GSI LUMONICS INC
Form 10-Q/A
July 15, 2003

Table of Contents

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

Amendment No. 1

þ	**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **For the quarterly period ended March 28, 2003**
	or
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File No.: 000-25705

GSI Lumonics Inc.

(Exact name of registrant as specified in its charter)

New Brunswick, Canada *(State or other jurisdiction of incorporation or organization)*	**98-0110412** *(I.R.S. Employer Identification No.)*
39 Manning Road, **Billerica, Massachusetts, USA** *(Address of principal executive offices)*	**01821** *(Zip Code)*

(978) 439-5511

(Registrant s telephone number, including area code)

www.gsilumonics.com

(Registrant s website address)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

As at June 30, 2003, there were 40,807,797 shares of the Common Stock of GSI Lumonics Inc., no par value, issued and outstanding.

TABLE OF CONTENTS

Table of Contents

GSI LUMONICS INC.

TABLE OF CONTENTS

Table of Contents

EXPLANATORY NOTE

In accordance with Rule 12b-15 under the Securities Exchange Act of 1934, as amended, we are filing this Amendment No. 1 on Form 10-Q/A in response to comments received from the staff of the Securities and Exchange Commission in connection with their review of our proxy circular-prospectus contained in the Registration Statement on Form S-4 of GSLI Corp.

In this filing we have specifically amended and restated Items 1 and 2 of Part I and Item 6 of Part II (to reflect recently filed reports on Form 8-K) in response to the Staff s comments. For convenience, we have restated our entire disclosure contained in this amendment. Please note that we have not been requested to, and we are not, restating our financial results.

This report speaks as of the original filing date of our on Form 10-Q (May 12, 2003) and, except as indicated below, has not been updated to reflect events occurring subsequent to that date. All information contained in this and our previous filings is subject to updating and supplementing as provided in our periodic reports filed with the Securities and Exchange Commission.

2

Table of Contents

PART I   FINANCIAL INFORMATION

Item 1. *Financial Statements*

GSI LUMONICS INC.

CONSOLIDATED BALANCE SHEETS (Unaudited)

(U.S. GAAP and in thousands of U.S. dollars, except share amounts)

	March 28, 2003	December 31, 2002
ASSETS		
Current		
Cash and cash equivalents (note 7)	$ 97,478	$ 83,633
Short-term investments (note 7)	17,077	28,999
Accounts receivable, less allowance of $2,229 (December 31, 2002 $2,681)	38,544	33,793
Income taxes receivable	8,988	8,431
Inventories (note 2)	36,916	39,671
Deferred tax assets	9,631	9,763
Other current assets	3,480	4,448
Total current assets	212,114	208,738
Property, plant and equipment, net of accumulated depreciation of $22,455 (December 31, 2002 $21,453)	26,163	26,675
Deferred tax assets	7,338	7,443
Other assets	3,358	3,360
Long-term investments (note 7)	34,428	37,405
Intangible assets, net of amortization of $17,498 (December 31, 2002 $16,217) (note 2)	12,186	13,467
	$295,587	$297,088
LIABILITIES AND STOCKHOLDERS EQUITY		
Current		
Accounts payable	$ 10,731	$ 9,235
Accrued compensation and benefits	5,654	6,523
Other accrued expenses (note 2)	19,507	20,845
Total current liabilities	35,892	36,603
Deferred compensation	2,307	2,129
Accrued minimum pension liability	3,824	3,875
Total liabilities	42,023	42,607
Commitments and contingencies (note 9)		
Stockholders equity (note 5)		
Common shares, no par value; Authorized shares: unlimited; Issued and outstanding: 40,787,457 (December 31, 2002 40,785,922)	304,721	304,713
Additional paid-in capital	2,592	2,592
Accumulated deficit	(42,936)	(41,270)
Accumulated other comprehensive loss	(10,813)	(11,554)

Total stockholders equity	253,564	254,481
	$295,587	$297,088

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

Table of Contents

GSI LUMONICS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(U.S. GAAP and in thousands of U.S. dollars, except share amounts)

	Three Months Ended	
	March 28, 2003	**March 29, 2002**
Sales	$41,119	$ 36,888
Cost of goods sold	26,379	24,615
Gross profit	14,740	12,273
Operating expenses:		
Research and development	3,385	5,830
Selling, general and administrative	11,762	13,529
Amortization of purchased intangibles	1,279	1,278
Restructuring (note 8)	628	2,745
Other (note 8)	356	
Total operating expenses	17,410	23,382
Loss from operations	(2,670)	(11,109)
Interest income	641	645
Interest expense	(54)	(140)
Foreign exchange transaction gains	417	384
Loss before income taxes	(1,666)	(10,220)
Income tax benefit		(3,600)
Net loss	$ (1,666)	$ (6,620)
Net loss per common share:		
Basic	$ (0.04)	$ (0.16)
Diluted	$ (0.04)	$ (0.16)
Weighted average common shares outstanding (000 s)	40,787	40,589
Weighted average common shares outstanding and dilutive potential common shares (000 s)	40,787	40,589

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

4

Table of Contents

GSI LUMONICS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(U.S. GAAP and in thousands of U.S. dollars)

	Three Months Ended	
	March 28, 2003	March 29, 2002
Cash flows from operating activities:		
Net loss	$ (1,666)	$ (6,620)
Adjustments to reconcile net loss to net cash used in operating activities:		
Loss on disposal of assets		392
Depreciation and amortization	2,542	2,740
Unrealized loss on derivatives	504	
Deferred income taxes	(217)	(191)
Changes in current assets and liabilities:		
Accounts receivable	(4,601)	9,605
Inventories	2,833	1,625
Other current assets	1,078	425
Accounts payable, accruals and taxes (receivable) payable	(1,335)	(6,090)
Cash provided by (used in) operating activities	(862)	1,886
Cash flows from investing activities:		
Additions to property, plant and equipment	(598)	(622)
Proceeds from the sale and maturities of investments	41,144	39,068
Purchases of investments	(26,281)	(51,863)
Decrease in other assets	42	1,598
Cash provided by (used in) investing activities	14,307	(11,819)
Cash flows from financing activities:		
Proceeds of bank indebtedness		2,968
Issue of share capital	8	221
Cash provided by financing activities	8	3,189
Effect of exchange rates on cash and cash equivalents	392	
Increase (decrease) in cash and cash equivalents	13,845	(6,744)
Cash and cash equivalents, beginning of period	83,633	102,959
Cash and cash equivalents, end of period	$ 97,478	$ 96,215

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

Table of Contents

GSI LUMONICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)
As of March 28, 2003
(U.S. GAAP and tabular amounts in thousands of U.S. dollars, except share amounts)

1. Basis of Presentation

These unaudited interim consolidated financial statements have been prepared by the Company in United States (U.S.) dollars and in accordance with accounting principles generally accepted in the U.S. for interim financial statements and with the instructions to Form 10-Q and Regulation S-X pertaining to interim financial statements. Accordingly, these interim consolidated financial statements do not include all information and footnotes required by generally accepted accounting principles for complete financial statements. The consolidated financial statements reflect all adjustments and accruals, consisting only of adjustments and accruals of a normal recurring nature, which management considers necessary for a fair presentation of financial position and results of operations for the periods presented. The consolidated financial statements include the accounts of GSI Lumonics Inc. and its wholly-owned subsidiaries (the Company). Intercompany transactions and balances have been eliminated. The consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Form 10-K for the year ended December 31, 2002. The results for interim periods are not necessarily indicative of results to be expected for the year or any future periods.

As indicated in note 7, effective January 1, 2003, the Company has removed the designation of all short-term hedge contracts from their corresponding hedge relationships. Accordingly, such contracts are recorded at fair value with changes in fair value recognized currently in income starting January 1, 2003, instead of being included in accumulated other comprehensive income. Unrealized gains on these contracts included in accumulated other comprehensive income at December 31, 2002 are recognized in the same periods as the underlying hedged transactions.

Comparative Amounts

Certain prior year amounts have been reclassified to conform to the current year presentation in the financial statements for the quarter ended March 28, 2003. These reclassifications had no effect on the previously reported results of operations or financial position.

2. Supplementary Balance Sheet Information

The following tables provide details of selected balance sheet items.

Inventories

	March 28, 2003	December 31, 2002
Raw materials	$ 8,076	$ 16,380
Work-in-process	11,246	7,468
Finished goods	12,861	11,114
Demo inventory	4,733	4,709
Total inventories	$ 36,916	$ 39,671

Table of Contents

GSI LUMONICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

Intangible Assets

	March 28, 2003		December 31, 2002	
	Cost	Accumulated Amortization	Cost	Accumulated Amortization
Patents and acquired technology	$ 28,660	$(17,105)	$ 28,660	$(15,850)
Trademarks and trade names	1,024	(393)	1,024	(367)
Total cost	29,684	$(17,498)	29,684	$(16,217)
Accumulated amortization	(17,498)		(16,217)	
Net intangible assets	$ 12,186		$ 13,467	

Other Accrued Expenses

	March 28, 2003	December 31, 2002
Accrued warranty	$ 3,342	$ 3,383
Deferred revenue	3,535	3,404
Accrued restructuring (note 8)	7,987	8,790
Other	4,643	5,268
Total	$19,507	$20,845

Accrued Warranty

	For the Quarter Ended March 28, 2003
Balance at the beginning of the period	$3,383
Charged to costs of goods sold	855
Use of provision	(858)
Foreign currency exchange rate changes	(38)
Balance at the end of the period	$3,342

3. New Accounting Pronouncements

Costs Associated with Exit or Disposal Activities

In July 2002, Statement of Financial Accounting Standards (SFAS) SFAS No. 146 *Accounting for Costs Associated with Exit or Disposal Activities* (SFAS 146) was issued. SFAS 146 requires that a liability for costs associated with exit or disposal activities be recognized and measured initially at fair value only when the liability is incurred. SFAS 146 is effective for exit or disposal activities initiated after December 31, 2002. In the first quarter of 2003, the Company followed the accounting methods prescribed in SFAS 146 in accounting for its restructuring activities in Europe, see note 8 for additional detail.

Guarantor s Accounting for Guarantees

In November 2002, the FASB issued Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (the Interpretation). The Interpretation will significantly change current practice in the accounting for, and disclosure of, guarantees. Guarantees meeting the characteristics described in the Interpretation, which are not included in a

GSI LUMONICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

long list of exceptions, are required to be initially recorded at fair value, which is different from the general current practice of recording a liability only when a loss is probable and reasonably estimable, as those terms are defined in FASB Statement No. 5, Accounting for Contingencies. The Interpretation also requires a guarantor to make significant new disclosures for virtually all guarantees even if the likelihood of the guarantor s having to make payments under the guarantee is remote. The initial recognition and initial measurement provisions of the Interpretation are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. Accounting for guarantees issued prior to December 31, 2002 should not be revised or restated. See note 9 to the consolidated financial statements, for additional information about guarantees, including two existing operating lease agreements with terms that include residual value guarantees totaling approximately $16 million.

Stock Based Compensation Transition and Disclosure

In December 2002, SFAS No. 148 (SFAS 148), *Accounting for Stock-Based Compensation Transition and Disclosure*, was issued to amend SFAS No. 123, *Accounting for Stock-Based Compensation*. SFAS 148 provides alternative methods of transition for a voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, SFAS 148 amends the disclosure requirements of Statement 123 to require more prominent and more frequent disclosures in financial statements about the effects of stock-based compensation. The transition guidance and annual disclosure provisions of SFAS 148 are effective for fiscal years ending after December 15, 2002. The interim disclosure provisions are effective for financial reports containing financial statements for interim periods beginning after December 15, 2002. The adoption of SFAS 148 did not have a material impact on our financial position, results of operations, or cash flows, because the Company continues to follow the guidance of APB 25 in recognizing stock compensation expense. The effect of stock based compensation is included in note 5 to the consolidated financial statements.

Derivative Instruments and Hedging Activities Amendment

On April 30, 2003, SFAS No. 149 (SFAS 149), *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*, was issued. The amendments set forth in SFAS 149 improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. In particular, this statement clarifies under what circumstances a contract with an initial net investment meets the characteristic of a derivative as discussed in SFAS 133. In addition, it clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS 149 amends certain other existing pronouncements. Those changes will result in more consistent reporting of contracts that are derivatives in their entirety or that contain embedded derivatives that warrant separate accounting. This Statement is effective for contracts entered into or modified after June 30, 2003, except as stated below and for hedging relationships designated after June 30, 2003. The guidance should be applied prospectively. The provisions of this Statement that relate to Statement 133 Implementation Issues that have been effective for fiscal quarters that began prior to June 15, 2003, should continue to be applied in accordance with their respective effective dates. In addition, certain provisions relating to forward purchases or sales of *when-issued* securities or other securities that do not yet exist, should be applied to existing contracts as well as new contracts entered into after June 30, 2003. The Company has not yet evaluated the impact of this new pronouncement on its financial position, results of operations or accounting for derivatives.

4. Bank Indebtedness

At March 28, 2003 the Company had a line of credit denominated in U.S. dollars with Fleet National Bank (Fleet), two letters of credit (LC) in Canadian dollars with the Canadian Imperial Bank of Commerce (CIBC) and a letter of credit in United Kingdom pounds with NatWest for a total amount of available credit of U.S.$8.5 million versus U.S.$12.1 million at December 31, 2002. The Company s

Table of Contents

GSI LUMONICS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited) (Continued)

agreement with Fleet provides for an $8.0 million line of credit. CIBC provides the Company with LC s of $0.4 million supporting its Payroll and Credit Card program. NatWest provides a $0.1 million bank guarantee for a LC used for VAT purposes in the United Kingdom. Cash and marketable securities totaling $10.3 million have been pledged as collateral for the Fleet and CIBC credit facilities under security agreements. The line of credit with Fleet expires on June 28, 2003. In addition to the customary representations, warranties and reporting covenants, the borrowings under the Fleet credit facility require the Company to maintain a quarterly minimum tangible net worth of $200.0 million. The line of credit with CIBC was reviewed by the Company and a decision to cancel the line of credit was conveyed to CIBC prior to December 31, 2002. By giving CIBC appropriate advance notice, the Company initiated its right to cancel the line of credit at any time at no cost, excluding breakage fees relating to the used and outstanding amounts under fixed loan instruments, which we do not expect to be material. The $4.0 million line of credit with CIBC was eliminated by the end of the first quarter in 2003 with only the two above mentioned letters of credit remaining. These LC s should be cancelled by the end of the second quarter of 2003. The Company also cancelled its credit facility with Bank One on December 20, 2002 without paying any breakage fees. North American inventories and receivables were pledged as collateral for the Bank One credit facility. Bank One continues to work on the release of all liens and obligations associated with the facility.

At March 28, 2003, the Company had $8.0 million denominated in U.S. dollars that are available for general purposes, under the credit facility with Fleet discussed above. Of the available $8.0 million, $3.8 million was in use at March 28, 2003 consisting of funds committed at Fleet Bank for use in foreign exchange transactions. Though the Fleet Bank amount of $3.8 million is committed for support of foreign currency hedging contracts and not available, it is not considered used for the purpose of calculating interest payments. The Fleet line of credit is due on demand and bears interest based on either prime or LIBOR depending on the borrowing notification period.

5. Stockholders Equity

Capital Stock

The authorized capital of the Company consists of an unlimited number of common shares without nominal or par value. During the three months ended March 28, 2003, 2,000 common shares were issued pursuant to stock options exercised for proceeds of approximately $8.0 thousand.

Accumulated Other Comprehensive Loss

The following table provides the details of accumulated other comprehensive loss at

	March 28, 2003	**December 31, 2002**
Unrealized gain on investments, net of tax of nil	$188	$ 312
Unrealized gain (loss) on cash flow hedging instruments, net of tax of nil	27	(521)
Accumulated foreign currency translations		