended September 30, 2011. R&D expenses, in terms of total dollars, decreased due to similar factors experienced during the three months ended September 28, 2012.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses include costs for sales and marketing, sales administration, finance, human resources, legal, information systems, facilities and executive management. SG&A expenses were $16.1 million, or 23.2% of sales, during the three months ended September 28, 2012, compared with $16.6 million, or 21.1% of sales, during the prior year comparable period. SG&A expenses, in terms of total dollars, decreased primarily due to a decrease in outside service fees and, to a lesser extent, savings achieved as a result of our 2011 restructuring plan. These decreases were partially offset by higher employee compensation.

SG&A expenses were $49.2 million during the nine months ended September 28, 2012, representing 24.0% of sales compared to $52.0 million, or 21.8% of sales, during the nine months ended September 30, 2011. SG&A expenses, in terms of total dollars, decreased due to similar factors experienced during the three months ended September 28, 2012.

Amortization of Purchased Intangible Assets

Amortization of purchased intangible assets, excluding the amortization for core technology that is included in cost of goods sold, was $0.7 million, or 0.9% of sales, during the three months ended September 28, 2012, compared with $0.9 million, or 1.1% of sales, during the prior year comparable period. The decreases, in terms of total dollars and as a percentage of sales, were related to the completion of amortization related to non-compete agreements acquired as part of the 2008 Excel acquisition.

Amortization of purchased intangible assets, excluding the amortization for core technology that is included in cost of goods sold, was $2.0 million, or 1.0% of sales, during the nine months ended September 28, 2012, compared with $2.9 million, or 1.2% of sales, during the prior year comparable period. Consistent with the three months ended September 28, 2012, the decrease in terms of total dollars was due to completion of amortization related to non-compete agreements acquired as part of the 2008 Excel acquisition.

Restructuring, Restatement Related Costs and Other

We recorded restructuring, restatement related costs and other charges of $2.7 million during the three months ended September 28, 2012, compared with less than $0.1 million during the prior year comparable period. During the three months ended September 28,

Table of Contents

2012, we recorded restructuring charges of $1.0 million and $1.7 million related to our 2011 and 2012 restructuring programs, respectively, consisting of cash charges primarily for severance, facility and other related costs of $2.7 million. During the prior year comparable period, we recorded less than $0.1 million of restructuring charges related to accretion charges and revised future lease payment assumptions for our abandoned facility in Germany.

We recorded restructuring, restatement related costs and other charges of $7.4 million during the nine months ended September 28, 2012, compared with $0.1 million during the prior year comparable period. During the nine months ended September 28, 2012, we recorded restructuring charges of $5.6 million and $1.7 million related to our 2011 and 2012 restructuring programs, respectively. Total cash related charges, primarily severance, facility costs, legal and consulting fees and other related costs, totaled $5.5 million, while non-cash charges, primarily related to accelerated depreciation for changes in estimated useful lives of certain long-lived assets for which we intend to exit, totaled $1.9 million. During the prior year comparable period, we recorded a $0.1 million restructuring charge related to accretion charges and revised future lease payment assumptions for our abandoned facility in Germany.

Other Income and Expense Items

The following table sets forth other income and expense items for the periods noted (dollars in thousands):

	Three Months Ended		Nine Months Ended	
	September 28, 2012	September 30, 2011	September 28, 2012	September 30, 2011
Interest expense, net	$ (656)	$ (3,254)	$ (2,143)	$ (10,303)
Foreign exchange transaction gains (losses), net	(685)	731	(957)	(79)
Other income (expense), net	167	(123)	399	1,261
Total	$ (1,174)	$ (2,646)	$ (2,701)	$ (9,121)

Interest Expense, Net

The decrease in net interest expense quarter over quarter was attributable to the substantial reduction and refinancing of our debt during 2011, which was achieved through a partial redemption of our Senior Secured PIK Elections Notes (the 2014 Notes), which carried a 12.25% fixed rate interest and repayments on our new variable rate Senior Credit Facility. Our Senior Credit Facility carried a 3.3% weighted average interest rate, inclusive of unused fees, for the three months ended September 28, 2012. During the three months ended September 28, 2012, we capitalized $0.1 million related to the refinancing of our Senior Credit Facility and incurred $0.2 million of non-cash interest expense related to the amortization of deferred financing costs. During the three months ended September 30, 2011, we recognized a $0.4 million loss on extinguishment of debt related to unamortized deferred financing costs associated with the partial redemption of the 2014 Notes.

The factors affecting our decrease in interest expense during the three months ended September 28, 2012 also impacted interest expense during the nine month period. During the nine months ended September 28, 2012, we incurred $0.8 million of non-cash interest expense primarily related to the amortization of deferred financing costs. During the nine months ended September 30, 2011, we incurred $0.3 million of non-cash interest expense related to the amortization of deferred financing costs, PIK interest of $0.3 million related to the 2014 Notes and a $0.4 million loss on extinguishment of debt.

Foreign Exchange Transaction Gains (Losses), Net

Foreign exchange transaction gains (losses), net, were ($0.7) million net losses during the three months ended September 28, 2012, compared to $0.7 million net gains during prior year comparable period, due to the weakening of the U.S. dollar against several foreign currencies during the third quarter of 2012 versus strengthening of the U.S. dollar against foreign currencies during the third quarter of 2011.

Similar market factors experienced during the three months ended September 28, 2012 impacted the fluctuation of foreign currency transaction gains (losses), net, during the nine months ended September 28, 2012 as compared to the prior year comparable period.

Other Income (Expense), Net

Other income (expense), net, was $0.2 million during the three months ended September 28, 2012, compared to ($0.1) million during the prior year comparable period, and is related to the earnings from our equity investment.

Other income (expense), net, was $0.4 million during the nine months ended September 28, 2012, compared to $1.3 million during the prior year comparable period, and is related to the earnings from our equity investment.

Table of Contents

Discontinued Operations

Income (loss) from discontinued operations, net of tax, was ($4.6) million during the three months ended September 28, 2012, compared to $1.5 million during the prior year comparable period. The decrease is primarily due to a decline in sales of our discontinued businesses, an increase in our Semiconductor Systems inventory provision of $1.9 million, and a $0.9 million impairment related to our Orlando building, which is the location of our Control Laser business. The increase in the inventory provision was caused by recent industry consolidation in the memory repair market, which resulted in lower expected future demand for our current memory repair product. In addition, we recognized severance costs of $0.2 million related to our memory repair product line and consulting costs of $0.3 million related to our discontinued businesses.

Income (loss) from discontinued operations, net of tax, was ($3.8) million during the nine months ended September 28, 2012 compared to $6.1 million during the prior year comparable period. The decrease is due to similar market factors impacting the discontinued businesses during the three month comparable periods.

Income Taxes

The effective tax rate for the three months ended September 28, 2012 was a provision of 21.5%, compared to a provision of 10.4% for the prior year comparable period. The effective tax rate for the three months ended September 28, 2012 differs from the Canadian statutory rate of 25.0% primarily due to income earned in jurisdictions with varying tax rates and the release of a portion of our valuation allowance.

The effective tax rate for the nine months ended September 28, 2012 was a provision of 15.7%, compared to 16.9% for the prior year comparable period. The effective tax rate for the nine months ended September 28, 2012 differs from the Canadian statutory rate of 25.0% due to similar factors impacting our effective tax rate for the three months ended September 28, 2012.

Liquidity and Capital Resources

We assess our liquidity in terms of our ability to generate cash to fund our operating, investing, and financing activities. Our primary ongoing cash requirements are funding operations, capital expenditures, investments in businesses, and repayment of our debt and related interest expense. Our primary sources of liquidity are internally generated cash flows and borrowings under our revolving credit facility. We believe our future operating cash flows will be sufficient to meet our future operating and investing cash needs for the foreseeable future, including at least the next twelve months. The availability of borrowings under our revolving credit facility provides an additional potential source of liquidity should it be required. In addition, we may seek to raise additional capital, which could be in the form of bonds, convertible debt or equity to fund business development activities or other future investing cash requirements.

Significant factors affecting the management of our ongoing cash requirements are the adequacy of available bank lines of credit and our ability to attract long-term capital with satisfactory terms. The sources of our liquidity are subject to all of the risks of our business and could be adversely affected by, among other factors, a decrease in demand for our products, our ability to integrate future acquisitions, deterioration in certain financial ratios, and market changes in general. See Risks Relating to Our Common Shares and Our Capital Structure included in Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Although much of our business is conducted through our subsidiaries, none of our subsidiaries are obligated to make funds available to us. Accordingly, our ability to make payments on our indebtedness and fund our operations may be dependent on the earnings and the distribution of funds from our subsidiaries. As of September 28, 2012, $28.2 million of our $52.9 million cash and cash equivalents was held by our subsidiaries outside of Canada and the United States. Generally, our intent is to use cash held in these foreign subsidiaries to fund our local operations. Further, local laws, regulations and/or terms of our indebtedness may also restrict certain of our subsidiaries from paying dividends or otherwise transferring assets to us. However, in certain instances, we have identified excess cash for which we may repatriate and we have established deferred tax liabilities for the expected tax cost.

During the nine months ended September 28, 2012, we made total debt payments of $20.5 million, comprised of our $7.5 million contractual term loan payments ($2.5 million per quarter) and $13.0 million of optional repayments of borrowings under the revolving credit facility, leaving a total principal debt outstanding under the Senior Credit Facility of $47.5 million at September 28, 2012, compared to $68.0 million at December 31, 2011.

The Credit Agreement applicable to our Senior Credit Facility contains various covenants that we believe are usual and customary for this type of agreement. The Senior Credit Facility includes a maximum allowed leverage ratio and a minimum required fixed charge coverage ratio. On July 19, 2012, the Company entered into an amendment to the Credit Agreement (the Second Amendment). The Second Amendment provides that the Company has satisfied the Burnoff Condition (as defined in the Credit Agreement) contained in the Credit Agreement effective as of July 19, 2012, which eliminates the requirement for the Company to meet the borrowing base financial restriction and minimum EBIDTA covenant contained in the Credit Agreement. We were compliant with the covenant requirements as of September 28, 2012. The following table summarizes these financial covenant requirements and our compliance as of September 28, 2012:

	Requirement	**Actual**
Maximum consolidated leverage ratio	2.50	1.08
Minimum consolidated fixed charge coverage ratio	1.50	3.27

24

Table of Contents

Cash Flows for the Nine Months Ended September 28, 2012 and September 30, 2011

The following table summarizes our cash and cash equivalent balances, cash flows and unused and available funds under our revolving credit facility for the periods indicated (dollars in thousands):

	Nine Months Ended September 28, 2012	Nine Months Ended September 30, 2011
Net cash provided by operating activities	$ 21,499	$ 30,722
Net cash used in investing activities	$ (3,451)	$ (2,607)
Net cash used in financing activities	$ (21,288)	$ (35,000)

	September 28, 2012	December 31, 2011
Cash and cash equivalents	$ 52,863	$ 54,835
Unused and available funds under revolving credit facility	$ 25,000	$ 12,000

Operating Cash Flows

Cash provided by operating activities was $21.5 million for the nine months ended September 28, 2012, compared to $30.7 million for the prior year comparable period. The cash provided by operating activities for the nine months ended September 28, 2012 was primarily attributable to our consolidated net income of $3.8 million and non-cash adjustments amounting to $17.4 million. These non-cash adjustments included depreciation and amortization expenses of $10.4 million; stock-based compensation of $3.5 million; and non-cash restructuring charges of $3.6 million. The cash inflow from changes in operating assets and liabilities from December 31, 2011 to September 28, 2012 was $0.3 million. This inflow was primarily attributable to an increase in accounts payable and accrued expenses of $6.2 million as a result of improved accounts payable management and the timing of inventory purchases and was offset by an increase in accounts receivable of $5.8 million due to an increase in sales in the last month of the quarter. The increase in accrued liabilities was offset by payments made during the period as part of our restructuring plans of $4.8 million. Our net inventory increased by $0.1 million from December 31, 2011, which was driven by an increase in inventory offset by a $1.9 million inventory write-down in the three months ended September 28, 2012 related to our Semiconductor Systems business.

Investing Cash Flows

Cash used in investing activities was $3.5 million during the nine months ended September 28, 2012, compared to $2.6 million during the nine months ended September 30, 2011, and primarily relates to capital expenditures with respect to both periods. Cash outflows from investing activities during the nine months ended September 28, 2012 were offset by $0.3 million of cash received from the sale of fixed assets during the period.

Financing Cash Flows

Cash used in financing activities was $21.3 million during the nine months ended September 28, 2012, comprised of $7.5 million for our contractual term loan payments ($2.5 million per quarter), $13.0 million of optional repayments of borrowings under our revolving credit facility, and $0.6 million of capital lease payments. This compares to a $35.0 million optional payment of our Senior Secured PIK Election Notes made during the nine months ended September 30, 2011.

We are contractually obligated and expect to use $3.3 million of cash for the remainder of 2012 for financing activities, comprised of $2.5 million for our quarterly contractual term loan payments and $0.8 million for our capital lease obligations.

Off-Balance Sheet Arrangements, Contractual Obligations

Contractual Obligations

Our contractual obligations primarily consist of the principal and interest associated with our debt, operating and capital leases, purchase commitments and pension obligations. Such contractual obligations are described in our Management s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to Consolidated Financial Statements, each included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. Through September 28, 2012, we have not entered into any material new or modified contractual obligations since the end of the fiscal year ended December 31, 2011, with the exception of the new seven-year lease agreement signed in May 2012 for the Company s Bedford, Massachusetts headquarters and the Second Amendment to the Credit Agreement signed in July 2012. The Company s annual rental payments under the new Bedford lease agreement is $1.5 million.

Table of Contents

Off-Balance Sheet Arrangements

Through September 28, 2012, we have not entered into any off-balance sheet arrangements or material transactions with unconsolidated entities or other persons.

Critical Accounting Policies and Estimates

The critical accounting policies that we believe impact significant judgments and estimates used in the preparation of our consolidated financial statements presented in this report are described in our Management s Discussion and Analysis of Financial Condition and Results of Operations and in the Notes to Consolidated Financial Statements, each included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011. There have been no material changes to our critical accounting policies through September 28, 2012 from those discussed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Recent Accounting Pronouncements

See Note 1 to Consolidated Financial Statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Our primary market risk exposures are foreign currency exchange rate fluctuation and interest rate sensitivity. During the three and nine months ended September 28, 2012, there have been no material changes to the information included under Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15(b) under the Exchange Act, our management carried out an evaluation, with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act), as of September 28, 2012, the end of the period covered by this report. Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of September 28, 2012.

Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting that occurred during the fiscal quarter ended September 28, 2012 that has materially affected, or is reasonably likely to materially affect, such internal control over financial reporting.

Table of Contents

PART II OTHER INFORMATION

Item 1. Legal Proceedings

During the third quarter of 2005, the Company s French subsidiary, GSI Lumonics SARL (GSI France), filed for bankruptcy protection, which was granted on July 7, 2005. On April 18, 2006, the commercial court of Le Creusot (France) ordered GSI France to pay approximately 0.7 million Euros to SCGI in the context of a claim filed by SCGI that a Laserdyne 890 system delivered in 1999 had unresolved technical problems. No appeal was lodged. On May 6, 2011, GSI Group Ltd. was served with summons from the official receiver of GSI France demanding that GSI Group Ltd. and the Company s German subsidiary, GSI Group GmbH, appear before the Paris commercial court. GSI Group GmbH was subsequently served with a separate summons from the official receiver. The cases against GSI Group Ltd. and GSI Group GmbH were subsequently combined into a single case (docket number 2011/088718). The receiver claimed (i) that the bankruptcy proceedings initiated against GSI France in 2005 should be extended to GSI Group Ltd. and GSI Group GmbH on the ground that GSI France s decisions were actually made by GSI Group Ltd. and that GSI Group GmbH made financial advances for no consideration, which would reveal in both cases confusion of personhood, or (ii) alternatively, that GSI Group Ltd. be ordered to pay approximately 3.1 million Euros (i.e. the aggregate of GSI France s liabilities, consisting primarily of approximately 0.7 million Euros to SCGI and approximately 2.4 million Euros to GSI Group GmbH) on the ground that GSI Group Ltd. is liable in tort for having disposed of GSI France s assets freely and for having paid all of GSI France s debts except for the liability to SCGI. On June 19, 2012, the receiver withdrew its claim with respect to extending the bankruptcy proceedings to GSI Group Ltd. and GSI Group GmbH, and as a result only the tort claim remains pending before the court. The Company currently does not believe a loss is probable. Accordingly, no accrual has been made in the Company s accompanying consolidated financial statements with respect to this claim.

The Company is also subject to various legal proceedings and claims that arise in the ordinary course of business. The Company does not believe that the outcome of these claims will have a material adverse effect upon its financial condition or results of operations but there can be no assurance that any such claims, or any similar claims, would not have a material adverse effect upon its financial condition or results of operations.

IRS Claim

On April 5, 2010, the IRS filed amended proofs of claim aggregating approximately $7.7 million with the United States Bankruptcy Court for Delaware (the Bankruptcy Court) as part of the Company s proceedings under Chapter 11 of the Bankruptcy Code. On July 13, 2010, the Company filed a complaint, *GSI Group Corporation v. United States of America*, in Bankruptcy Court in an attempt to recover refunds totaling approximately $18.8 million in federal income taxes the Company asserts it overpaid to the IRS relating to tax years 2000 through 2008, together with applicable interest. The complaint includes an objection to the IRS proofs of claim which the Company believes are not allowable claims and should be expunged in their entirety. Those tax proceedings remain pending, and their resolution in the ordinary course was not affected by the closing of the Chapter 11 Cases on September 2, 2011.

Item 1A. Risk Factors

The Company s risk factors are described in Part I, Item 1A, Risk Factors , of the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2011. There have been no material changes in the risks affecting the Company since the filing of such Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
None.

Item 3. Defaults Upon Senior Securities
None.

Item 4. Mine Safety Disclosures
None.

Item 5. Other Information
None.

Table of Contents

Item 6. Exhibits
List of Exhibits

See the Company s SEC filings on Edgar at: http://www.sec.gov/ for all Exhibits.

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Certificate and Articles of Continuance of the Registrant, dated March 22, 1999.	S-3	333-180098	3.1	3/14/12	
3.2	Articles of Amendment of the Registrant, dated May 26, 2005.	S-3	333-180098	3.1	3/14/12	
3.3	By-Laws of the Registrant, as amended	10-Q	000-25705	3.2	4/13/10	
3.4	Articles of Reorganization of the Registrant, dated July 23, 2010.	8-K	000-25705	3.1	07/23/10	
3.5	Articles of Amendment of the Registrant, dated December 29, 2010.	8-K	000-25705	3.1	12/29/10	
10.1	Second Amendment to Credit Agreement, dated July 19, 2012, by and among GSI Group Corporation, GSI Group Inc., each of the other Guarantors party thereto, each lender party thereto, and Bank of America, N.A., as Administrative Agent.	8-K	001-35083	10.1	7/23/12	
10.2	Letter Agreement, between GSI Group Inc. and David Clarke, dated September 4, 2012.	8-K	001-35083	10.1	9/6/12	
10.3	Third Amendment to Credit Agreement, dated October 19, 2012, by and among GSI Group Corporation, GSI Group Inc., each of the other Guarantors party thereto, each lender party thereto, and Bank of America, N.A., as Administrative Agent.					*
10.4	Offer Letter, dated August 24, 2012, between GSI Group Inc. and Matthijs Glastra					*
10.5	Severance Agreement by and between GSI Group Inc. and Deborah M. Mulryan.					*
10.6	Severance Agreement by and between GSI Group Inc. and Jamie Bader.					*

10.7	Severance Agreement by and between GSI Group Inc. and Peter L. Chang.	*
31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	*
31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	*
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	*
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	*
101.INS	XBRL Instance Document.	
101.SCH	XBRL Schema Document	
101.CAL	XBRL Calculation Linkbase Document.	
101.DEF	XBRL Definition Linkbase Document.	
101.LAB	XBRL Labels Linkbase Document.	
101.PRE	XBRL Presentation Linkbase Document.	

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at September 28, 2012 and December 31, 2011, (ii) Consolidated Statements of Operations for the three and nine months ended September 28, 2012 and September 30, 2011, (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 28, 2012 and September 30, 2011, (iv) Consolidated Statements of Cash Flows for the nine months ended September 28, 2012 and September 30, 2011, and (v) Notes to Consolidated Financial Statements.

Table of Contents

The XBRL related information in Exhibits 101 to this Quarterly Report on Form 10-Q shall not be deemed filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended and is not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of those sections.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GSI Group Inc. (Registrant)

Name	Title	Date
/s/ John A. Roush **John A. Roush**	Director, Chief Executive Officer	November 7, 2012
/s/ Robert J. Buckley **Robert J. Buckley**	Chief Financial Officer	November 7, 2012

Table of Contents

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
3.1	Certificate and Articles of Continuance of the Registrant, dated March 22, 1999.	S-3	333-180098	3.1	3/14/12	
3.2	Articles of Amendment of the Registrant, dated May 26, 2005.	S-3	333-180098	3.1	3/14/12	
3.3	By-Laws of the Registrant, as amended	10-Q	000-25705	3.2	4/13/10	
3.4	Articles of Reorganization of the Registrant, dated July 23, 2010.	8-K	000-25705	3.1	07/23/10	
3.5	Articles of Amendment of the Registrant, dated December 29, 2010.	8-K	000-25705	3.1	12/29/10	
10.1	Second Amendment to Credit Agreement, dated July 19, 2012, by and among GSI Group Corporation, GSI Group Inc., each of the other Guarantors party thereto, each lender party thereto, and Bank of America, N.A., as Administrative Agent.	8-K	001-35083	10.1	7/23/12	
10.2	Letter Agreement, between GSI Group Inc. and David Clarke, dated September 4, 2012.	8-K	001-35083	10.1	9/6/12	
10.3	Third Amendment to Credit Agreement, dated October 19, 2012, by and among GSI Group Corporation, GSI Group Inc., each of the other Guarantors party thereto, each lender party thereto, and Bank of America, N.A., as Administrative Agent.					*
10.4	Offer Letter, dated August 24, 2012, between GSI Group Inc. and Matthijs Glastra					*
10.5	Severance Agreement by and between GSI Group Inc. and Deborah M. Mulryan.					*
10.6	Severance Agreement by and between GSI Group Inc. and Jamie Bader.					*
10.7	Severance Agreement by and between GSI Group Inc. and Peter L. Chang.					*

31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	*
31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	*
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	*
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	*
101.INS	XBRL Instance Document.	
101.SCH	XBRL Schema Document	
101.CAL	XBRL Calculation Linkbase Document.	
101.DEF	XBRL Definition Linkbase Document.	
101.LAB	XBRL Labels Linkbase Document.	
101.PRE	XBRL Presentation Linkbase Document.	

Attached as Exhibit 101 to this report are the following formatted in XBRL (Extensible Business Reporting Language): (i) Consolidated Balance Sheets at September 28, 2012 and December 31, 2011, (ii) Consolidated Statements of Operations for the three and nine months ended September 28, 2012 and September 30, 2011, (iii) Consolidated Statements of Comprehensive Income for the three and nine months ended September 28, 2012 and September 30, 2011, (iv) Consolidated Statements of Cash Flows for the nine months ended September 28, 2012 and September 30, 2011, and (v) Notes to Consolidated Financial Statements.

Table of Contents

The XBRL related information in Exhibits 101 to this Quarterly Report on Form 10-Q shall not be deemed filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended and is not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of those sections.

32