GSI GROUP INC
Form 10-K
March 09, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014

Or

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File No. 001-35083

GSI Group Inc.

(Exact name of registrant as specified in its charter)

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

(Address of principal executive offices)

(781) 266-5700

(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Exchange on Which Registered
Common Shares, no par value	The NASDAQ Stock Market LLC

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

None

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

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

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 ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ¨ Accelerated filer þ Non-accelerated filer ¨ Smaller reporting company ¨
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

The aggregate market value of the Registrant's outstanding common shares held by non-affiliates of the Registrant, based on the closing price of the common shares on the NASDAQ Global Select Market on the last business day of the Registrant's most recently completed second fiscal quarter (June 27, 2014) was $367,951,219. For purposes of this disclosure, common shares held by officers and directors of the Registrant and by persons who hold more than 5% of the Registrant's outstanding common shares have been excluded because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily conclusive.

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

As of February 20, 2015, there were 34,239,720 of the Registrant's common shares, no par value, issued and outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Definitive Proxy Statement for the Registrant's Annual Meeting of Shareholders scheduled to be held on May 12, 2015 to be filed with the Securities and Exchange Commission are incorporated by reference in answer to Part III of this Annual Report on Form 10-K.

GSI GROUP INC.

FORM 10-K

YEAR ENDED DECEMBER 31, 2014

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

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

The following brand and trade names of GSI Group Inc. are used in this report: MicroE Systems, Westwind, Synrad, JK Lasers, Cambridge Technology, ExoTec Precision, General Scanning, Photo Research, JADAK, NDS, Dome and NDSsi.

PART I

Cautionary Note Regarding Forward Looking Statements

Except for historical information, the matters discussed in this Annual Report on Form 10-K are forward looking statements that involve risks, uncertainties and assumptions that, if they never materialize or if they prove incorrect, could cause our consolidated results to differ materially from those expressed or implied by such forward looking statements. The Company makes such forward looking statements under the provision of the "Safe Harbor" section of the Private Securities Litigation Reform Act of 1995. Actual future results may vary materially from those projected, anticipated, or indicated in any forward looking statements as a result of various factors, including those set forth in Item 1A of this Annual Report on Form 10-K under the heading "Risk Factors." Readers should also carefully review the risk factors described in the other documents that we file from time to time with the SEC. In this Annual Report on Form 10-K, the words "anticipates," "believes," "expects," "intends," "future," "could," "estimates," "plans," "would," "shoul "continues" and similar words or expressions (as well as other words or expressions referencing future events, conditions or circumstances) identify forward looking statements. Forward looking statements also include the assumptions underlying or relating to any of the foregoing statements. The forward looking statements contained in this Annual Report include, but are not limited to, statements related to: anticipated financial performance; expected liquidity and capitalization; 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; changes in actual or assumed tax liabilities; expectations regarding tax exposures; anticipated reinvestment of future earnings; anticipated expenditures in regard to the Company's benefit plans; future acquisitions and dispositions and anticipated benefits from acquisitions; anticipated impact of the NDS impairment charge; anticipated use of currency hedges; ability to repay our indebtedness; our intentions regarding the use of cash; and other statements that are not historical facts. All forward looking statements included in this document are based on information available to us on the date hereof. We will not undertake and specifically decline any obligation to update any forward looking statements.

Item 1. Business

OVERVIEW

GSI Group Inc. and its subsidiaries (collectively referred to as the "Company", "we", "us", "our") design, develop, manufacture and sell precision photonic and motion control components and subsystems to Original Equipment Manufacturers ("OEM's") in the medical equipment and advanced industrial technology markets. Our highly engineered enabling technologies include laser sources, laser scanning and beam delivery products, optical data collection and machine vision technologies, medical visualization and informatics solutions and precision motion control products. We specialize in collaborating with OEM customers to adapt our component and subsystem technologies to deliver highly differentiated performance in their applications.

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

Strategy

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

· improving our business mix to increase medical sales as a percentage of total revenue by:
- introducing new products aimed at attractive medical applications such as minimally invasive and robotic surgery, ophthalmology, patient monitoring, drug delivery, diagnostic testing and life science research;
- cross selling our entire product offering to the leading medical equipment manufacturers and;
- pursuing complementary medical technology acquisitions;
· increasing our penetration of high growth advanced industrial technology applications such as laser materials processing, robotics, automation, metrology, and via hole drilling by working closely with OEM customers to launch application specific products that closely match the requirements of each application;

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- broadening our portfolio of precision motion control products and capabilities through increased new product development investment in motion control product lines, expanded sales and marketing channels to reach target customers and, acquisitions of additional motion control product technologies used by existing customers;
- broadening our product and service offerings through the acquisition of innovative and complementary technologies and solutions in medical and advanced industrial technology applications;
- upgrading our existing operations to expand profit margins and improve customer satisfaction by implementing lean manufacturing principles and strategic sourcing across our major production sites; and
- attracting, retaining, and developing talented and motivated employees.

Acquisitions

In February 2015, GSI acquired Applimotion Inc., a Loomis, California-based provider of advanced precision motor and motion control technology to OEMs for advanced industrial and medical markets, for $13.9 million in cash, subject to customary working capital adjustments. The acquisition enhances the Company's strategic position in precision motion control by enabling the Company to offer a broader range of motion control technologies and integrated solutions. The Applimotion business line will be reported as part of the Precision Motion segment.

In March 2014, GSI acquired JADAK LLC, JADAK Technologies Inc. and Advance Data Capture Corporation (together, "JADAK"), a North Syracuse, New York-based provider of optical data collection and machine vision technologies to OEM medical device manufacturers, for $93.7 million in cash, net of working capital adjustments.

In January 2013, GSI acquired NDS Surgical Imaging ("NDS") for a final adjusted purchase price of $75.4 million. NDS is a San Jose, California-based company that designs, manufactures, and markets high definition visualization solutions and imaging informatics products for the surgical, radiology and patient monitoring end markets.

Divestitures and Restructuring

Since 2011, we have executed a series of strategic divestures to improve our business mix and financial performance. In October 2012, we divested the Lasers Systems business, operated under the Control Laser and Baublys brand names, for $6.6 million, net of final working capital adjustments. In May 2013, we sold the Semiconductor Systems business, operated under the GSI Group brand name, for $9.7 million, including final working capital adjustments. In July 2014, we completed the sale of our Scientific Lasers business, operated under the Continuum brand name, for $6.5 million in cash, net of working capital adjustments. These businesses have been reported as discontinued operations in our consolidated financial statements for all periods presented in this annual report on Form 10-K.

Since 2011, our strategic initiatives resulted in the elimination of thirteen facilities, including seven facilities exited as part of the sale of the Semiconductor Systems, Laser Systems and Scientific Lasers product lines. These eliminations also resulted in the consolidation of our optics production facilities, consolidation of our German and Japanese sales and service operations into one facility in Germany and Japan, respectively, and consolidation of our laser scanners business into our Bedford, Massachusetts facility.

Segments

The Company evaluates the performance of, and allocates resources to, its segments based on sales, gross profit and operating profit. The Company's reportable segments have been identified based on commonality of technologies, applications, end markets and customers amongst the Company's individual product lines, and are consistent with the Company's operating structure.

The following table shows the external revenues and gross profit margin for each of the segments for the year ended December 31, 2014 (dollars in thousands):

	Sales	Gross Profit Margin
Laser Products	$177,726	41.8 %
Medical Technologies	122,187	39.8 %
Precision Motion	64,793	43.7 %
Total	$364,706	41.2 %

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See Note 16 to Consolidated Financial Statements for additional financial information about our reportable segments.

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 industrial material processing, and medical and life science imaging and laser procedures. The vast majority of the segment's product offerings are sold to Original Equipment Manufacturer customers. The segment sells these products both directly, utilizing a highly technical sales force, and indirectly, through resellers and distributors.

The Laser Products segment is comprised of three major product lines:

Product Line	Key End Market	Brand Names	Description
Beam Delivery	Industrial, Medical and Electronics	Cambridge Technology, Synrad, JK Lasers, & ExoTec Precision	Galvanometer laser scanners and laser scanning solutions, such as laser scanheads. These products provide rapid, precise control and delivery of laser beams through motorized manipulation of mirrors and optical elements in three dimensions. Applications include material processing (such as laser marking, laser machining and laser drilling), scanning microscopy, laser-based vision correction, optical coherence tomography imaging, high resolution printing, holographic imaging and storage, metrology, and 2D or 3D imaging. Laser processing heads, which are used for laser cutting and welding as well as for brazing in the advanced manufacturing industry.
CO_2 Lasers	Industrial	Synrad, JK Laser	Applications include coding, marking, engraving, and cutting of non-metals, laser sintering, laser converting, and laser aesthetics.
Fiber Lasers	Industrial and Electronics	JK Lasers	Applications include material processing (such as laser cutting, machining, welding and drilling), laser sintering, laser converting, additive manufacturing and micromachining.

Medical Technologies

The Medical Technologies segment designs, manufactures and markets a range of medical grade technologies, including visualization solutions, imaging informatics products, optical data collection and machine vision technologies, thermal printers, and light and color measurement instrumentation to customers worldwide. The vast majority of the segment's product offerings are sold to Original Equipment Manufacturer customers. The segment sells these products both directly, utilizing a highly technical sales force, and indirectly, through resellers and distributors.

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The Medical Technologies segment has five major product lines:

Product Line	Key End Market	Brand Names	Description
Visualization Solutions	Medical	NDS, NDSsi, Dome	High definition visualization solutions for minimal invasive surgery, patient monitoring and diagnostic radiology applications.
Imaging Informatics	Medical	NDS, NDSsi	Imaging management for visual information, including real-time distribution, documentation, control, and streaming for multiple imaging modalities for surgical applications.
Optical Data Collection and Machine Vision Technologies	Medical and Industrial	JADAK	Data collection solutions ranging from camera based technologies for barcode scanning operations to wireless technologies such as Radio Frequency Identification (RFID). Optimized optical and software platforms performing everything from basic barcode reading applications to more complex functions such as machine vision for the purpose of image analysis within medical devices.
Thermal Printers	Medical	General Scanning, NDSsi	Rugged thermal paper printers for patient monitoring, defibrillator equipment, blood gas analyzers, and pulse oximeters.
Light and Color Measurement	Industrial, Electronics and Medical	Photo Research	Light and color measurement metrology devices, including spectroradiometers, photometers, video photometers, and color characterization software used in the visualization solutions market, research and development, quality control, and other testing markets.

Precision Motion

The Precision Motion segment designs, manufactures and markets optical encoders and air bearing spindles and precision machined components to customers worldwide. The vast majority of the segment’s product offerings are sold to Original Equipment Manufacturer customers. The segment sells these products both directly, utilizing a highly technical sales force, and indirectly, through resellers and distributors.

The Precision Motion segment includes two major product lines:

Product Line	Key End Market	Brand Names	Description
Optical Encoders	Electronics, Industrial and Medical	MicroE Systems	Linear and rotary electro-optical positioning devices that measure movement with sub-micron accuracy. Applications include motion control of semiconductor and electronic manufacturing equipment, confocal microscopes, coordinate measuring systems, drug dispensing, and robotic equipment, including medical equipment.
Air Bearing Spindles	Electronics and Industrial	Westwind	High-speed and precision air bearing spindles used in the PCB manufacturing, automotive coating, semiconductor manufacturing equipment, and power generation markets.

Customers

We have a diverse group of customers that include companies that are global leaders in their industries. Many of our customers participate in several market industries. No customer accounted for greater than 10% of our consolidated sales during the years ended December 31, 2014, 2013 or 2012.

Customers of our Laser Products, Medical Technologies, and Precision Motion segments include a large number of original equipment manufacturers who integrate our products into their systems for sale to end users. We also sell directly to end users. Our customers include leaders in the medical, industrial, and electronics markets. A typical OEM customer will usually evaluate our products and our ability to provide application support and customization before deciding to incorporate our products into their products or systems. Customers generally choose suppliers based on a number of factors, including product performance, reliability, application support, price, breadth of the supplier’s product offerings, the financial condition of the supplier and the geographical coverage offered by the supplier. Once certain of our products have been designed into a given OEM customer’s product or system, there are generally significant barriers to subsequent supplier changes, especially in the medical market.

Seasonality

While our sales are not highly seasonal on a consolidated basis, the sales of some of our individual product lines, particularly our visualization solutions, imaging informatics, and thermal printer products, are impacted by seasonality due to hospital budgeting cycles.

Backlog

As of December 31, 2014 and 2013, our consolidated backlog was approximately $82.1 million and $67.2 million, respectively. The majority of orders included in backlog represent open orders for products and services that, based on management’s projections, have a reasonable probability of being delivered over the subsequent twelve month period. Orders included in backlog may be canceled or rescheduled by customers without significant penalty. Management believes that backlog is not a meaningful indicator of future business prospects for any of our business segments due to the wide range of lead times required by our various types of customers and the ability of our customers to reschedule or cancel orders. Therefore, backlog as of any particular date should not be relied upon as indicative of our revenues for any future period.

Manufacturing

Manufacturing functions are performed internally when management chooses to maintain control over critical portions of the production process or for cost related reasons. To the extent it makes financial sense, we will consider outsourcing additional portions of the production process.

Products offered by our Laser Products segment are manufactured at facilities in Bedford, Massachusetts; Mukilteo, Washington; Rugby and Taunton, United Kingdom; and Suzhou, China. Products offered by our Medical Technologies segment are manufactured at facilities in Bedford, Massachusetts; Syracuse, New York; San Jose and Chatsworth, California; and Suzhou, China. Products offered by our Precision Motion segment are primarily manufactured at facilities in Bedford, Massachusetts; Poole, United Kingdom; and Suzhou, China.

Many of our products are manufactured under ISO 9001 certification and our visualization solutions, imaging informatics, thermal printers, and optical encoders products are manufactured under ISO13485 certification. Certain visualization solutions and imaging informatics products are manufactured under current good manufacturing practices (CGMP's), which is a requirement of their medical device classification by the U.S. Food and Drug Administration (the "FDA"). In addition, certain visualization solutions and imaging informatics products are manufactured under section 510(k) of the FDA.

Research and Development and Engineering

We incur research and development and engineering expenses as part of our ongoing operations. The following table shows total research and development and engineering expenses as a percent of total sales for the years ended December 31, 2014, 2013 and 2012 (dollars in thousands):

	2014	2013	2012
Research and development and engineering expenses	$28,954	$23,787	$18,530
As a percentage of sales	7.9 %	7.5 %	7.6 %

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We are strongly committed to research and development for core technology programs directed at creating new products, product enhancements and new applications for existing products. We are also committed to funding research into future market opportunities. Our markets have experienced rapid technological changes and product innovations. We believe that continued timely development of new products and product enhancements to serve existing and new markets is necessary for us to remain competitive.

Marketing, Sales and Distribution

We sell our products worldwide through our direct sales force and through distributors, including manufacturers' representatives. Our local sales, applications and service teams and our distributors work closely with our customers to ensure customer satisfaction with our products. We have sales and service centers located in North America, Europe, Asia Pacific, and Japan.

Competition

The markets in which we compete are dynamic and highly competitive. Due to the wide range of our products, we face many different types of competition and competitors. This affects our ability to sell our products and the prices at which these products are sold. Our competitors range from large foreign and domestic organizations, which produce a comprehensive array of goods and services and may have greater financial and other resources than we do, to small firms producing a limited number of goods or services for specialized market segments.

Competitive factors in our Laser Products, Medical Technologies, and Precision Motion segments include product performance, price, quality and reliability, features, compatibility of products with existing systems, technical support, product breadth, market presence, on-time delivery and our overall reputation. We believe that our products offer a number of competitive advantages. However, some of our competitors are substantially larger and have greater financial and other resources.

Raw Materials, Components and Supplies

Each of our businesses uses a wide variety of raw materials, key components and parts that are generally available from alternative sources of supply and in adequate quantities from domestic and foreign sources. In some instances, we design and/or re-engineer the parts and components used in our products. For certain critical raw materials, key components and parts used in the production of some of our principal products, we have identified only a limited number of suppliers or, in some instances, a single source of supply. We also rely on a limited number of independent contractors to manufacture subassemblies for some of our products.

For a further discussion of the importance and risks associated with our supply chain, see applicable risk factors under Item 1A of this Annual Report on Form 10-K.

Patents and Intellectual Property

We rely upon a combination of copyrights, patents, trademarks, trade secret laws and restrictions on disclosure to protect our intellectual property rights. We hold a number of registered and pending patents in the United States and other countries. In addition, we also have trademarks registered in the United States and foreign countries. We will continue to actively pursue applications for new patents and trademarks as we deem appropriate. However, there can be no assurance that any other patents will be issued to us or that such patents, if and when issued, will provide any protection or benefit to us.

Although we believe that our patents and pending patent applications are important, we rely upon several additional factors that are essential to our business success, including: market position, technological innovation, know-how, application knowledge and product performance. There can be no assurance that we will be able to sustain these advantages.

We also protect our proprietary rights by controlling access to our proprietary information and by maintaining confidentiality agreements with our employees, consultants, and certain customers and suppliers. For a further discussion of the importance of risks associated with our intellectual property rights, see applicable risk factors under Item 1A of this Annual Report on Form 10-K.

Human Resources

As of December 31, 2014 and 2013, we employed 1,418 and 1,287 employees, respectively. As of December 31, 2014 and 2013, there were 36 and 109 employees, respectively, of our discontinued businesses.

Geographic Information

We are a multinational company with approximately 61% of our 2014 sales outside the United States and approximately 18% of our property, plant and equipment, net, outside the United States at December 31, 2014. Geographic information is discussed in Note 16 to Consolidated Financial Statements. For a further discussion of the risks associated with our foreign operations, see applicable risk factors under Item 1A of this Annual Report on Form 10-K.

Government Regulation

Our current and contemplated activities and the products and processes that will result from such activities are subject to substantial government regulations, both in the United States and internationally.

United States Food and Drug Administration

Certain products manufactured by us are integrated into systems by our customers that are subject to certain regulations administered by the United States Food and Drug Administration. We must comply with certain quality control measurements in order for our products to be effectively used in our customers' end products. Non-compliance with quality control measurements could result in loss of business with our customers, fines and penalties.

We are subject to certain medical device regulations. Medical devices are subject to extensive and rigorous regulation by the Food and Drug Administration and by other federal, state and local authorities. The Federal Food, Drug and Cosmetic Act and related regulations govern the conditions of safety, efficacy, clearance, approval, manufacturing, quality system requirements, labeling, packaging, distribution, storage, record keeping, reporting, marketing, advertising, and promotion of products. Non-compliance with applicable requirements can result in, among other things, fines, injunctions, civil penalties, recall or seizure of products, total or partial suspension of production, refusal by the government to grant premarket clearance or approval of products, withdrawal of clearances and approvals, and criminal prosecution.

Other Information

We maintain a website with the address www.gsig.com. We are not including the information contained in our website as part of, or incorporating it by reference into, this Annual Report on Form 10-K. We make available, free of charge through our website, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to these reports as soon as reasonably practicable after we electronically file these materials with, or otherwise furnish them to, the Securities and Exchange Commission ("SEC"). In addition, our reports and other information are filed with securities commissions or other similar authorities in Canada, and are available over the Internet at www.sedar.com.

Item 1A. Risk Factors

The following risk factors could have a material adverse effect on our business, financial position, results of operations and cash flows and could cause the market value of our common shares to fluctuate or decline. These risk factors may not include all of the important factors that could affect our business or that could cause our future financial results to differ materially from historic or expected results or cause the market price of our common shares to fluctuate or decline.

Risks Relating to our Business

Our results of operations could be adversely affected by economic and political conditions and the effects of these conditions on our customers' businesses and levels of business activities.

A large portion of our product sales are dependent on the need for increased capacity or replacement of inefficient manufacturing processes. These sales tend to lag behind other businesses in an economic recovery. Weaknesses in our end markets could negatively impact our revenue, gross margin and operating expenses and consequently have a material adverse effect on our business, financial condition and results of operations. For instance, uncertainty in our medical and industrial end markets has caused customers in those markets to purchase fewer products from us during certain recent quarters. If such uncertainty continues or worsens, we may not be able to meet anticipated revenue levels on a quarterly or annual basis. Moreover, a severe and/or prolonged economic downturn or a negative or uncertain political climate could adversely affect our customers' financial condition and the timing or levels of business activity of our customers and the industries we serve. In particular, reduced growth expectations in China and the uncertain European financial situation could have an impact on our customers' financial condition and ability to maintain product orders in the future. This may reduce the demand for our products or depress pricing for our products and have a material adverse effect on our results of operations. Changes in global economic conditions could also shift demand to products or services for which we do not have competitive advantages, and this could negatively affect the amount of business that we are able to obtain. In addition, if we are unable to successfully anticipate changing economic and political conditions, we may be unable to effectively plan for and respond to those changes, and our business could be negatively affected.

Our business depends significantly upon our customers' capital expenditures, which are subject to cyclical market fluctuations.

The electronics materials processing industries are cyclical and have historically experienced periods of oversupply, resulting in downturns in demand for capital equipment, in which many of our products are used. The timing, length and severity of these cycles, and their impact on our business, are difficult to predict. Further, our order levels or results of operations for a given period may not be indicative of order levels or results of operations for subsequent periods. For the foreseeable future, our operations will continue to depend upon industries that are subject to market cycles which, in turn, could adversely affect the market for our products.

We experienced significant cyclical fluctuations in the past. We cannot assure you that such slowdowns will not recur or that the impact of such slowdowns will be more or less significant compared to historical fluctuations.

Our business success depends upon our ability to respond to fluctuations in product demand, but doing so may require us to incur costs despite limited visibility toward future business declines.

In periods of weak demand, we may be required to reduce costs while maintaining the ability to motivate and retain key employees at the same time. Additionally, to remain competitive, we must also continually invest in research and development, which may inhibit our ability to reduce costs in a down cycle. Long product lead-times create a risk that we may purchase or manufacture inventories of products that we are unable to sell.

During a period of increasing demand and rapid growth, we must be able to increase manufacturing capacity quickly. Our inability to quickly increase production in response to a surge in demand could prompt customers to look for alternative sources of supply or leave our customers without a supply, both of which events could harm our reputation and make it difficult for us to retain our existing customers or to obtain new customers.

The success of our business requires that we continually innovate.

Technology requirements in our markets are constantly advancing. We must continually introduce new products that meet evolving customer needs. Our ability to grow depends on the successful development, introduction and market acceptance of new or enhanced products that address our customer's requirements. Developing new technology is a complex and uncertain process requiring us to accurately anticipate technological and market trends and meet those trends with responsive products. Additionally, this requires that we manage the transition from older products to minimize disruption in customer ordering patterns, avoid excess inventory and ensure adequate supplies of new products. Failure to develop new products, failed market acceptance of new products or problems associated with new product transitions could harm our business.

If we fail to introduce new products in a timely manner, we may lose market share and be unable to achieve revenue growth targets.

Our research and development efforts may not lead to the successful introduction of products within the time period our customers demand. Our competitors may introduce new or improved products, processes or technologies that make our current or proposed products obsolete or less competitive. We may encounter delays or problems in connection with our research and development efforts. Product development delays may result from numerous factors, including:

· changing product specifications and customer requirements;

- inability to manufacture new products cost effectively;
- difficulties in reallocating engineering resources and overcoming resource limitations;
- changing market or competitive product requirements; and
- unanticipated engineering complexities.

New products often take longer to develop, may have fewer features than originally considered desirable and have higher costs than initially estimated. There may be delays in starting volume production of new products and/or new products may not be commercially successful. There may also be difficulty in sourcing components for new products. Any of these developments could harm our business, including our results of operations.

Customer order timing and other factors beyond our control may cause our operating results to fluctuate from period to period.

Changes in customer order timing and the existence of certain other factors beyond our control may cause our operating results to fluctuate from period to period. Such factors include:

- fluctuations in our customers' businesses;
- timing and recognition of revenues from customer orders;
- timing and market acceptance of new products or enhancements introduced by us or our competitors;
- availability of parts from our suppliers and the manufacturing capacity of our subcontractors;
- decisions by customers to reduce their purchases of our products;
- changes in the prices of our products or of our competitors' products; and
- fluctuations in exchange rates of foreign currencies.

Certain of our sales come from products with high selling prices and significant lead times. We may receive several large orders in one quarter from a customer and then receive no orders from that customer in the next quarter. As a result, the timing and recognition of sales from customer orders can cause significant fluctuations in our operating results from quarter to quarter. In addition, our sales are reactive to changes in our customers' businesses. For instance, a customer that placed a large order in one period could subsequently experience a downturn in business and, as a result, could cancel an order or reduce the amount of products it purchases from us in future periods.

A delay in a shipment or failure to meet our revenue recognition criteria near the end of a reporting period due, for example, to rescheduling or cancellations by customers or to unexpected difficulties experienced by us may cause sales in the period to decline significantly and may have a material adverse effect on our operations for that period.

We cannot predict how the market will react to new products produced by us or to enhancements made to our existing products. If any of our new or enhanced products contain defects or perceived defects or have reliability, quality or compatibility problems or perceived problems, or if our competitors release similar products or enhancements at the same time as us that are more widely accepted by our customers, our sales and results of operations for one or more reporting periods could be adversely affected.

In addition, we or our competitors may raise or lower the prices of products in response to market demands or competitive pressures. If we lower the prices of our products, or if our competitors lower the prices of their products such that demand for our products weakens, our sales for one or more quarters may decline and our operating results would be adversely affected. Changes in foreign currency exchange rates can also cause significant fluctuations in our results of operations from quarter to quarter.

As a result of these factors, our results of operations for any quarter are not necessarily indicative of results to be expected in future periods.

If we experience a significant disruption in, or breach in security of, our information technology systems, our business may be adversely affected.

We rely on information technology systems throughout the Company to manage orders, process shipments to customers, manage inventory levels and maintain financial information. Events could result in the disruption of our systems, including power outages, computer attacks by hackers, viruses, catastrophes, hardware and software failures and other unforeseen events. If we were to experience a significant period of system disruption in information technology systems that involve our interactions with customers or suppliers, it could result in the loss of sales and customers and significant incremental costs, which could adversely affect our business. In addition, security breaches of our information technology systems could result in the misappropriation or unauthorized disclosure of confidential information belonging to us or to our employees, partners, customers or suppliers, which could result in significant financial or reputational damage to us.

As we transact a portion of our sales, and maintain significant cash balances, in foreign currencies, changes in interest rates, credit ratings or foreign currency rates could have a material adverse effect on our operations, financial position, results of operations, and cash flows.

A portion of our sales are derived from our European and Asian operations and include transactions in Euros, British Pounds and Japanese Yen, while our products are mainly manufactured in the United States, United Kingdom and China. In the event of a decline in the value of the Euro, Japanese Yen or British Pound, we would typically experience a decline in our revenues and profit margins. If we increase the sale prices on our products sold in Europe and Japan in order to maintain profit margins and recover costs, we may lose customer sales to lower cost competitors.

Additionally, balances we maintain in foreign currencies create additional financial exposure to changing currency rates. We have in the past, and may in the future, attempt to mitigate these risks by purchasing foreign currency exchange contracts, and by investing in United States government issued treasury bills. However, if foreign currency rates were to change rapidly, we could incur material losses.

Our reliance on international operations in foreign countries subjects us to risks not typically faced by companies operating exclusively in the United States.

During the year ended December 31, 2014, approximately 61% of our revenues from continuing operations were derived from operations and customers outside of the United States. The scope of our international operations subjects us to risks which could materially impact our results of operations, including:

- foreign exchange rate fluctuations;
- increases in shipping costs or increases in fuel costs;
- longer customer payment cycles;
- greater difficulty in collecting accounts receivable;
- use of incompatible systems and equipment;
- problems with staffing and managing foreign operations in diverse cultures;
- protective tariffs;
- trade barriers and export/import controls;
- transportation delays and interruptions;
- increased vulnerability to the theft of, and reduced protection for, intellectual property rights;
- government currency control and restrictions, delays, penalties or required withholdings on repatriation of earnings;
- the impact of recessionary foreign economies; and
- acts of terrorism.

We cannot predict whether the United States or any other country will impose new quotas, tariffs, taxes or other trade barriers upon the importation or exportation of our products or supplies or gauge the effect that new barriers would have on our financial position or results of operations.

We also are subject to risks that our operations outside the United States could be conducted by our employees, contractors, service providers, representatives or agents in ways that violate the Foreign Corrupt Practices Act or other similar anti-bribery laws. Any such violations could have a negative impact on our business and could result in government investigations and/or injunctive, monetary or other penalties. Moreover, we face additional risks that our anti-bribery policy and procedures may be violated by third-party sales representatives or other agents that help sell our products or provide other services, because such representatives or agents are not our employees and it may be more difficult to oversee their conduct.

Increased outsourcing of components manufacturing to manufacturers outside the United States leads to additional risks which could negatively impact our business.

We are increasingly outsourcing the manufacture of subassemblies to suppliers based in China and elsewhere overseas in order to reduce our manufacturing cost. However, economic, political or trade problems with foreign countries could substantially impact our ability to obtain critical parts needed in the timely manufacture of our products. Additionally, this practice increases our vulnerability to the theft of, and reduced protection for, our intellectual property.

Our global operations are subject to extensive and complex import and export rules that vary among the legal jurisdictions in which we operate. Failure to comply with these rules could result in substantial penalties.

Due to the international scope of our operations, we are subject to a complex system of import and export related laws and regulations, including U.S. export control and customs regulations and customs regulations of other countries. These regulations are complex and vary among the legal jurisdictions in which we operate. Any alleged or actual failure to comply with such regulations may subject us to government scrutiny, investigation and civil and criminal penalties, and may limit our ability to import or export our products or to provide services outside the United States. Any of these penalties could have a material impact on our financial position, results of operations and cash flows.

We are exposed to the credit risk of some of our customers and to credit exposures in weakened markets, which could adversely affect our results of operations.

Customers with liquidity issues may lead to additional bad debt expense. There can be no assurance that our open credit customers will pay the amounts they owe to us or that the reserves we maintain will be adequate to cover such credit exposure. In addition, to the extent that turmoil in the credit markets makes it more difficult for some customers to obtain financing, those customers' ability to pay may be adversely impacted. Our customers' failure to pay and/or our failure to maintain sufficient reserves could have a material adverse effect on our operating results and financial condition.

Our reliance upon third party distribution channels subjects us to credit, inventory, business concentration, and business failure risks beyond our control.

We sell many of our products through resellers, distributors, and system integrators. As these third parties tend to have more limited financial resources than OEMs and end-user customers, they generally represent sources of increased credit risk. Any downturn in the business of our resellers, distributors, and systems integrators would in turn harm our results of operations or financial condition.

Our sales also depend upon the ability of our OEM customers to develop and sell systems that incorporate our products. Adverse economic conditions, large inventory positions, limited marketing resources and other factors influencing these OEM customers could have a substantial adverse effect on our financial results. We cannot assure investors that our OEM customers will not experience financial or other difficulties that could adversely affect their operations and, in turn, our financial condition or results of operations.

Others may violate our intellectual property rights and cause us to incur significant costs to protect our rights.

Our future success depends in part upon our intellectual property rights, including trade secrets, know-how and continuing technological innovation. We do not have personnel dedicated to the oversight, organization and management of our intellectual property. There can be no assurance that the steps we take to protect our intellectual property rights will be adequate to prevent misappropriation or disclosure, or that others will not develop competitive technologies or products outside of our patented intellectual property. It is possible that, despite our efforts, other parties may use, obtain or try to copy our technology and products. There can be no assurance that other companies are not investigating or developing other technologies that are similar to ours, that any patents will be issued from any application filed by us or that, if patents are issued, the claims allowed will be sufficient to deter or prohibit others from marketing similar products. In addition, our patents may be challenged, invalidated or circumvented in a legal or administrative proceeding. Policing unauthorized use of our intellectual property rights is difficult and time consuming and may involve initiating claims or litigation against third parties for infringement of our proprietary rights, which could be costly.

Our efforts to protect our intellectual property rights against infringement may not be effective in some foreign countries where we operate or sell our products. If we fail to adequately protect our intellectual property in these countries, we may lose significant business to our competitors.

Our operating results would suffer if we are unable to successfully defend against claims of infringement by third parties.

We have received in the past, and could receive in the future, notices from third parties alleging that our products infringe patent or other proprietary rights. We believe that our products are non-infringing or that we have the patents and/or licenses to allow us to lawfully sell our products throughout the world. However, we may be sued for infringement. In the event any third party makes a valid claim against us or our customers for which a license was not available to us on commercially reasonable terms, our operating results would be adversely affected. Adverse consequences may also apply to our failure to avoid litigation for infringement or misappropriation of proprietary rights of third parties.

We operate in highly competitive industries and, if we lose competitive advantages, our business would suffer adverse consequences.

Some of our competition comes from established competitors that have greater financial, engineering, manufacturing and marketing resources than we do. Our competitors will continue to improve the design and performance of their products and introduce new products. It is possible that we may not successfully differentiate our current and proposed products from the products of our competitors, or that the marketplace will not consider our products to be superior to competing products. To remain competitive, we will be required to invest heavily in research and development, marketing and customer service and support. However, we may not be able to make the necessary technological advances to maintain our competitive position and our products may not receive market acceptance. These factors would cause us not to be able to compete successfully in the future. Increased competition may also result in price reductions, reduced profit margins, loss of market share and an inability to generate cash flows that are sufficient to maintain or expand our development of new products.

Our results of operations will be adversely affected if we fail to successfully integrate future acquisitions into our business or to grow the acquired businesses.

As part of our business strategy, we expect to broaden our product and service offerings by acquiring businesses, technologies, assets and product lines that we believe complement or expand our existing businesses. We have made, and expect to continue to make, acquisitions. We may fail to successfully integrate acquisitions into our business and, as a result, may fail to realize the synergies, cost savings and other benefits expected from acquisitions. If we are not able to successfully achieve these objectives, the anticipated benefits of such acquisitions may not be realized fully or at all, and our results of operations could be adversely affected.

Further, our ability to maintain and increase profitability of an acquired business will depend on our ability to manage and control operating expenses and to generate and sustain increased levels of revenue. Our expectations to achieve more consistent and predictable levels of revenue and to increase profitability as a result of any acquisition may not be realized. Such revenues and profitability may even decline as we integrate operations into our business. If revenues of acquired businesses grow more slowly than we anticipate or decline, or if their operating expenses are higher than we expect, we may not be able to sustain or increase their profitability, in which case our financial condition will suffer and our stock price could decline. For example, reductions in orders by a customer within our Visualization Solutions product line have caused our revenues in that business in 2013 and 2014 to be lower than we had expected when we acquired the business. Moreover, our acquisition activities may divert management’s attention from our regular operations and managing a larger and more geographically dispersed operation and product portfolio could pose challenges for our management. In addition, through our acquisitions, we may assume liabilities, losses or costs for which we are not indemnified or insured or for which our indemnity or insurance is inadequate. Any such liabilities may have a material adverse effect on our financial position or results of operations.

Our business strategy may include making strategic divestitures. There can be no assurance that any divestitures will provide business benefit.

Our business strategy includes divesting certain non-core businesses. We sold certain assets and liabilities of our Laser Systems businesses in October 2012. During the second quarter of 2013, we sold our Semiconductor Systems business, and in July 2014, we sold our Scientific Lasers business. There may be additional sales of other non-core businesses in the future. The divestiture of an existing business could reduce our future profits and operating cash flows and make our financial results more volatile. A divestiture could also cause a decline in the price of our common shares and increased reliance on other elements of our core business operations. If we do not successfully manage the risks associated with a divestiture, our business, financial condition, and results of operations could be adversely affected. In addition, there could be other negative unforeseen effects from a divestiture. We also may not find suitable purchasers for our non-core businesses and may continue to pay operating costs associated with these businesses. Failed attempts to divest non-core businesses may distract management's attention from other business activities, erode employee morale and customers' confidence and harm our business.

If we do not attract and retain our key personnel, our ability to execute our business strategy will be limited.

Our success depends, to a significant extent, upon the continued service of our executive officers and key management and technical personnel, particularly our experienced engineers, and upon our ability to continue to attract, retain, and motivate qualified personnel. The competition for these employees is intense. The loss of the services of one or more of our key personnel could have a material adverse effect on our operating results. In addition, there could be a material adverse effect on us should the turnover rates for engineers and other key personnel increase significantly or if we are unable to continue to attract qualified personnel.

Our success also depends on our ability to execute leadership succession plans. The inability to successfully transition key management roles could have a material adverse effect on our operating results.

We have undertaken restructuring and realignment activities in the past, and we will continue to assess our operating structure in the future. These actions may not improve our financial position, and may ultimately prove detrimental to our operations and sales.

Our ability to reduce operating expenses is dependent upon the nature of the actions we take to reduce expenses and our subsequent ability to implement those actions and realize expected cost savings. If global conditions deteriorate and unfavorably impact our business, we may need to take additional restructuring actions, such as eliminating or consolidating certain of our facilities, reducing our headcount or eliminating certain positions. Failure to successfully implement such restructuring activities could adversely affect our ability to meet customer demand for our products and could increase the cost of production versus our projections, both of which could adversely impact our operating and financial results. Further, expenses and cost inefficiencies associated with our restructuring activities, including severance costs and the loss of trained employees with knowledge of our business and operations, could exceed our expectations and negatively impact our financial results. The elimination or consolidation of operations could also result in restructuring charges that could adversely affect our results of operations and financial condition.

Product defects or problems with integrating our products with other vendors' products may seriously harm our business and reputation.

We produce complex products that can contain latent errors or performance problems. This could happen to both existing and new products. Such defects or performance problems could be detrimental to our business and reputation.

In addition, customers frequently integrate our products with other vendors' products. When problems occur in a combined environment, it may be difficult to identify the source of the problem. These problems may cause us to incur significant warranty and repair costs, divert the attention of our engineering personnel from our product development efforts and cause significant customer relationship issues. These issues may also complicate our determination of the timing and amount of revenue recognition and could have a material negative impact on our business.

Disruptions in the supply of certain key components and other goods from our suppliers, including limited or single source suppliers, could have an adverse effect on the results of our business operations, and could damage our relationships with customers.

The production of our products requires a wide variety of raw materials, key components and other goods that are generally available from alternate sources of supply. However, certain critical raw materials, key components and other goods required for the production and sale of some of our principal products are available from limited or single sources of supply. If the receipt of certain limited source or single source materials is delayed, our relationship with customers may be harmed if such delays cause us to miss our scheduled shipment deadlines. Certain of our businesses buy components, including limited or sole source items, from competitors of our other businesses, and certain of our businesses sell products to customers that compete with certain other segments of our business. This dynamic may adversely impact our relationship with these suppliers and customers. For example, these suppliers could increase the price of those components or reduce their supply of those components to us. Similarly, these customers could elect to manufacture products to meet their own requirements rather than purchasing products from us. Our businesses may be adversely affected by our other business relationships with customers and suppliers. Our current or alternative sources may not be able to continue to meet all of our demands on a timely basis. If suppliers or subcontractors experience difficulties or fail to meet any of our manufacturing requirements, our business would be harmed until we are able to secure alternative sources, if any, on commercially reasonable terms. A prolonged inability to obtain certain raw materials, key components or other goods is possible and could have an adverse effect on our business operations, and could damage our relationships with customers.

Production difficulties and product delivery delays or disruptions could have a material adverse effect on our business.

We assemble our products at our facilities in the United States, the United Kingdom and China. Each of our products is typically manufactured in a single manufacturing location. If production activities at any of our manufacturing facilities were interrupted by a natural disaster or otherwise, our operations would be negatively impacted until we could establish alternative production and service operations. Significant production difficulties could be the result of:

- mistakes made while transferring manufacturing processes between locations;
- changing process technologies;
- ramping production;
- installing new equipment at our manufacturing facilities;
- shortage of key components; and
- loss of electricity or employees' access to the manufacturing facilities due to natural disasters.

In addition, we may experience product delivery delays in the future. We ship a significant portion of our products to our customers through independent package delivery and import/export companies. We also ship our products through national trucking firms, overnight carrier services and local delivery practices. If one or more of the package delivery or import/export providers experiences a significant disruption in services or institutes a significant price increase, the delivery of our products could be prevented or delayed. Such events could cause us to incur increased shipping costs that could not be passed on to our customers, negatively impacting our profitability and our relationships with certain customers.

We are subject to regulation by various federal, state and foreign agencies that require us to comply with a wide variety of regulations, including those regarding the manufacture of products and the shipping of our products.

Certain medical devices that we manufacture are subject to regulations by the U.S. Food and Drug Administration and similar international agencies. These regulations govern a wide variety of product activities, from design and development to labeling, manufacturing, promotion, sales and distribution. If we fail to comply with such regulations, we may have to recall products and cease their manufacture and distribution, which would increase our costs and reduce our revenues.

In recent years, the medical industry has undergone significant changes in order to reduce healthcare costs. This includes cuts in Medicare, consolidation of healthcare distribution companies and collective purchasing arrangements by office-based healthcare practitioners. Foreign and domestic governments have also undertaken efforts to control healthcare costs through legislation and regulation. In March 2010, President Obama signed into law health care reform legislation in the form of the U.S. Patient Protection and Affordable Care Act (the “PPACA”). One of the components of the PPACA is a 2.3% excise tax on the sales of most medical devices, which started in 2013 and has increased our cost of compliance and negatively affected our profit margin. Many of the impacts of the PPACA will not be known until those regulations are enacted over the next several years. The implementation of health care reform and medical cost containment measures in the U.S. and in foreign countries in which we operate could:

- decrease the price that we might establish for our products, which would result in lower product revenues to us;
- require additional safety monitoring, labeling changes, restrictions on product distribution or use, or other measures after the introduction of our products to market, which could increase our costs of doing business, or otherwise adversely affect the market for our products; and
- create new laws, regulations and judicial decisions affecting pricing or marketing practices.

Changes in governmental regulation of our business or our products could reduce demand for our products or increase our expenses.

We are subject to many governmental regulations, including but not limited to the laser radiation safety regulations of the Radiation Control for Health and Safety Act administered by the National Center for Devices and Radiological Health, a branch of the U.S. Food and Drug Administration, and certain health regulations related to the manufacture of products using beryllium, an element used in some of our products. Among other things, these regulations require us to file annual reports, to maintain quality control and sales records, to perform product testing, to distribute appropriate operating manuals, to conduct safety reviews, to incorporate design and operating features in products sold to end-users and to certify and label our products. Depending on the class of the product, various warning labels must be affixed and certain protective devices must be installed.

We are also subject to regulatory oversight, including comparable enforcement remedies, in the markets we serve. We compete in many markets in which we and our customers must comply with federal, state, local and international regulations, such as environmental, health and safety and food and drug regulations. We develop, configure and market our products to meet customer needs created by those regulations. Any significant change in these regulations could reduce demand for our products or increase our expenses, which in turn could adversely affect our business, financial condition, results of operations and cash flows.

Conflict minerals regulations will cause us to incur additional expenses and could limit the supply and increase the cost of certain metals used in manufacturing our products.

On August 22, 2012, the SEC adopted rules requiring disclosures by public companies concerning tin, tantalum, tungsten and gold, known as Conflict Minerals that are necessary to the functionality or production of products manufactured or contracted to be manufactured. The rules require companies to perform due diligence, disclose and report whether or not such minerals originate from the Democratic Republic of Congo or an adjoining country. There are, and will be, costs associated with complying with the disclosure requirements, such as costs related to determining the source of certain minerals used in our products, as well as costs of possible changes to processes or sources of supply as a consequence of such verification activities. As our supply chain is complex, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the due diligence procedures that we implement, which may harm our reputation. In addition, we may encounter challenges to satisfy those customers who require that all of the components of our products be certified as conflict-free, which could place us at a competitive disadvantage if we are unable to do so.

Compliance or the failure to comply with current and future environmental regulations could cause us significant expense.

Our operations are subject to a variety of federal, state, local and international environmental regulations relating to the use, storage, discharge and disposal of hazardous chemicals used during our manufacturing process or requiring design changes or recycling of products we manufacture. We are subject to the federal regulation of the Environmental Protection Agency in the United States and comparable authorities in other countries. If we fail to comply with any present or future regulations, we could be subject to regulatory fines.

Future developments, administrative actions or liabilities relating to environmental matters could have a material adverse effect on our business, results of operations or financial condition. It is difficult to anticipate how such regulations will be implemented and enforced. We continue to evaluate the necessary steps for compliance with regulations as they are enacted. Certain regulations may require us to re-design our products to ensure compliance with the applicable standards. These redesigns may adversely affect the performance of our products, add greater testing lead-times for product introductions and reduce our profitability.

If we fail to implement new information technology systems successfully, our business could be adversely affected.

We rely on various centralized information systems throughout the Company to keep financial records, process orders, manage inventory, process shipments to customers, and operate other critical functions. Some of our existing systems are no longer supported by the software system providers and need to be upgraded or replaced. If we are unable to successfully implement new systems or upgrade the existing systems, particularly those that record, process or manage financial information, we may experience disruption in our operations and may be unable to recognize the expected benefits associated with new systems.

Our results of operations will be adversely affected if we fail to realize the full value of our intangible assets.

As of December 31, 2014, our total assets included $158.0 million of net intangible assets, including goodwill. Net intangible assets consist principally of goodwill, customer relationships, patents, trademarks, core technologies and technology licenses. Goodwill and indefinite-lived intangible assets are tested for impairment at least on an annual basis. All other intangible assets are evaluated for impairment should discrete events occur that call into question the recoverability of the intangible assets.

Adverse changes in our business, adverse changes in the assumptions used to determine the fair value of our reporting units, or the failure to grow our businesses may result in impairment of our intangible assets, which could adversely affect our results of operations. For example, the Company recorded a non-cash impairment charge of $41.4 million in the consolidated financial statements for the year ended December 31, 2014, as a result of lower expectations for sales and operating profit from our NDS business.

Risks Relating to Taxes

Our ability to utilize our net operating loss carryforwards and other tax attributes is dependent on our ability to generate sufficient future taxable income.

As of December 31, 2014, our total net operating loss carryforwards totaled $4.5 million (tax effected). Our ability to use future tax deductions is dependent on our ability to generate sufficient future taxable income in tax jurisdictions in which we operate. The determination of our tax attributes and liabilities and any valuation allowance recorded against our net tax attributes requires significant judgment and complex analysis. We consistently evaluate our tax attributes based on taxes recoverable in the carryback period, existing deferred tax liabilities, tax planning strategies and projected future taxable income. Our ability to recover all of our tax attributes in certain jurisdictions depends upon our ability to continue to generate future profits. If actual results differ from our plans or we do not achieve the desired level of profitability in a given jurisdiction, we may be required to increase or record a valuation allowance on our tax attributes by taking a charge in the statement of operations.

Changes in tax laws could adversely affect future results.

We are subject to regular examination of our income tax returns by the Internal Revenue Service ("IRS") and other tax authorities. We regularly assess the likelihood of favorable or unfavorable outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. Although we believe our tax estimates are reasonable, there can be no assurance that any final determination will not be materially different than the treatment reflected in our historical income tax provisions and accruals, which could materially and adversely affect our operating results and financial condition. From time to time, the United States, foreign and state governments make substantive changes to tax rules where significant judgment is required to determine the impact of such changes on our provision for income taxes.

Our effective tax rate is subject to fluctuation, which could impact our financial position.

Our effective tax rate is subject to fluctuation as the effective income tax rate for each year is a function of (a) taxable income levels in numerous tax jurisdictions, (b) our ability to utilize recorded deferred tax assets, (c) taxes, interest, or penalties resulting from tax audits and (d) credits and deductions as a percentage of total taxable income. Further, tax law changes may cause our effective tax rate to fluctuate between periods.

We may be subject to U.S. federal income taxation even though GSIG is a non-U.S. corporation.

GSI Group, Inc. is a holding company organized in Canada and is subject to Canadian tax laws. However, we are subject to U.S. tax rules and file U.S. federal income tax returns for our operations in the United States. In addition, distributions or payments from entities in one jurisdiction to entities in another jurisdiction may be subject to withholding taxes. We do not intend to operate in a manner that will cause GSI Group, Inc. to be treated as engaged in a U.S. trade or business or otherwise be subject to U.S. federal income taxes on its income, but it generally will be subject to U.S. federal withholding tax on certain U.S.-sourced passive income items, such as dividends and certain types of interest.

Risks Relating to Our Common Shares and Our Capital Structure

We may require additional capital to adequately respond to business challenges or opportunities and repay or refinance our existing indebtedness, and this capital may not be available on acceptable terms or at all.

We may require additional capital to adequately respond to future business challenges or opportunities, including, but not limited to, the need to develop new products or enhance our existing products, maintaining or expanding research and development projects, the need to build inventory or to invest other cash to support business growth, and opportunities to acquire complementary businesses and technologies.

As of December 31, 2014, we had outstanding debt of $115.0 million under the amended and restated senior secured credit agreement (the “Amended and Restated Credit Agreement”) and $95.0 million available to be drawn under the revolving credit facility. If we are unable to satisfy the conditions in the Amended and Restated Credit Agreement or our needs exceed the amounts available under the Senior Credit Facilities, we may need to engage in equity or debt financings to obtain additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing shareholders could suffer significant dilution. Any new equity securities we issue could have rights, preferences and privileges superior to those of the holders of our common shares. Further, our Amended and Restated Credit Agreement restricts our ability to obtain additional debt financing from other sources. If we are unable to obtain adequate financing or obtain financing on terms satisfactory to us when we require it, our ability to continue to support our business growth and to respond to business challenges could be significantly limited. In addition, the terms of any additional equity or debt issuances may adversely affect the value and price of our common shares.

Global credit conditions have varied widely over the last several years and could continue to vary significantly in the future. Although these conditions have not affected our current plans, adverse credit conditions in the future could have a negative impact on our ability to execute on future strategic activities.

The market price for our common shares may be volatile.

The market price of our common shares could be subject to wide fluctuations. These fluctuations could be caused by:

- quarterly variations in our results of operations;
- changes in earnings estimates by analysts;
- conditions in the markets we serve; or
- general market or economic conditions.

In addition, in recent years the stock market has experienced extreme price and volume fluctuations. These fluctuations have had a substantial effect on the market prices of many companies, often unrelated to the operating performance of the specific companies. These market fluctuations could adversely affect the price of our common shares.

We may not have access to the cash flow and other assets of our subsidiaries that may be needed to service our indebtedness and fund our operations.

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. Local laws and regulations and/or the terms of our indebtedness may restrict certain of our subsidiaries from paying dividends and otherwise transferring assets to us. We cannot assure you that applicable laws and regulations and/or the terms of our indebtedness will permit our subsidiaries to provide us with sufficient dividends, distributions or loans when necessary.

Certain significant shareholders could have substantial influence over our Board of Directors and our outstanding common shares, which could limit our other shareholders' ability to influence the outcome of key transactions.

Our largest shareholders and their respective affiliates, in the aggregate, beneficially own a substantial amount of our outstanding common shares. As a result, these shareholders may be able to influence matters requiring approval by our shareholders, including the election of directors and the approval of mergers, or other extraordinary transactions. One of these shareholders also serves on our Board of Directors and therefore could have a substantial influence over our Board of Directors. These significant shareholders may have interests that differ from other shareholders and may vote in a way that may be adverse to the interests of other shareholders.

Certain provisions of our articles of incorporation may delay or prevent a change in control of the Company.

Our corporate documents and our existence as a corporation under the laws of New Brunswick subject us to provisions of Canadian law that may enable our Board of Directors to resist a change in control of the Company. These provisions include:

- limitations on persons authorized to call a special meeting of shareholders;
- the ability to issue an unlimited number of common shares; and
- advance notice procedures required for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of shareholders.

These anti-takeover defenses could discourage, delay or prevent a transaction involving a change in control of the Company. These provisions could also discourage proxy contests and make it more difficult for shareholders to elect directors of their choosing and cause us to take other corporate actions that shareholders desire. In addition, New Brunswick law provides that cumulative voting is mandatory in director elections which can result in stockholders holding less than a majority of shares being able to elect persons to the Board of Directors and prevent a majority stockholder from controlling the election of all of the directors.

Our existing indebtedness could adversely affect our future business, financial condition and results of operations.

As of December 31, 2014, we had $115.0 million of outstanding debt. This level of debt could have significant consequences on our future operations, including:

- reducing the availability of our cash flow to fund working capital, capital expenditures, research and development efforts, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, market changes in the industries in which we operate and the general economy; and

- placing us at a competitive disadvantage compared to our competitors that have less debt or are less leveraged.

Any of the above-listed factors could have an adverse effect on our business, financial condition and results of operations.

In addition, our Amended and Restated Credit Agreement contains covenants that will limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our borrowings thereunder.

Risks Relating to Our Internal Controls

If we fail to maintain appropriate internal controls in the future, we may not be able to report our financial results accurately, which may adversely affect our stock price and our business.

While our management and our independent registered public accounting firm concluded that our internal control over financial reporting was effective as of December 31, 2014, it is possible that material weaknesses may be identified in the future.

If we are unable to maintain effective internal controls, we may not have adequate, accurate or timely financial information, and we may be unable to meet our reporting obligations as a publicly traded company or comply with the requirements of the SEC or the Sarbanes-Oxley Act of 2002. This could result in a restatement of our financial statements, the imposition of sanctions, including the inability of registered broker dealers to make a market in our common shares, or investigation by regulatory authorities. Any such action or other negative results caused by our inability to meet our reporting requirements or comply with legal and regulatory requirements or by disclosure of an accounting, reporting or control issue could adversely affect the trading price of our securities and our business. Material weaknesses in our internal control over financial reporting could also reduce our ability to obtain financing or could increase the cost of any financing we obtain.

As part of our growth strategy, we may make additional acquisitions of privately held businesses. Prior to becoming part of our consolidated company, the acquired business would not be required to implement or maintain the disclosure controls and procedures or internal control over financial reporting that are required of public companies. We are required to integrate the acquired businesses into our consolidated company’s system of disclosure controls and procedures and internal control over financial reporting, but we cannot provide assurance as to how long the integration process may take for our recently acquired business or any business that we may acquire in the future. Additionally, we may need to improve our internal control or those of any business we acquire and may be required to design enhanced processes and controls in order to make such improvements. This could result in significant costs to us and could require us to divert substantial resources, including management time, from other activities.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The principal owned and leased properties of the Company and its subsidiaries related to our continuing operations as of December 31, 2014 are listed in the table below.

Location	Principal Use	Current Segment (a)	Approximate Square Feet	Owned/Leased
Bedford, Massachusetts, USA	Manufacturing, R&D, Marketing, Sales and Administration	1,2,3,4	147,000	Leased; expires in 2019
Rugby, United Kingdom	Manufacturing, R&D, Marketing, Sales and Administration	1	43,000	Leased; expires in 2019
Poole, United Kingdom	Manufacturing, R&D, Marketing, Sales and Administration	3	51,000	Building owned; land leased through 2078
Mukilteo, Washington, USA	Manufacturing, R&D, Marketing, Sales and Administration	1	63,000	Owned
Suzhou, People's Republic of China	Manufacturing, R&D, Marketing, Sales and Administration	1,2,3	55,000	Leased; expires in 2015
San Jose, California, USA	Manufacturing, R&D, Marketing, Sales and Administration	2	73,000	Leased; expires in 2019
North Syracuse, New York, USA	Manufacturing, R&D, Marketing, Sales and Administration	2	55,000	Leased; expires in 2029
Chatsworth, California, USA	Manufacturing, R&D, Marketing, Sales and Administration	2	22,000	Owned
Taunton, United Kingdom	Manufacturing, R&D, Marketing and Sales	1	19,000	Leased; expires in 2017

a) The facilities house product lines that belong to the following segments:
1 — Laser Products Segment

2— Medical Technologies Segment
3— Precision Motion Segment
4— Corporate

In connection with our senior credit facility, we entered into open ended deeds of trust for our properties in Orlando, Florida, Chatsworth, California and Mukilteo, Washington.

Additional research and development, sales, service and logistics sites are located in Germany, the Netherlands, Japan, China, Italy and Sri Lanka. These additional offices are leased facilities occupying approximately 43,000 square feet in the aggregate, and are related to our Laser Products, Medical Technologies and Precision Motion segments.

Our owned facility in Orlando, Florida and leased facilities in Lexington, Massachusetts were restructured and are not in use by the Company. These owned and leased facilities constitute approximately 80,000 and 33,000 square feet, respectively. In May 2013, we entered into a sublease agreement for our Lexington facility through December 2016.

In connection with the sale of our Scientific Lasers business, we assigned to the buyer the lease for the facility in San Jose, California, where the Scientific Lasers business operated. The buyer assumed all of our rights and obligations under the original lease, including the duty to pay the rent for the remainder term of the lease. So long as the buyer performs its obligations as the tenant, as required by the Asset and Equity Purchase Agreement for its acquisition of the Scientific Lasers business, the Company has no responsibilities for the lease. If the buyer should cease performance under the lease, however, the landlord could still pursue the Company as the original tenant until February 28, 2019, the end of the lease term. The Company has indemnification rights against the buyer under the Asset and Equity Purchase Agreement.

Item 3. Legal Proceedings

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.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant's Common Shares, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

From December 29, 2010 to January 27, 2011, the Company's common shares were quoted on the OTC Markets Group, Inc. under the trading symbol "LASRD.PK". Between January 28 and February 14, 2011, the Company's trading symbol was "LASR.PK". Since February 14, 2011, the Company's common shares, no par value, have traded on the NASDAQ Global Select Market under the trading symbol "GSIG".

The following table sets forth the high and low prices of the Company's common shares during the periods indicated.

	2014		2013	
	High	Low	High	Low
First Quarter	$13.05	$10.33	$10.00	$8.40
Second Quarter	$13.60	$11.92	$8.88	$7.98
Third Quarter	$12.97	$11.29	$9.64	$8.18
Fourth Quarter	$14.87	$11.15	$11.24	$9.47

Holders

As of the close of business on February 20, 2015, there were approximately 38 holders of record of the Company's common shares. Since many of the common shares are registered in "nominee" or "street" names, the Company believes that the total number of beneficial owners is considerably higher.

Dividend Policy

The Company has never declared or paid cash dividends on its common shares and does not anticipate paying any cash dividends in the foreseeable future.

Purchases of Equity Securities by the Issuer and Affiliated Purchaser

During 2013, the Board of Directors authorized the repurchase of up to $10 million of the Company's common stock. The share repurchase plan does not obligate the Company to acquire any particular amount of our common stock. No time limit was set for the completion of the share repurchase program, and the program may be suspended or discontinued at any time.

After the adoption of the share repurchase plan, the Company repurchased 50 thousand shares of our common stock for an aggregate purchase price of $0.5 million at an average price of $10.49 per share in December 2013. No repurchases occurred during the twelve months ended December 31, 2014.

Performance Graph

The following graph compares the cumulative total return to stockholders for the Company’s common shares for the period from December 31, 2009 through December 31, 2014 with the NASDAQ Composite Index, the S&P Technology Index and the Russell 2000 Index. The comparison assumes an investment of $100 is made on December 31, 2009 in the Company’s common shares and in each of the indices and, in the case of the indices, it also assumes reinvestment of all dividends. The performance shown is not necessarily indicative of future performance.

The Company added the Russell 2000 Index (RUT) in 2014 as the Company believes that the Russell 2000 Index (RUT) closely aligns to the long-term strategic focus and growth outlook of the Company.

	December 31, 2009	December 31, 2010	December 31, 2011	December 31, 2012	December 31, 2013	December 31, 2014
GSI Group Inc.	$ 100.00	$ 405.36	$ 391.95	$ 331.80	$ 430.65	$ 563.98
NASDAQ Composite Index	$ 100.00	$ 116.91	$ 114.81	$ 133.07	$ 184.06	$ 208.71
S&P Technology Index(1)	$ 100.00	$ 109.66	$ 104.82	$ 120.17	$ 148.71	$ 169.40
Russell 2000 Index(2)	$ 100.00	$ 125.31	$ 118.47	$ 135.81	$ 186.07	$ 192.63

(1) The S&P 500 Information Technology Index is proprietary to and is calculated, distributed and marketed by S&P Opco, LLC (a subsidiary of S&P Dow Jones Indices LLC), its affiliates and/or its licensors and has been licensed for use. S&P® and S&P 500®, among other famous marks, are registered trademarks of Standard & Poor’s Financial Services LLC, and Dow Jones® is a registered trademark of Dow Jones Trademark Holdings LLC. © 2013 S&P Dow Jones Indices LLC, its affiliates and/or its licensors. All rights reserved.

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Item 6. Selected Financial Data

The selected financial data set forth below is not necessarily indicative of results of future operations, and should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 and the consolidated financial statements and related notes thereto in Item 8 of this Annual Report on Form 10-K to fully understand factors that may affect the comparability of the information presented below. The selected consolidated financial data in this section is not intended to replace the consolidated financial statements.

The consolidated statements of operations data for the years ended December 31, 2014, 2013 and 2012 and the consolidated balance sheet data as of December 31, 2014 and 2013 are derived from our audited consolidated financial statements in this Annual Report on Form 10-K. The consolidated statements of operations data for the years ended December 31, 2011 and 2010 and the consolidated balance sheet data as of December 31, 2012, 2011 and 2010 are derived from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K. The prior period information stated herein has been revised to conform to the new presentation as a result of classifying certain of our businesses as discontinued operations.

	Year Ended December 31,				
	2014	2013	2012	2011	2010
	(In thousands, except per share data)				
Consolidated Statements of Operations Data:					
Sales	$364,706	$316,910	$243,796	$269,697	$254,683
Gross profit	150,167	132,227	105,518	119,559	116,749
Operating expenses (1)	166,973	112,781	85,256	81,213	81,245
Operating income (loss) from continuing operations	(16,806)	19,446	20,262	38,346	35,505
Reorganization items(2)	—	—	—	—	(26,156)
Income (loss) from continuing operations before income taxes	(17,915)	16,177	16,702	26,553	(7,999)
Income tax provision (benefit)(3)	(1,006)	6,200	(11,595)	2,136	11,805
Income (loss) from continuing operations	(16,909)	9,977	28,297	24,417	(19,804)
Income (loss) from discontinued operations, net of tax	(5,607)	(2,054)	(10,974)	4,584	19,165
Gain (loss) on disposal of discontinued operations, net of tax(4)	(1,726)	(592)	2,255	—	—
Consolidated net income (loss)	(24,242)	7,331	19,578	29,001	(639)
Less: Net income attributable to noncontrolling interest	(10)	(22)	(40)	(28)	(48)
Net income (loss) attributable to GSI Group Inc.	$(24,252)	$7,309	$19,538	$28,973	$(687)
Earnings (loss) per common share from continuing operations:					
Basic	$(0.49)	$0.29	$0.84	$0.73	$(0.84)
Diluted	$(0.49)	$0.29	$0.84	$0.73	$(0.84)
Loss per common share from discontinued operations:					
Basic	$(0.21)	$(0.08)	$(0.26)	$0.14	$0.81
Diluted	$(0.21)	$(0.08)	$(0.26)	$0.13	$0.81
Earnings (loss) per common share attributable to GSI Group Inc.:					
Basic	$(0.70)	$0.21	$0.58	$0.87	$(0.03)
Diluted	$(0.70)	$0.21	$0.58	$0.86	$(0.03)
Weighted average common shares outstanding—basic	34,352	34,073	33,775	33,481	23,703
Weighted average common shares outstanding—diluted	34,352	34,396	33,936	33,589	23,703

(1) The Company recorded an impairment charge of $41.4 million in 2014 related to goodwill ($19.6 million) and intangible assets ($21.8 million) related to our NDS business acquired in January 2013.

(2) The Company recorded $26.2 million in 2010 related to our bankruptcy proceedings. Refer to Note 1 in the accompanying consolidated financial statements.

(3) The Company released $15.3 million of valuation allowance on deferred tax assets in 2012 based on the conclusion that it is more likely than not that its deferred tax assets in the U.S. and U.K. will be realized in the future. In 2010, the Company recorded $9.6 million unfavorable permanent differences in its income tax provisions primarily related to non-deductible bankruptcy costs.

(4) The Company sold its Scientific Lasers business in 2014, Semiconductor Systems business in 2013 and Laser Systems business in 2012 and recorded a (loss) gain on disposal, net of tax, of ($1.7) million, ($0.6) million and $2.3 million, respectively.

	December 31, 2014	2013	2012	2011	2010
	(in thousands)				
Balance Sheet Data:					
Cash, cash equivalents and short-term investments	$51,146	$60,980	$65,788	$54,835	$56,781
Total assets	398,919	378,807	337,460	348,503	367,167
Debt, current	7,500	7,500	7,500	10,000	—
Debt, long-term	107,500	64,000	42,500	58,000	107,575
Long-term liabilities, excluding debt	25,951	10,917	11,308	22,440	21,250
Total stockholders' equity	210,825	241,984	227,809	209,003	178,678

Item 7. 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 8 of this Annual Report on Form 10-K. 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; 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; changes in actual or assumed tax liabilities; expectations regarding tax exposures; anticipated reinvestment of future earnings; anticipated expenditures in regard to the Company’s benefit plans; future acquisitions and dispositions and anticipated benefits from acquisitions; anticipated impact of the NDS impairment charge; anticipated use of currency hedges; ability to repay our indebtedness; our intentions regarding the use of cash; and other statements that are not historical facts. 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 as a result of various factors, including those set forth in Item 1A of this Annual Report on Form 10-K under the heading “Risk Factors.” The words “anticipates,” “believes,” “expects,” “intends,” “future,” “could,” “estimates,” “plans,” “would,” “should,” “potential,” “contin 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.

Business Overview

GSI Group Inc. and its subsidiaries (collectively referred to as the “Company”, “we”, “us”, “our”) design, develop, manufacture and sell precision photonic and motion control components and subsystems to Original Equipment Manufacturers (OEM’s) in the medical equipment and advanced industrial technology markets. Our highly engineered enabling technologies include laser sources, laser scanning and beam delivery products, optical data collection and machine vision technologies, medical visualization and informatics solutions and precision motion control products. We specialize in collaborating with OEM customers to adapt our component and subsystem technologies to deliver highly differentiated performance in their applications.

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

- improving our business mix to increase medical sales as a percentage of total revenue by:
  - introducing new products aimed at attractive medical applications such as minimally invasive and robotic surgery, ophthalmology, patient monitoring, drug delivery, diagnostic testing and life science research;
  - cross selling our entire product offering to the leading medical equipment manufacturers and;
  - pursuing complementary medical technology acquisitions;
- increasing our penetration of high growth advanced industrial technology applications such as laser materials processing, robotics, automation, metrology, and via hole drilling by working closely with OEM customers to launch

application specific products that closely match the requirements of each application;

- broadening our portfolio of precision motion control products and capabilities through increased new product development investment in motion control product lines, expanded sales and marketing to reach target customers and, acquisitions of additional motion control product technologies used by existing customers;
- broadening our product and service offerings through the acquisition of innovative and complementary technologies and solutions in medical and advanced industrial technology applications;
- upgrading our existing operations to expand profit margins and improve customer satisfaction by implementing lean manufacturing principles and strategic sourcing across our major production sites; and
- attracting, retaining, and developing talented and motivated employees.

Significant Events and Updates

Acquisition of JADAK

On March 14, 2014, we completed the acquisition of JADAK LLC, JADAK Technologies Inc. and Advance Data Capture Corporation (together, “JADAK”), a North Syracuse, New York-based provider of optical data collection and machine vision technologies to OEM medical device manufacturers, for $93.7 million in cash, net of working capital adjustments. The addition of the JADAK technology platforms expands our portfolio of highly-differentiated enabling technologies. JADAK provides data collection and machine vision solutions to its customers, which primarily consist of OEM medical device manufacturers. JADAK’s products are based on technologies that include barcode components and scanners, machine vision cameras, RFID technology, magnetic stripe readers, portable platforms and associated software. JADAK’s products are highly engineered, application-specific components that are developed and manufactured to meet the extremely high performance and quality requirements of major medical OEMs. JADAK’s products are used in medical equipment to increase safety and reduce medical errors by verifying patient identity, validating the specified therapy or function, and enhancing the accuracy of the medical procedure.

Discontinued Operations

On July 15, 2014, we completed the sale of our Scientific Lasers business operating under the Continuum brand name for $6.5 million in cash, net of working capital adjustments, and recognized a $1.7 million loss on sale, net of tax, in the consolidated statement of operations. The loss from discontinued operations of $5.6 million during 2014 includes a $3.0 million fair value write-down of the Scientific Lasers business to its estimated fair value less cost to sell. The Scientific Lasers purchase and sale agreement requires $1.5 million of the sales proceeds to be held in escrow that can be utilized as indemnification for certain representations and warranties claims against the Company until the expiration of the escrow arrangement in January 2016. The Company has recorded the $1.5 million escrow in other long term assets on the consolidated balance sheet.

We began to report the Scientific Lasers business as discontinued operations in the first quarter of 2014. As a result, prior period information related to the business has been reclassified into discontinued operations to conform to current period presentation. See Notes 1 and 4 to our Consolidated Financial Statements for further information.

NDS Escrow Recovery

On January 15, 2013, we completed the acquisition of NDS Surgical Imaging LLC (“NDS”), a San Jose, California-based company that designs, manufactures, and markets high definition visualization solutions and imaging informatics products for the surgical, patient monitoring and radiology end-markets, for $80.8 million in cash, net of working capital adjustments. On September 24, 2014, we received a payment of $5.4 million, the full remaining amount held in the escrow account established upon the closing of the acquisition. The escrow recovery resulted from the Company’s claims for a breach of certain terms of the January 15, 2013 Securities Purchase Agreement for the acquisition of NDS. The escrow recovery was accounted for as a reduction to goodwill as the $5.4 million payment was clearly and directly related to the acquisition price. The escrow recovery resulted in a final adjusted purchase price of $75.4 million.

NDS Impairment Charge

During the fourth quarter of 2014, the Company recorded a non-cash impairment charge of $41.4 million related to our NDS business in the consolidated financial statements for the year ended December 31, 2014. The impairment charge will not result in future cash expenditures, or otherwise impact the Company's liquidity, cash flows, or compliance with its debt covenants.

Overview of Financial Results

Total sales for 2014 were $364.7 million, an increase of $47.8 million, or 15.1%, versus the prior year primarily as a result of the JADAK acquisition which accounted for $45.4 million or 14.3% of the increase in total sales. In addition, foreign exchange rates favorably impacted our sales by 0.1% during the year ended December 31, 2014. Excluding the impact of the JADAK acquisition and changes in foreign exchange rates, total sales for 2014 increased 0.7% versus the prior year. Our organic sales growth is summarized as follows:

	% Change 2014 vs. 2013	
Reported growth	15.1	%
Less: Change attributable to JADAK acquisition	14.3	%
Less: Change due to foreign currency	0.1	%
Organic growth	0.7	%

The organic growth in our sales for the year ended December 31, 2014 compared to the prior year was primarily attributable to growth in our Laser Products and Precision Motion segments offset by a decline in sales in our Medical Technologies segment. The increase in sales in our Laser Products segment was attributable to an increase in sales volume across our product portfolio. The growth in our Precision Motion segment was driven by increases in sales volume of optical encoders products. These increases were partially offset by a decline in sales in our Medical Technologies segment related to our visualization solutions product line.

Operating income from continuing operations for 2014 decreased $36.2 million, or 186.4%, from an operating income of $19.4 million in 2013 to an operating loss of $16.8 million. This decrease was primarily attributable to an impairment charge related to the NDS business of $41.4 million.

Diluted earnings per share ("EPS") from continuing operations decreased $0.78 from an earnings per share of $0.29 in 2013 to a loss per share of ($0.49) in 2014. The decrease was primarily attributable to operating loss from continuing operations in the current year versus operating income from continuing operations in the prior year and an increase in interest expense as a result of higher average debt levels during 2014, offset by foreign currency gains in the current year versus foreign currency losses in the prior year, an increase in earnings from our equity-method investment in Laser Quantum and lower effective tax rate in the current year versus the prior year.

The specific components of our operating results for 2014, 2013 and 2012 are further discussed below.

Results of Operations

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

	2014	2013	2012
Sales	100.0%	100.0%	100.0%
Cost of sales	58.8	58.3	56.7
Gross profit	41.2	41.7	43.3
Operating expenses:			
Research and development and engineering	7.9	7.5	7.6
Selling, general and administrative	23.1	24.1	24.5
Amortization of purchased intangible assets	2.8	2.3	1.1
Restructuring and acquisition related costs	0.6	1.7	1.8
Impairment of goodwill and intangible assets	11.4	—	—
Total operating expenses	45.8	35.6	35.0
Operating income (loss) from continuing operations	(4.6)	6.1	8.3
Interest income (expense), net	(1.4)	(1.1)	(1.1)
Foreign exchange transaction gains (losses), net	0.4	(0.4)	(0.6)
Other income (expense), net	0.7	0.5	0.2
Income (loss) from continuing operations before income taxes	(4.9)	5.1	6.8
Income tax provision (benefit)	(0.3)	2.0	(4.8)
Income (loss) from continuing operations	(4.6)	3.1	11.6
Loss from discontinued operations, net of tax	(1.6)	(0.6)	(4.5)

Gain (loss) on disposal of discontinued operations, net of tax	(0.4)	(0.2)	0.9
Consolidated net income (loss)	(6.6)	2.3	8.0
Less: Net income attributable to noncontrolling interest	—	—	—
Net income (loss) attributable to GSI Group Inc.	(6.6)%	2.3 %	8.0 %

Sales

The following table sets forth external sales by reportable segment for 2014, 2013 and 2012 (dollars in thousands):

	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Laser Products	$177,726	$166,598	$158,639	6.7 %	5.0 %
Medical Technologies	122,187	90,276	25,915	35.3%	248.4%
Precision Motion	64,793	60,036	59,242	7.9 %	1.3 %
Total	$364,706	$316,910	$243,796	15.1%	30.0 %

Laser Products

2014 Compared with 2013

Laser Products segment sales in 2014 increased by $11.1 million, or 6.7%, versus the prior year, due to growth across all product lines. The sales growth was primarily due to an increase in sales of our CO_2 lasers and fiber lasers products, driven by new product launches, new customer wins, and market growth. In addition, sales of our beam delivery products grew due to increased demand in material processing in advanced industrial markets.

2013 Compared with 2012

Laser Products segment sales in 2013 increased by $8.0 million, or 5.0%, versus the prior year. Sales growth was primarily attributable to growth in sales of our beam delivery products, driven by strong demand and greater market penetration of our laser scanning solutions products. In addition, CO_2 lasers products experienced an increase in demand from customers in both marking and coding applications for the food, beverage and pharmaceutical industries.

Medical Technologies

2014 Compared with 2013

Medical Technologies segment sales in 2014 increased by $31.9 million, or 35.3%, versus the prior year. A $45.4 million increase in sales attributable to the JADAK acquisition was partially offset by a decline in sales in our visualization solutions products as a result of dual sourcing at an OEM customer that began in 2013, softness in medical equipment spending impacting our customer’s demand for our products, and delays in new product introductions.

2013 Compared with 2012

Medical Technologies segment sales in 2013 increased by $64.4 million, or 248.4%, versus the prior year. A $68.4 million increase in sales attributable to the NDS acquisition was partially offset by a decline in volume in our medical grade thermal printer products, which was largely driven by end of life programs with certain customer product platforms and, to a lesser extent, lower hospital capital spending.

Precision Motion

2014 Compared with 2013

Precision Motion segment sales in 2014 increased by $4.8 million, or 7.9%, versus the prior year. This increase was principally driven by increased sales of our optical encoders products as a result of a market share gain with a major OEM customer and new customer wins.

2013 Compared with 2012

Precision Motion segment sales in 2013 increased by $0.8 million, or 1.3%, versus the prior year. This increase was primarily due to an increase in sales of our air bearing spindles products, which experienced a short-term rebound in demand from the printed circuit board industry. This increase was offset by a decline in sales volume of our optical encoders products, which was driven by sales to a customer in the data storage market in 2012 that did not repeat in 2013.

Gross Profit

The following table sets forth the gross profit and gross profit margin for each of our reportable segments for 2014, 2013 and 2012 (dollars in thousands):

	2014	2013	2012
Gross profit:			
Laser Products	$74,224	$68,819	$66,498
Medical Technologies	48,678	35,824	13,149
Precision Motion	28,333	27,778	26,796
Corporate	(1,068)	(194)	(925)
Total	$150,167	$132,227	$105,518
Gross profit margin:			
Laser Products	41.8%	41.3%	41.9%
Medical Technologies	39.8%	39.7%	50.7%
Precision Motion	43.7%	46.3%	45.2%
Total	41.2%	41.7%	43.3%

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 obsolescence and warranty expenses.

Laser Products

2014 Compared with 2013

Laser Products segment gross profit in 2014 increased $5.4 million, or 7.9%, versus the prior year primarily due to an increase in sales and an increase in gross profit margin. Laser Products segment gross profit margin was 41.8% for 2014, compared with a gross profit margin of 41.3% for the prior year. The 0.5 percentage point increase in gross profit margin was primarily attributable to productivity improvements as a result of our manufacturing process improvement initiatives and margin improvements in our fiber lasers products.

2013 Compared with 2012

Laser Products segment gross profit for 2013 increased $2.3 million, or 3.5%, versus the prior year primarily due to an increase in sales. Laser Products segment gross profit margin was 41.3% for 2013, compared with a gross profit margin of 41.9% for the prior year. The 0.6 percentage point decrease in gross profit margin was primarily attributable to unfavorable impact of higher sales of our fiber lasers which had a negative impact on our gross profit margin and new product launches in our CO_2 lasers products, which temporarily increased our production costs.

Medical Technologies

2014 Compared with 2013

Medical Technologies segment gross profit for 2014 increased $12.9 million, or 35.9%, versus the prior year. The increase was primarily attributable to the JADAK acquisition in March 2014, which accounted for an $18.9 million increase in gross profit year over year, partially offset by a decline in gross profit for our visualization solutions products due to lower sales. Medical Technologies segment gross profit margin remained relatively flat year over year. Included in gross profit was amortization of developed technologies and amortization of inventory fair value step-ups of $3.7 million and $3.1 million for the years ended December 31, 2014 and December 31, 2013, respectively.

2013 Compared with 2012

Medical Technologies segment gross profit for 2013 increased $22.7 million, or 172.4%, versus the prior year primarily due to the acquisition of NDS in January 2013. Excluding the impact of NDS, gross profit decreased by $2.6 million, or 19.5%, primarily attributable to lower sales of our medical grade thermal printers products. Medical Technologies segment gross profit margin was 39.7% for 2013, compared with a gross profit margin of 50.7% for the prior year. The 11.0 percentage point decrease in gross profit margin percentage was primarily driven by the acquisition of NDS, which included $3.1 million in intangibles amortization and acquisition fair value adjustments.

Precision Motion

2014 Compared with 2013

Precision Motion segment gross profit for 2014 increased $0.6 million, or 2.0%, versus the prior year primarily due to an increase in sales volume of our optical encoders products. Precision Motion segment gross profit margin was 43.7% for 2014, versus a gross profit margin of 46.3% for the prior year. The 2.6 percentage point decrease in gross profit margin was a consequence of manufacturing ramp-up costs.

2013 Compared with 2012

Precision Motion segment gross profit for 2013 increased $1.0 million, or 3.7%, versus the prior year primarily due to an increase in both sales and gross profit margin. Precision Motion segment gross profit margin was 46.3% for 2013, compared with a gross profit margin of 45.2% for the prior year. The 1.1 percentage point increase in gross profit margin was driven by product mix and cost savings from our 2012 restructuring program.

Operating Expenses

The following table sets forth operating expenses for 2014, 2013 and 2012 (dollars in thousands):

				% Change	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
Research and development and engineering	$28,954	$23,787	$18,530	21.7 %	28.4 %
Selling, general and administrative	84,380	76,337	59,707	10.5 %	27.9 %
Amortization of purchased intangible assets	10,262	7,270	2,650	41.2 %	174.3%
Restructuring and acquisition related costs	1,935	5,387	4,369	(64.1)%	23.3 %
Impairment of goodwill and intangible assets	41,442	—	—	N/A	N/A
Total	$166,973	$112,781	$85,256	48.1 %	32.3 %

Research and Development and Engineering Expenses

Research and development and engineering (“R&D”) expenses are primarily comprised of employee compensation and related expenses and cost of materials for R&D projects.

2014 Compared with 2013

R&D expenses were $29.0 million, or 7.9% of sales, in 2014, versus $23.8 million, or 7.5% of sales, in 2013. R&D expenses increased in terms of total dollars primarily due to the acquisition of JADAK.

2013 Compared with 2012

R&D expenses were $23.8 million, or 7.5% of sales, in 2013, versus $18.5 million, or 7.6% of sales, in 2012. R&D expenses, in terms of total dollars, increased primarily due to the acquisition of NDS. The increase was partially offset by lower employee compensation as a result of our restructuring plans and lower project costs in 2013.

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 and executive management.

2014 Compared with 2013

SG&A expenses were $84.4 million, or 23.1% of sales, in 2014, versus $76.3 million, or 24.1% of sales, in 2013. SG&A expenses increased in terms of total dollars primarily due to the acquisition of JADAK.

2013 Compared with 2012

SG&A expenses were $76.3 million, or 24.1% of sales, in 2013, versus $59.7 million, or 24.5% of sales, in 2012. SG&A expenses increased in terms of total dollars due to the acquisition of NDS and, to a lesser extent, from the increase in employee compensation versus the prior year.

Amortization of Purchased Intangible Assets

Amortization of purchased intangible assets is charged to our Laser Products, Medical Technologies and Precision Motion segments. Amortization of core technologies is included in cost of goods sold in the consolidated statement of operations. Amortization of customer relationships, trademarks, backlog and other intangibles are included in operating expenses in the consolidated statement of operations.

2014 Compared with 2013

Amortization of purchased intangible assets, excluding the amortization for developed technologies that is included in cost of sales, was $10.3 million, or 2.8% of sales, in 2014, versus $7.3 million, or 2.3% of sales, in 2013. The increase, in terms of total dollars and as a percentage of sales, was related to the amortization of acquired intangible assets from the JADAK acquisition.

2013 Compared with 2012

Amortization of purchased intangible assets, excluding the amortization of core technologies, was $7.3 million, or 2.3% of sales, in 2013, versus $2.7 million, or 1.1% of sales, in 2012. The increase, in terms of total dollars and as a percentage of sales, was related to the amortization of acquired intangible assets as part of the NDS acquisition.

Restructuring and Acquisition Related Costs

Restructuring and acquisition related charges primarily relate to our prior year restructuring programs as well as the acquisition related costs incurred for the acquisition of JADAK in March 2014 and NDS in January 2013.

2014 Compared with 2013

The Company recorded restructuring and acquisition related costs of $1.9 million in 2014, versus $5.4 million in 2013. We recognized acquisition related costs of $1.5 million in 2014, which included expenses of $0.6 million recognized under earn-out agreements in connection with the JADAK acquisition. We recorded restructuring costs of $0.4 million primarily related to depreciation on our Orlando, Florida facility. The decrease in restructuring and acquisition related costs is primarily due to the decrease in costs related to prior year restructuring programs. Acquisition related costs were $1.6 million during 2013.

2013 Compared with 2012

The Company recorded restructuring and acquisition related costs of $5.4 million in 2013, versus $4.4 million in 2012. The increase in restructuring and acquisition related costs primarily related to higher acquisition related charges, which related to the acquisition of NDS in January 2013 and JADAK in March 2014. Acquisition related charges totaled $1.6 million and $0.8 million during 2013 and 2012, respectively.

In January 2013, the Company consolidated our laser scanners business into our Bedford, Massachusetts production facility. In addition, the Company also recorded severance charges associated with our 2011 and 2013 restructuring plans.

Impairment of Goodwill and Intangible Assets

The Company recorded a non-cash impairment charge of $41.4 million in the consolidated financial statements for the year ended December 31, 2014 as a result of lower expectations for sales and operating profit from our NDS business.

Operating Income (Loss) by Segment

The following table sets forth operating income by segment for 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Operating Income (Loss) from Continuing Operations			
Laser Products	$33,053	$25,143	$24,480
Medical Technologies	(43,079)	3,566	8,285
Precision Motion	13,023	12,062	9,482
Corporate, shared services and unallocated	(19,803)	(21,325)	(21,985)
Total	$(16,806)	$19,446	$20,262

Laser Products

2014 Compared with 2013

Laser Products operating income from continuing operations for 2014 increased by $7.9 million, or 31.5%, from 2013 primarily due to an increase in gross profit of $5.4 million and a $2.0 million decrease in restructuring and acquisition related costs compared to the prior year. Amortization of intangible assets for the laser products segment was $4.1 million in both 2014 and 2013.

2013 Compared with 2012

Laser Products operating income for 2013 increased by $0.7 million, or 2.7%, from 2012 primarily due to higher profitability from our laser scanners products, offset by a decrease in operating income from our CO_2 lasers products. Restructuring charges were $1.9 million in 2013, compared to $0.9 million in 2012. The increase in restructuring costs primarily relates to the relocation of the laser scanners product line in 2013. Amortization of intangible assets for the Laser Products segment was $4.1 million in both 2013 and 2012.

Medical Technologies

2014 Compared with 2013

Medical Technologies operating income from continuing operations decreased by $46.6 million from 2013 to an operating loss of $43.1 million in 2014 primarily due to the NDS goodwill and intangible assets impairment charge of $41.4 million, an increase in amortization of intangibles and amortization of our inventory fair value step-ups of $3.7 million and a decline in visualization solutions revenue, partially offset by an increase in operating income from continuing operations as a result of the JADAK acquisition.

2013 Compared with 2012

Medical Technologies operating income for 2013 decreased by $4.7 million, or 57.0%, from 2012 primarily due to an increase in amortization of intangibles and inventory fair value step-ups related to the acquisition of NDS totaling $7.4 million and an increase in restructuring costs of $0.9 million compared to zero in the prior year.

Precision Motion

2014 Compared with 2013

Precision Motion operating income from continuing operations for 2014 increased by $1.0 million, or 8.0%, from 2013 primarily due to an increase in gross profit of $0.6 million and a $0.4 million decrease in restructuring costs.

2013 Compared with 2012

Precision Motion operating income for 2013 increased by $2.6 million, or 27.2%, from 2012. The increase in operating income was primarily due to an increase in gross margin and lower operating costs as a result of our restructuring plans related to our air bearing spindles product line. Restructuring charges were $0.4 million in 2013 compared to $1.0 million in 2012.

Corporate, Shared Services and Unallocated

Corporate, shared services and unallocated costs primarily represent costs of corporate and shared service functions, management incentive compensation, stock-based compensation, and other public company costs that are not allocated to the operating segments, including certain restructuring and all acquisition related costs.

2014 Compared with 2013

Loss from corporate, shared services and unallocated costs for 2014 decreased by $1.5 million, or 7.1%, from 2013, primarily due to lower restructuring and acquisition costs. Restructuring and acquisition related costs were $1.5 million in 2014, compared to $2.2 million in 2013.

2013 Compared with 2012

Corporate, shared services and unallocated costs for 2013 were consistent with 2012.

Interest Income (Expense), Foreign Exchange Transaction Gains (Losses), and Other Income (Expense), Net

The following table sets forth interest income (expense), net, foreign exchange transaction gains (losses), net and other income (expense), net for 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Interest income (expense), net	$(5,096)	$(3,468)	$(2,792)
Foreign exchange transaction gains (losses), net	1,281	(1,301)	(1,347)
Other income (expense), net	2,706	1,500	579
Total	$(1,109)	$(3,269)	$(3,560)

Interest Income (Expense), Net

2014 Compared with 2013

The increase in net interest expense in 2014 versus the prior year was the result of higher average debt levels and higher average interest rates during 2014. The higher debt levels in 2014 were the result of borrowings to fund the JADAK acquisition in March 2014. The weighted average interest rate on our Senior Credit Facilities was 3.25% and 2.83% during 2014 and 2013, respectively. Included in net interest expense was non-cash interest expense of approximately $1.0 million and $0.9 million in 2014 and 2013, respectively, related to amortization of deferred financing costs on our debt.

2013 Compared with 2012

The increase in net interest expense from 2012 to 2013 was the result of higher average debt outstanding during 2013, which was partially offset by lower average interest rates. The higher debt levels in 2013 were the result of borrowings to fund the NDS acquisition in January 2013. The weighted average interest rate on the Senior Credit Facilities was 2.83% and 3.35% during 2013 and 2012, respectively. Included in net interest expense was non-cash interest expense of $0.9 million and $1.0 million in 2013 and 2012, respectively, related to amortization of deferred financing costs on our debt.

Foreign Exchange Transaction Gains (Losses), Net

Foreign exchange transaction gains (losses), net, were $1.3 million, ($1.3) million and ($1.3) million during 2014, 2013 and 2012, respectively, due to the performance of the U.S. Dollar against the Euro, British Pound and Japanese Yen.

Other Income (Expense), Net

Other income (expense), net, was $2.7 million, $1.5 million and $0.6 million in 2014, 2013 and 2012, respectively. Other income (expense), net, increased as a result of higher earnings from our equity-method investment in Laser Quantum and an increase in ownership. As a result of a share buy-back program by Laser Quantum, our equity ownership percentage increased from 25.1% to 41.2% during the second quarter of 2013.

The summarized financial information for Laser Quantum is as follows (in thousands):

	Year Ended December 31,		
	2014	2013	2012
Sales	$23,013	$16,269	$13,039
Income from operations	$7,434	$4,720	$3,592
Net income	$6,627	$3,745	$2,215

Income Taxes

2014 Compared with 2013

We recorded a tax benefit of $1.0 million in 2014, as compared to a tax expense of $6.2 million in 2013. The effective tax rate for 2014 was 5.6% of loss before taxes, compared to an effective tax rate of 38.3% of income before taxes for 2013. Our effective tax rate in 2014 differs from the Canadian statutory rate of 27.0% primarily due to $4.6 million additional valuation allowance on net operating losses in Canada and certain other jurisdictions, which was partially offset by $1.1 million of international tax rate differences and a $1.7 million benefit associated with R&D tax credits generated during the year.

As a significant portion of the NDS goodwill and intangible assets impairment charge was recognized in Canada, we had a $20.2 million loss before taxes in Canada in 2014 where we do not recognize any tax benefit as a result of the full valuation allowance on deferred tax assets. This significantly reduced the income tax benefit as a percentage of the loss before taxes as reported in the consolidated statement of operations for 2014.

2013 Compared with 2012

We recorded a tax expense of $6.2 million in 2013, as compared to a tax benefit of $11.6 million in 2012. The effective tax rate for 2013 was 38.3% of income before taxes, compared to an effective tax rate of (69.4%) of income before taxes for 2012. Our tax rate in 2013 differs from the Canadian statutory rate of 26.0% primarily due to additional valuation allowance on net operating losses in certain jurisdictions offset by a tax benefit for tax credits generated during the year.

Discontinued Operations

2014 Compared with 2013

Loss from discontinued operations, net of tax, was $7.3 million and $2.7 million during 2014 and 2013, respectively. The increase in the loss from discontinued operations was primarily due to the sale of the Scientific Lasers business, which resulted in a $3.0 million fair value write-down of the Scientific Lasers business and an impairment charge of $0.5 million in connection with our joint venture investment in Excel Laser Technology Private Limited, which is part of our Scientific Lasers business.

In July 2014, we completed the sale of the Scientific Lasers business for $6.5 million in cash, net of working capital adjustments. We recorded a $1.7 million loss on the sale, net of tax, in the consolidated statement of operations.

2013 Compared with 2012

Loss from discontinued operations, net of tax, was $2.7 million and $8.7 million during 2013 and 2012, respectively. The decrease in the loss was primarily due to the sale of the Semiconductor Systems and Laser Systems businesses in May 2013 and October 2012, respectively, offset by severance paid to Semiconductor Systems employees during 2013 as a result of the sale.

In May 2013, we consummated the sale of the Semiconductor Systems business for $9.7 million in cash, including working capital adjustments of $1.7 million received in September 2013. We recognized a $0.4 million loss on the sale, net of tax, in the consolidated statements of operations during 2013.

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 cash flows from operations and borrowings under our revolving credit facility. We believe our future operating cash flows will be sufficient to meet our future operating and capital expenditure cash needs for the foreseeable future, including at least the next 12 months. The availability of borrowings under our revolving credit facility provides an additional potential source of liquidity should it be required for business acquisitions. 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, subject to approval by the lenders in the Amended and Restated Credit Agreement.

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 current and 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 this Annual Report on Form 10-K.

Our ability to make payments on our indebtedness and to fund our operations may be dependent upon the earnings and the distribution of funds from our subsidiaries. Local laws and regulations and/or the terms of our indebtedness restrict certain of our subsidiaries from paying dividends and transferring assets to us. We cannot assure you that applicable laws and regulations and/or the terms of our indebtedness will permit our subsidiaries to provide us with sufficient dividends, distributions or loans when necessary.

In October 2013, the Company's Board of Directors authorized a share repurchase plan under which the Company may repurchase outstanding shares of the Company's common stock up to an aggregate amount of $10.0 million. The shares may be repurchased from time to time, at the Company's discretion, based on ongoing assessment of the capital needs of the business, the market price of the Company's common stock, and general market conditions. Shares may also be repurchased through an accelerated stock purchase agreement, on the open market or in privately negotiated transactions in accordance with applicable federal securities laws. Repurchases may be made under certain SEC regulations, which would permit common stock to be purchased when the Company would otherwise be prohibited from doing so under insider trading laws. The share repurchase plan does not obligate the Company to acquire any particular amount of common stock. No time limit was set for the completion of the share repurchase program, and the program may be suspended or discontinued at any time. The Company expects to fund the share repurchase through cash on hand and future cash flow from operations. There were no share repurchases in 2014. As of December 31, 2014, the Company has cumulatively repurchased 50 thousand shares of its common stock for an aggregate amount of $0.5 million.

As of December 31, 2014, $22.4 million of our $51.1 million cash and cash equivalents was held by our subsidiaries outside of the United States and Canada. Generally, our intent is to use cash held in these foreign subsidiaries to fund our local operations or acquisitions by those local subsidiaries. However, in certain instances, we have identified excess cash for which we may repatriate and have established liabilities for the expected tax cost. Additionally, we may use intercompany loans to address short-term cash flow needs for various subsidiaries.

Amended and Restated Credit Agreement

In December 2012, we entered into an amended and restated senior secured credit agreement (the "Amended and Restated Credit Agreement"), consisting of a $50.0 million, 5-year term loan facility and a $75.0 million, 5-year revolving credit facility (collectively, the "Senior Credit Facilities"). The Senior Credit Facilities mature in December 2017. On February 10, 2014, we entered into a fourth amendment to the Amended and Restated Credit Agreement (the "Fourth Amendment"). The Fourth Amendment increased the revolving credit facility commitment under the Amended and Restated Credit Agreement by $100 million from $75 million to $175 million and resets the accordion feature to $100 million for future expansion. Additionally, the Fourth Amendment increased the maximum permitted consolidated leverage ratio financial covenant from 2.75 to 3.00.

As of December 31, 2014, we had term loans of $35.0 million and revolving loans of $80.0 million outstanding under the Amended and Restated Credit Agreement.

The Amended and Restated Credit Agreement contains various covenants that we believe are usual and customary for this type of agreement, including a maximum allowed leverage ratio, and a minimum required fixed charge coverage ratio (as defined in the Amended and Restated Credit Agreement). The following table summarizes these financial covenant requirements as stated in the Fourth Amendment and our compliance there with as of December 31, 2014.

	Requirement	Actual December 31, 2014
Maximum consolidated leverage ratio	3.00	2.07
Minimum consolidated fixed charge coverage ratio	1.50	3.59

In addition, the Amended and Restated Credit Agreement contains various other customary representations, warranties and covenants applicable to the Company and its subsidiaries, including: (i) limitations on certain payments; (ii) limitations on fundamental changes involving the Company; (iii) limitations on the disposition of assets; and (iv) limitations on indebtedness, investments, and liens.

Cash Flows

Cash and cash equivalents totaled $51.1 million at December 31, 2014, versus $61.0 million at December 31, 2013. The net decrease in cash and cash equivalents is primarily related to cash outflows for the acquisition of JADAK of $93.7 million, repayments of our debt of $33.5 million, and capital expenditures of $6.3 million. These outflows were offset by net cash inflows from operating activities of $42.3 million, borrowings of $77.0 million under our Senior Credit Facilities, proceeds of $5.4 million related to the recovery of an escrow claim for the acquisition of NDS and net cash proceeds from the sale of our Scientific Lasers business totaling $4.7 million.

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

	2014	2013	2012
Cash and cash equivalents	$51,146	$60,980	$65,788
Net cash provided by operating activities of continuing operations	$43,990	$56,178	$33,088
Net cash used in investing activities of continuing operations	$(93,541)	$(85,297)	$(3,353)
Net cash provided by (used in) financing activities of continuing operations	$40,281	$18,574	$(21,112)
Unused and available funds under revolving credit facility	$95,000	$46,000	$75,000

Operating Cash Flows

Cash provided by operating activities of continuing operations was $44.0 million in 2014 versus $56.2 million and $33.1 million in 2013 and 2012, respectively. Cash provided by operating activities of continuing operations decreased in 2014 by $12.2 million primarily due to net tax refunds of $11.8 million received in 2013 as a result of the settlement with the IRS. Cash provided by operating activities of continuing operations was positively impacted by a decrease in our days sales outstanding from 56 days at December 31, 2013 to 53 days at December 31, 2014 and a decrease in inventory as our inventory turnover ratio increased from 3.2 at December 31, 2013 to 3.3 at December 31, 2014. Cash provided by operating activities of continuing operations was negatively impacted by a decrease in our days payables outstanding from 48 days at December 31, 2013 to 45 days at December 31, 2014.

Cash provided by operating activities of continuing operations in 2013 was primarily related to higher profit after adding back to net income non-cash adjustments for depreciation and amortization, share-based compensation and deferred income taxes of $28.9 million and the net tax refund of $11.8 million received as a result of the settlement with IRS. The $33.1 million of cash provided by operating activities of continuing operations in 2012 was primarily related to our income from continuing operations of $28.3 million.

Cash used in operating activities of discontinued operations was $1.7 million in 2014, versus $7.0 million and $4.7 million in 2013 and 2012, respectively. The $5.3 million decrease in cash used in operating activities of discontinued operations in 2014 from the prior year, was primarily related to the divestiture of the Scientific Lasers business in 2014 and divestiture of the Semiconductor Systems business in 2013. The $2.3 million increase in cash used in operating activities of discontinued operations in 2013 from 2012 was primarily related to lower cash flows from accounts receivable from discontinued operations in 2013 versus 2012.

Investing Cash Flows

Cash used in investing activities of continuing operations was $93.5 million during 2014 primarily due to cash consideration of $93.7 million paid for the JADAK acquisition in March 2014 and $5.4 million in capital expenditures, partially offset by proceeds of $5.4 million from an escrow claim related to the NDS acquisition.

Cash used in investing activities of continuing operations of $85.3 million in 2013 was primarily due to cash consideration of $80.8 million paid for the NDS acquisition and $4.8 million in capital expenditures. This compares to cash used in investing activities of continuing operations of $3.4 million in 2012 primarily related to capital expenditures.

Cash provided by investing activities of discontinued operations was $3.8 million during 2014, primarily related to $4.7 million of net proceeds from the sale of the Scientific Lasers business, offset by capital expenditures of $0.9 million. This compares to cash provided by investing activities of discontinued operations in 2013 of $12.3 million, primarily related to $8.2 million in net proceeds from the sale of the Semiconductor Systems business and $4.6 million in net proceeds from the sale of our East Setauket, New York facility which was part of our Scientific Lasers business. Cash provided by investing activities of discontinued operations in 2012 was driven by the sale of our Laser Systems business of $7.0 million, partially offset by $0.8 million in capital expenditures.

On February 19, 2015, the Company paid $13.9 million in cash for the acquisition of Applimotion Inc. utilizing cash on hand as well as borrowing under our revolving credit facility. We have no material commitments to purchase plant property and equipment and expect such expenditures to be approximately $6 million to $7 million in 2015.

Financing Cash Flows

Cash provided by financing activities of continuing operations was $40.3 million during 2014, primarily due to $77.0 million of borrowings under our revolving credit facility used to pay a portion of the cash consideration paid for the JADAK acquisition, partially offset by $7.5 million for our contractual term loan payments and $26.0 million of optional repayments of borrowings under our revolving credit facility. Cash provided by financing activities of continuing operations was $18.6 million during 2013, primarily due to $60.0 million of borrowings under our revolving credit facility used to pay for a portion of the cash consideration paid for the NDS acquisition, partially offset by $7.5 million for our contractual term loan payments and $31.0 million of optional repayments of borrowings under our revolving credit facility. Cash used in financing activities of continuing operations was $21.1 million during 2012, primarily due to $23.0 million in debt repayments, offset by the $5.0 million of borrowings under our revolving credit facility related to the Amended and Restated Credit Agreement. During 2012, we also paid $1.8 million for debt issuance costs.

We expect to use $8.8 million of cash in 2015 for financing activities, comprised of quarterly contractual payments of $1.9 million on our term loan facility, and $1.3 million for our capital lease obligations. In addition, from time to time we may make payments to pay down our revolving credit facility with future cash flows generated from operating activities.

Other Liquidity Matters

Pension Plans

We maintain two defined benefit pension plans—one plan in the U.K. (the "U.K. Plan") and one plan in Japan (the "Japan Plan"). Our U.K. Plan was closed to new members in 1997 and stopped accruing additional pension benefits for existing members in 2003, thereby limiting our obligation to benefits earned through that date. Benefits under this plan were based on the employees' years of service and compensation as of the date the plan was frozen. On July 1, 2013, the Company provided a Guarantee (the "Guarantee") in favor of the trustees of the U.K. Plan with respect to all present and future obligations and liabilities (whether actual or contingent and whether owed jointly or severally and in any capacity whatsoever) of GSI Group Limited, a wholly owned subsidiary of GSI Group Inc. We amended the Japan Plan in December 2014 and will convert it into a defined contribution plan in the first quarter of 2015. The Company has included the effect of this plan amendment in the expense calculation for 2014.

Our funding policy is to fund pensions based on actuarial methods as permitted by regulatory authorities. The results of funding valuations depend on the assumptions that we make with regard to attributes such as asset returns, rates of members' benefits increases, mortality, retail price inflation and other market driven changes. The assumptions used represent one estimate of a possible future outcome. The final cost to us will be determined by events as they actually become known. Due to the underfunded positions that our U.K. Plan currently has and potential changes in the actual outcomes relative to our assumptions, we may have to increase payments to fund this plan in the future.

In August 2013, we agreed to increase our annual funding contributions for the U.K. Plan from approximately $0.8 million to $1.0 million annually through 2021. The Japanese plan will be terminated in the first quarter of 2015. The accrued retirement allowance amount calculated by Japanese retirement benefit rules on a voluntary retirement basis as of March 1, 2015 (excess of plan assets), will be transferred over 4 years to each employee’s new defined contribution plan account.

As a result of the covenant that exists between our U.K. subsidiary and the Plan Trustees regarding the funding of the U.K. Plan, our ability to transfer assets outside our U.K. subsidiary, and its wholly owned subsidiary in China, may be limited.

Off-Balance Sheet Arrangements, Contractual Obligations

Contractual Obligations

The following table summarizes our contractual obligations at December 31, 2014 and the effect such obligations are expected to have on liquidity and cash flow in future years. We have excluded the future cash payments for unrecognized tax benefits, including interest and penalties, in the amount of $7.3 million because we are uncertain if and when such amounts may be settled. These unrecognized tax benefits have been classified as long-term liabilities on the consolidated balance sheets and have been further explained in Note 13 to our Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K.

Contractual Obligations	Total	2015	2016-2017	2018-2019	Thereafter
	(In thousands)				
Senior Credit Facilities (1)	$115,000	$7,500	$107,500	$ —	$ —
Interest on Senior Credit Facilities (2)	8,736	3,238	5,498	—	—
Capital leases	14,601	1,261	2,551	1,744	9,045
Operating leases (3)	22,319	4,888	7,214	4,612	5,605
Purchase commitments (4)	51,003	49,462	1,541	—	—
U.K. pension plan (5)	6,772	1,034	2,159	2,285	1,294
Total contractual cash obligations	$218,431	$67,383	$126,463	$ 8,641	$ 15,944

(1) On December 27, 2012, we entered into an amended and restated credit agreement. As of December 31, 2014, a total of $35.0 million of term loan debt and $80.0 million of revolving credit facility were outstanding under the Senior Credit Facilities. The term loan is payable in 12 quarterly installments of $1.9 million with the remaining amount due upon maturity in December 2017. The revolving credit facility is due at maturity in 2017.

(2) For the purpose of this calculation, interest rates on floating rate obligation (LIBOR plus applicable margin, as defined in the Amended and Restated Credit Agreement) were used throughout the contractual life of the term loan.

(3) These amounts primarily represent the gross amounts due for facilities that are leased. The amounts include payments due with respect to both active operating facilities and idle facilities that have been vacated as a result of our restructuring actions.

(4) Purchase commitments represent unconditional purchase obligations as of December 31, 2014.

(5) Assumes funding obligations equivalent to $1.0 million per year, increasing 2.9% through January 2021 based on annual funding contributions in effect as of December 31, 2014. Future funding requirements will be affected by various actuarial assumptions and actual experience of the pension plan.

Off-Balance Sheet Arrangements

Through December 31, 2014, 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 preparation of financial statements in conformity with generally accepted accounting principles requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates, assumptions and judgments, including those related to revenue recognition, inventory valuation, assessment of the valuation of goodwill, intangible assets and tangible long-lived assets, employee benefit plans, restructuring charges, accounting for income taxes, and accounting for loss contingencies. Actual results could differ significantly from our estimates in the future.

We believe that the following critical accounting policies and estimates most significantly affect the portrayal of our financial condition and results of operations and require the most difficult and subjective judgments.

Revenue Recognition. Revenue from the sale of products is recognized when we meet all four of the criteria for revenue recognition within the fiscal period. These criteria are: evidence of an arrangement exists; delivery has occurred; the price is fixed or determinable; and collection of the resulting receivable is reasonably assured. Revenue recognition requires judgment and estimates, which may affect the amount and timing of revenue recognized in any given period.

The Laser Products, Medical Technologies, and Precision Motion segments have revenue transactions that are comprised of both single-element and multiple-element transactions. Multiple-element transactions may include two or more products and may occasionally contain installation, training, non-standard/extended warranties, or preventative maintenance plans. For multiple-element transactions, revenue is generally recognized upon shipment, using the relative selling price method per Accounting Standards Codification ("ASC") 605-25 "Revenue – Multiple-Element Arrangements". Single-element transactions are typically recognized upon shipment at their contractually stated price.

Installation and training are generally routine processes that occur within a short period of time from delivery and we have concluded that these obligations are inconsequential and perfunctory.

The Company generally provides warranties for its products. The standard warranty period is typically 12 to 24 months for the Laser Products and Precision Motion segments and 12 months to 60 months for the Medical Technologies segment. The standard warranty period for product sales is accounted for under the provisions of ASC 450 "Contingencies", as the Company has the ability to ascertain the likelihood of the liability and can reasonably estimate the amount of the liability. A provision for the estimated cost related to warranty is recorded to cost of goods sold at the time revenue is recognized. The Company's estimate of costs to service the warranty obligations is based on historical experience and expectations of future conditions. To the extent the Company experiences warranty claims or costs associated with servicing those claims that differ from the original estimates, revisions to the estimated warranty liability are recorded at that time, with an offsetting entry recorded to cost of goods sold. On occasion, the Company sells separately priced non-standard/extended warranty services or preventative maintenance plans, which are accounted for in accordance with provisions of ASC 605-20-25-3, "Separately Priced Extended Warranty and Product Maintenance Contracts". Under this guidance, we recognize the separately priced extended/non-standard warranty and preventative maintenance fees ratably over the associated period.

At the request of our customers, we may at times perform professional services, generally for the maintenance and repairs of products previously sold to those customers. These services are usually in the form of time and materials based contracts which are short in duration. Revenue for time and materials services is recorded at the completion of services requested under a customer's purchase order.

We typically negotiate trade discounts and agreed terms in advance of order acceptance and record any such items as a reduction of revenue. Our revenue recognition policy allows for revenue to be recognized under arrangements where the payment terms are 180 days or less, presuming all other revenue recognition criteria have been met. From time to time, based on our review of customer creditworthiness and other factors, we may provide our customers with payment terms that exceed 180 days. To the extent all other revenue recognition criteria have been met, we recognize revenue for these extended payment arrangements as the payments become due. During 2014, no customers were extended credit beyond 180 days.

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers", which provides guidance for revenue recognition. ASU 2014-09 requires entities to recognize revenue in a way that depicts the transfer of goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 will be effective for annual and interim reporting periods beginning after December 15, 2016. Early adoption is not permitted. Upon adoption, an entity may apply the new guidance either retrospectively to each prior reporting period presented or retrospectively only to customer contracts not yet completed as of the date of adoption with the cumulative effect of initially applying the standard recognized in beginning retained earnings at the date of the initial application. The Company is currently evaluating the impact of the new standard on the Company's consolidated financial statements.

Inventories. Inventories, which include materials and conversion costs, are stated at the lower of cost or market, using a first-in, first-out method. We periodically review these values to ascertain that market value of the inventory continues to exceed its recorded cost. Generally, reductions in value of inventory below cost are caused by technological obsolescence of the inventory.

We regularly review inventory quantities on hand and, when necessary, record provisions for excess and obsolete inventory based on either our forecasted product demand and production requirements or historical trailing usage of the product. If our sales do not materialize as planned or at historical levels, we may have to increase our reserve for excess and obsolete inventory, which would reduce our earnings. If actual market conditions are more favorable than anticipated, inventory previously written down may be sold, resulting in lower cost of sales and higher income from operations than expected in that period.

Valuation of Long-lived Assets. The purchase price we pay for acquired companies is allocated first to the identifiable assets acquired and liabilities assumed at their fair value. Any excess purchase price is then allocated to goodwill. We make various assumptions and estimates in order to assign fair value to acquired tangible and intangible assets and liabilities, including those associated with cash flow forecasts, as well as discount rates and customer attrition rates, among others. Actual cash flows may vary from forecasts used to value the intangible assets at the time of the business combination.

Our most significant identifiable intangible assets are customer relationships, acquired technologies, trademarks and trade names. In addition to our review of the carrying values of each asset, the useful life assumptions for each asset, including the classification of certain intangible assets as “indefinite lived”, are reviewed on a periodic basis to determine if changes in circumstances warrant revisions to them. All definite-lived intangible assets are amortized over the periods in which their economic benefits are expected to be realized.

Impairment analyses of goodwill and indefinite-lived intangible assets are conducted in accordance with ASC 350, “Intangibles—Goodwill and Other.” We test our goodwill balances annually as of the beginning of the second quarter or more frequently if indicators are present or changes in circumstances suggest that impairment may exist. Should the fair value of the Company’s goodwill or indefinite-lived intangible assets decline because of reduced operating performance, market declines, or other indicators of impairment, or as a result of changes in the discount rate, charges for impairment may be necessary. In performing the test, we utilize the two-step approach which requires a comparison of the carrying value of each of our reporting units to the fair value of these reporting units. The Company’s product lines generally correspond with its reporting units which is the level at which the Company evaluates its goodwill, intangible assets and other long-lived assets for impairment. If the carrying value of a reporting unit exceeds its fair value, we calculate the implied fair value of the reporting unit’s goodwill and compare it to the carrying value. If the carrying value of goodwill exceeds its implied fair value, an impairment charge is recorded for the difference. The fair value of a reporting unit is primarily based on a discounted cash flow (“DCF”) method. The DCF approach requires that we forecast future cash flows for each of the reporting units and discount the cash flow streams based on a weighted average cost of capital (“WACC”) that is derived, in part, from comparable companies within similar industries. The DCF calculations also include a terminal value calculation that is based upon an expected long-term growth rate for the applicable reporting unit. The carrying values of each reporting unit include assets and liabilities which relate to the reporting unit’s operations. Additionally, reporting units that benefit from corporate assets or liabilities are allocated a portion of those corporate assets and liabilities on a proportional basis.

Our indefinite-lived intangible assets include trade names that were acquired as part of our acquisition of Excel Technologies Inc. in 2008. We assess these indefinite-lived intangible assets for impairment on an annual basis, and more frequently if impairment indicators are identified. We also periodically reassess their continuing classification as indefinite-lived intangible assets. Impairment exists if the fair value of the intangible asset is less than its carrying value. An impairment charge equal to the difference is recorded to reduce the carrying value to its fair value.

We evaluate amortizable intangible assets and other long-lived assets for impairment in accordance with ASC 360-10-35-15, “Impairment or Disposal of Long-Lived Assets”, whenever changes in events or circumstances indicate that carrying values may exceed their undiscounted cash flow forecasts. If undiscounted cash flow forecasts indicate that the carrying value of a definite-lived intangible asset or other long-lived asset may not be recoverable, a fair value assessment is performed. For intangible assets, fair value estimates are derived from discounted cash flow forecasts. For other long-lived assets (primarily property, plant and equipment), fair value estimates are derived from the sources most appropriate for the particular asset and have historically included such approaches as sales comparison approach and replacement cost approach. If fair value is less than carrying value, an impairment charge equal to the difference is recorded. We also review the useful life and residual value assumptions for definite-lived intangible assets and other long-lived assets on a periodic basis to determine if changes in circumstances warrant revisions to them.

Factors which may trigger an impairment of our goodwill, intangible assets and other long-lived assets include the following:

- underperformance relative to historical or projected future operating results;
- changes in our use of the acquired assets or the strategy for our overall business;

- negative industry or economic trends;
- interest rate changes;
- technological changes or developments;
- changes in competition;
- loss of key customers or personnel;
- adverse judicial or legislative outcomes or political developments;
- significant declines in our stock price for a sustained period of time; and
- the decline of our market capitalization below net book value as of the end of any reporting period.

The occurrence of any of these events or any other unforeseeable event or circumstance that materially affects future operating results or cash flows may cause an impairment that is material to our results of operations or financial position in the reporting period in which it occurs or is identified.

The most recent annual goodwill and indefinite-lived intangible asset impairment test was performed as of the beginning of the second quarter of 2014, noting no impairment. Implied fair values of all reporting units exceeded their carrying values by at least 10%. For the annual impairment test performed during the second quarter of 2014, the Company forecasted growth in the NDS business due to expected new product launches in 2014, higher demand for NDS's current products, and an expectation that all products of the NDS business would continue to be sold.

During the fourth quarter of 2014, the Company completed its annual operating plan for the NDS business following the MEDICA and RSNA tradeshows, two main tradeshows for the NDS business. Expectations for sales and operating profit were lowered significantly versus prior forecasts. The lower expectations for sales and operating profit were driven by a strategic decision to discontinue certain NDS products, lack of seasonal uptick during the fourth quarter of 2014 attributable to slower than expected hospital capital expenditures, and lower than expected customer orders from the fourth quarter tradeshows.

In considering the above mentioned factors, the Company determined that a triggering event occurred in the fourth quarter of 2014 and that an interim impairment review of the goodwill and intangible assets related to the NDS reporting unit was necessary. First, the Company performed a long-lived asset recoverability test in accordance with ASC 360-10-35-15, "Impairment or Disposal of Long-Lived Assets", on the lowest level of identifiable cash flows, which was determined to be the NDS business. The recoverability test compared the carrying value of the NDS business to the undiscounted cash flows. As a result of this recoverability test, the Company determined that the assets were not recoverable. The Company then determined the fair value of the NDS business using a discounted cash flow methodology, which resulted in a $21.8 million intangible assets impairment charge in the fourth quarter of 2014. The impairment charge is reflected in the operating results of the Medical Technologies segment.

Subsequent to impairing the NDS business's long-lived assets, step one of the goodwill impairment analysis was performed. As the carrying value of the NDS reporting unit exceeded its implied fair value, the Company performed the second step of the goodwill test, comparing the implied fair value of the reporting unit's goodwill with its carrying amount to measure the impairment loss. After completing the second step of the goodwill impairment test, the Company recorded a $19.6 million goodwill impairment charge in the fourth quarter of 2014. The impairment charge is reflected in the operating results of the Medical Technologies segment.

We maintain a significant balance in our goodwill, intangible assets and other long-lived assets. The following table shows the breakdown of goodwill, intangibles and property, plant and equipment by reportable segment as of December 31, 2014 (in thousands):

	Goodwill	Intangible Assets	Property, Plant & Equipment
Laser Products	$ 30,493	$ 25,850	$ 9,123
Medical Technologies	51,008	40,079	13,309
Precision Motion	9,245	1,313	4,244
Corporate, shared services and unallocated	—	—	13,412

Total	$ 90,746	$ 67,242	$ 40,088

Pension Plans. Two of our subsidiaries, located in the U.K. and Japan, maintain defined benefit pension plans.

Our pension plan in the U.K (the “U.K. Plan”) was closed to new membership in 1997 and stopped accruing for additional pension benefits for existing members in 2003, limiting our obligation to benefits earned through that date. Benefits under this plan were based on the employees’ years of service and compensation as of the date the plan was frozen, adjusted for inflation. At December 31, 2014, the market value of the plan assets was $5.8 million, or 14.7%, less than the projected benefit obligation.

The cost and obligations of our U.K. Plan are calculated using many assumptions to estimate the benefits, the amount of which cannot be completely determined until the benefit payments cease. Major assumptions used in the accounting for this pension plan include the discount rate, rate of inflation, and expected return on plan assets. Assumptions are determined each year based on data and appropriate market indicators in consultation with a third-party actuary. Should any of these assumptions change, they would have an effect on net periodic pension cost and the unfunded benefit obligation at year end. A 50 basis point decrease in the discount rate as of December 31, 2014 would change the pension obligation by $3.7 million.

Our Japanese pension plan is a tax qualified plan that covers substantially all Japanese employees. Benefits are based on years of service and the employee’s compensation at retirement. We fund the plan periodically to meet requirements for current benefit payments as well as a portion of future benefits as permitted by local regulations. Since this is an active plan, a significant portion of the pension benefit obligation is determined based on the rate of future compensation increases. We purchase annuities under group insurance contracts. In December 2014, the Company amended the Japan Plan, which will be terminated on March 1, 2015 and replaced by a defined contribution plan. Upon termination, the plan assets will be transferred to each employee's deferred contribution plan account. The loss resulting from this amendment was recognized in 2014. At December 31, 2014, the market value of the plan assets was $0.3 million less than the projected benefit obligation. Changes in assumptions are not material to this plan.

Restructuring Charges. In accounting for our restructuring activities, we follow the provisions of ASC 420, "Exit or Disposal Cost Obligations". In accounting for these obligations, we make assumptions related to the amounts of employee severance and benefits related costs, the time period over which facilities will remain vacant, sublease terms, sublease rates, and discount rates. Additionally, we make assumptions on the estimated remaining useful lives of assets being restructured and the residual value of the assets. Estimates and assumptions are based on the best information available at the time the obligation has arisen. These estimates are reviewed and revised as facts and circumstances dictate. Changes in these estimates could have a material effect on the amount previously expensed against our earnings and currently accrued on our consolidated balance sheet.

Accounting for Income Taxes. As part of the process of preparing our consolidated financial statements, we are required to calculate our income tax provision (benefit) in each of the jurisdictions in which we operate. This process involves estimating our current income tax provision (benefit) together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are reported on our consolidated balance sheet.

Judgment is required in determining our worldwide income tax provision. In the ordinary course of a global business, there are many transactions and calculations where the ultimate outcome is uncertain. Although we believe our estimates are reasonable, no assurance can be given that the final outcome of these matters will not be different from that which is reflected in our historical income tax provisions and accruals. Such differences could have a material impact on our income tax provision and net income in the period in which such determination is made.

We record a valuation allowance on our deferred tax assets when it is more likely than not that they will not be realized. We have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for a valuation allowance. In the event we determine that we are able to realize our deferred tax assets in the future in excess of their net recorded amount, an adjustment to the valuation allowance for the deferred tax assets would increase our net income in the period such determination is made. Likewise, should we determine that we will not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the valuation allowance for the deferred tax assets will reduce our net income in the period such determination is made.

In conjunction with our ongoing review of our actual results and anticipated future earnings, we continuously reassess the possibility of increasing the valuation allowance currently in place on our deferred tax assets. We recorded a valuation allowance against current year net operating losses of $0.6 million during the year ended December 31, 2014. The increase of our valuation allowance was determined in accordance with the provisions of ASC 740, "Income Taxes," which requires an assessment of both positive and negative evidence when determining whether it is more likely than not that deferred tax assets are recoverable. Such assessment is required on a jurisdiction by jurisdiction basis. Based on historical operating income and continuing projected income, future reversals of temporary differences and tax planning strategies, we have concluded that sufficient negative evidence indicates that it is not more likely than not that deferred tax assets will be realized.

The amount of income taxes we pay is subject to audits by federal, state and foreign tax authorities, which may result in proposed assessments. We believe that we have adequately provided for any reasonably foreseeable outcome related to these matters. However, our future results may include favorable or unfavorable adjustments to our tax liabilities in the period that the assessments are made or resolved, or when the statute of limitations for certain periods expires. As of December 31, 2014, the total amount of gross unrecognized tax benefits was $6.3 million, of which $4.1 million would favorably affect our effective tax rate, if recognized. As of December 31, 2013, the amount of gross unrecognized tax benefits totaled approximately $7.1, of which $4.9 million would favorably affect our effective tax rate, if recognized. Over the next twelve months, the Company may need to record up to $0.7 million of previously unrecognized tax benefits in the event of statute of limitations closures. We believe that there are no other jurisdictions in which the outcome of unresolved issues or claims is likely to be material to our results of operations, financial position or cash flows. Furthermore, we believe that we have adequately provided for all income tax uncertainties.

Income and foreign withholding taxes have not been recognized on the excess of the amount for financial reporting purposes over the tax basis of investments in foreign subsidiaries that are essentially permanent in nature. This amount becomes taxable upon a repatriation of assets from a subsidiary or a sale or liquidation of a subsidiary. The amount of undistributed earnings of foreign subsidiaries totaled $15.8 million as of December 31, 2014. Determination of the amount of any unrecognized deferred income tax liabilities on this temporary difference is not practicable because of the complexities of the hypothetical calculation.

Loss Contingencies. We are subject to legal proceedings, lawsuits and other claims relating to labor, service and other matters arising in the ordinary course of business. Quarterly, we review the status of each significant matter and assess our potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, we accrue a liability for the estimated loss. Significant judgment is required in both the determination of probability and the determination as to whether an exposure is reasonably estimable. Because of uncertainties related to these matters, accruals are based only on the best information available at the time. As additional information becomes available, we reassess the potential liability related to our pending claims and litigation and may revise our estimates. Such revisions in the estimates of the potential liabilities could have a material impact on our results of operations and financial position. We expense legal fees as incurred.

Recent Accounting Pronouncements

See Note 2 to Consolidated Financial Statements for recent accounting pronouncements that could have an effect on us.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from changes in foreign currency exchange rates and interest rates, which could affect our operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities. We generally do not enter into derivative financial instruments to manage foreign currency exposure.

Foreign Currency Exchange Rate Risk and Sensitivity

We are exposed to changes in foreign currency exchange rates which could affect operating results as well as our financial position and cash flows. The primary foreign currency denominated transactions include revenue and expenses and the resulting accounts receivable and accounts payable balances reflected on our balance sheet. Therefore, the change in the value of the U.S. dollar compared to foreign currencies will have either a positive or negative effect on our financial position and results of operations. Historically, our primary exposure has related to transactions denominated in the Euro, British Pound and Japanese Yen.

A hypothetical depreciation of 10% in foreign currency exchange rate, primarily cumulative translation adjustments from the quoted foreign currency exchange rates as of December 31, 2014 would impact shareholder equity by $9.1 million or 4%. We did not hold foreign currency rate derivative contracts as of December 31, 2014.

Interest Rates

Our exposure to market risk associated with changes in interest rates relates primarily to our debt obligations. We have $115.0 million of outstanding variable rate debt as of December 31, 2014. A 100 basis point increase in interest rates at December 31, 2014 would increase our annual pre-tax interest expense by approximately $1.2 million. We do not actively trade derivative financial instruments, but may use them in the future to manage interest rate positions associated with our debt instruments. We did not hold interest rate derivative contracts as of December 31, 2014.

Item 8. Financial Statements and Supplementary Data

GSI GROUP INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of GSI Group Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, comprehensive income (loss), stockholders' equity and cash flows present fairly, in all material respects, the financial position of GSI Group Inc. and its subsidiaries at December 31, 2014 and December 31, 2013, and the results of their operations and their cash flows for each of the two years in the period ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Annual Report on Internal Controls Over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Annual Report on Internal Controls Over Financial Reporting appearing under Item 9A, management has excluded JADAK from its assessment of internal control over financial reporting as of December 31, 2014 because it was acquired by the Company in a purchase business combination during 2014. We have also excluded JADAK from our audit of internal control over financial reporting. JADAK is a wholly-owned subsidiary whose total assets and total revenues represent 7% and 12%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2014.

/s/ PricewaterhouseCoopers LLP

Boston, Massachusetts

March 6, 2015

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of GSI Group Inc.

We have audited the accompanying consolidated statements of operations, comprehensive income (loss), stockholders' equity, and cash flows of GSI Group Inc. for the year ended December 31, 2012. 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 audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements of GSI Group Inc. referred to above present fairly, in all material respects, the consolidated results of its operations and its cash flows for the year ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Boston, Massachusetts

March 18, 2013, except for Notes 1 and 4, as to which the date is March 6, 2015

GSI GROUP INC.

CONSOLIDATED BALANCE SHEETS

(In thousands of U.S. dollars or shares)

	December 31, 2014	December 31, 2013
ASSETS		
Current Assets		
Cash and cash equivalents	$ 51,146	$ 60,980
Accounts receivable, net of allowance of $282 and $575, respectively	51,494	48,552
Inventories	62,943	58,290
Income taxes receivable	5,906	5,715
Deferred tax assets	5,971	5,122
Prepaid expenses and other current assets	5,236	5,134
Assets of discontinued operations	631	17,836
Total current assets	183,327	201,629
Property, plant and equipment, net	40,088	31,303
Deferred tax assets	2,912	—
Other assets	14,604	9,426
Intangible assets, net	67,242	65,293
Goodwill	90,746	71,156
Total assets	$ 398,919	$ 378,807
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Current portion of long-term debt	$ 7,500	$ 7,500
Accounts payable	25,592	24,361
Income taxes payable	1,189	1,018
Deferred tax liabilities	208	177
Accrued expenses and other current liabilities	19,401	22,288
Liabilities of discontinued operations	324	6,143
Total current liabilities	54,214	61,487
Long-term debt	107,500	64,000
Deferred tax liabilities	35	293
Income taxes payable	7,097	5,596
Other liabilities	18,819	5,028
Total liabilities	187,665	136,404
Commitments and Contingencies (Note 15)		
Stockholders' Equity:		
Common shares, no par value; Authorized shares: unlimited; Issued and outstanding: 34,219 and 33,991, respectively	423,856	423,856
Additional paid-in capital	28,590	25,383
Accumulated deficit	(225,165)	(200,913)

Accumulated other comprehensive loss	(16,456)	(6,342)
Total GSI Group Inc. stockholders' equity	210,825	241,984
Noncontrolling interest	429	419
Total stockholders' equity	211,254	242,403
Total liabilities and stockholders' equity	$ 398,919	$ 378,807

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

GSI GROUP INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands of U.S. dollars or shares, except per share amounts)

	Year Ended December 31,		
	2014	2013	2012
Sales	$364,706	$316,910	$243,796
Cost of sales	214,539	184,683	138,278
Gross profit	150,167	132,227	105,518
Operating expenses:			
Research and development and engineering	28,954	23,787	18,530
Selling, general and administrative	84,380	76,337	59,707
Amortization of purchased intangible assets	10,262	7,270	2,650
Restructuring and acquisition related costs	1,935	5,387	4,369
Impairment of goodwill and intangible assets	41,442	—	—
Total operating expenses	166,973	112,781	85,256
Operating income (loss) from continuing operations	(16,806)	19,446	20,262
Interest income (expense), net	(5,096)	(3,468)	(2,792)
Foreign exchange transaction gains (losses), net	1,281	(1,301)	(1,347)
Other income (expense), net	2,706	1,500	579
Income (loss) from continuing operations before income taxes	(17,915)	16,177	16,702
Income tax provision (benefit)	(1,006)	6,200	(11,595)
Income (loss) from continuing operations	(16,909)	9,977	28,297
Loss from discontinued operations, net of tax	(5,607)	(2,054)	(10,974)
Gain (loss) on disposal of discontinued operations, net of tax	(1,726)	(592)	2,255
Consolidated net income (loss)	(24,242)	7,331	19,578
Less: Net income attributable to noncontrolling interest	(10)	(22)	(40)
Net income (loss) attributable to GSI Group Inc.	$(24,252)	$7,309	$19,538
Earnings (loss) per common share from continuing operations:			
Basic	$(0.49)	$0.29	$0.84
Diluted	$(0.49)	$0.29	$0.84
Loss per common share from discontinued operations:			
Basic	$(0.21)	$(0.08)	$(0.26)
Diluted	$(0.21)	$(0.08)	$(0.26)
Earnings (loss) per common share attributable to GSI Group Inc.:			
Basic	$(0.70)	$0.21	$0.58
Diluted	$(0.70)	$0.21	$0.58
Weighted average common shares outstanding—basic	34,352	34,073	33,775
Weighted average common shares outstanding—diluted	34,352	34,396	33,936
Amounts attributable to GSI Group Inc.:			

Income (loss) from continuing operations	$(16,909)	$9,977	$28,297
Loss from discontinued operations	(7,343)	(2,668)	(8,759)
Net income (loss)	$(24,252)	$7,309	$19,538

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

GSI GROUP INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands of U.S. dollars)

	2014	2013	2012
Consolidated net income (loss)	$(24,242)	$7,331	$19,578
Other comprehensive income (loss):			
Foreign currency translation adjustments, net of tax (1)	(6,968)	54	(1,510)
Pension liability adjustments, net of tax (2)	(3,146)	3,353	(3,215)
Total other comprehensive income (loss)	(10,114		