Fidelity National Information Services, Inc.
Form 10-K
February 21, 2019
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
or
o 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. 001-16427

Fidelity National Information Services, Inc.
(Exact name of registrant as specified in its charter)

Georgia (State or other jurisdiction of incorporation or organization)	37-1490331 (I.R.S. Employer Identification No.)
601 Riverside Avenue Jacksonville, Florida (Address of principal executive offices)	32204 (Zip Code)

(904) 438-6000
(Registrant's telephone number, including area code)
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class:	Name of Each Exchange on Which Registered:
Common Stock, par value $0.01 per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for 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 x No o
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 (§ 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 x No o
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. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated

filer,” “smaller reporting company” and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o	Emerging growth company o

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

As of June 30, 2018, the last business day of the registrant’s most recently completed second fiscal quarter, the aggregate market value of the registrant’s common stock held by nonaffiliates was $34,947,896,958 based on the closing sale price of $106.03 on that date as reported by the New York Stock Exchange. For the purposes of the foregoing sentence only, all directors and executive officers of the registrant were assumed to be affiliates. The number of shares outstanding of the registrant’s common stock, $0.01 par value per share, was 322,920,584 as of February 19, 2019.

The information in Part III hereof is incorporated herein by reference to the registrant’s Proxy Statement on Schedule 14A for the fiscal year ended December 31, 2018, to be filed within 120 days after the close of the fiscal year that is the subject of this Report.

FIDELITY NATIONAL INFORMATION SERVICES, INC.
2018 FORM 10-K ANNUAL REPORT
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EX-101 CALCULATION LINKBASE DOCUMENT
EX-101 DEFINITION LINKBASE DOCUMENT
EX-101 LABELS LINKBASE DOCUMENT
EX-101 PRESENTATION LINKBASE DOCUMENT

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Unless stated otherwise or the context otherwise requires, all references to "FIS," "we," the "Company" or the "registrant" are to Fidelity National Information Services, Inc., a Georgia corporation, and its subsidiaries.

PART I

Item 1. Business

Overview

FIS is a global leader in financial services technology, providing solutions and services to clients in the retail and institutional banking, payments, capital markets, asset management and wealth and retirement markets. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves clients in over 130 countries. Headquartered in Jacksonville, Florida, FIS employs more than 47,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of the Standard & Poor's 500® Index.

FIS is incorporated under the laws of the State of Georgia as Fidelity National Information Services, Inc. and our stock is traded on the New York Stock Exchange under the trading symbol "FIS."

We have grown organically, as well as through acquisitions, which have contributed critical applications and services that complement or enhance our existing offerings, diversifying our revenue by customer, geography and service offering. Our solutions include core processing solutions; digital solutions; fraud, risk management and compliance solutions; electronic funds transfer and network services; card and retail payment solutions; corporate liquidity solutions; wealth and retirement solutions; item processing and output services; government payments solutions; ePayment solutions; securities processing and finance solutions; global trading solutions; asset management and insurance solutions; and global commercial services for financial institutions and credit unions, as well as companies and governmental entities. We sell certain of these solutions to domestic companies, as well as to global organizations and companies domiciled both within and outside of North America, where our solutions are able to be deployed across multiple regions. Our strategic acquisitions have enabled us to broaden our available solution sets, scale our operations, expand and diversify our customer base and strengthen our competitive position.

Financial Information About Operating Segments and Geographic Areas

FIS reports its financial performance based on three segments: Integrated Financial Solutions ("IFS"), Global Financial Solutions ("GFS") and Corporate and Other. For information about our revenues and assets by geographic area see Notes 2(n), 3 and 19 of the Notes to Consolidated Financial Statements.

Competitive Strengths

We believe our competitive strengths include the following:

- Brand - FIS has built a global brand known for innovation and thought leadership in the financial services sector.

- Global Distribution and Scale - Our worldwide presence, array of solution offerings, customer breadth, established infrastructure and employee depth enable us to leverage our client relationships and global scale to drive revenue growth and operating efficiency. We are a global leader in the markets we serve, supported by a large, knowledgeable talent pool of employees around the world.

Extensive Domain Expertise and Extended Portfolio Depth - FIS has a significant number and wide range of high-quality software applications and service offerings that have been developed over many years with substantial input from our customers. Our broad portfolio of solutions includes a wide range of flexible service arrangements for the deployment and support of our software, from managed processing arrangements, either at the customer's site or at an FIS location, including data centers or our private cloud, to traditional license and maintenance fee approaches.

- This broad solution set allows us to bundle tailored or integrated services to compete effectively. In addition, FIS is able to use the modular nature of our software applications and our ability to integrate many of our services with the services of others to provide customized solutions that respond to individualized customer needs. We understand the needs of our customers and have developed and acquired innovative solutions that can give them a competitive advantage and reduce their operating costs. We have made significant investment in modernizing our platforms and solutions and

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moving our server compute into our private cloud located in our strategic data centers to increase our competitiveness in the global marketplace.

- Excellent and Long-Term Relationship with Customers - A significant percentage of FIS' business with our customers relates to applications and services provided under multi-year, recurring contracts. The nature of these relationships allows us to develop close partnerships with these customers, resulting in high client retention rates. As the breadth of FIS' service offerings has expanded, we have found that our access to key customer personnel is increasing, presenting greater opportunities for cross-selling and providing integrated, total solutions to our customers.

Strategy

Our mission is to deliver superior solutions and services to our clients and to expand our client base, which will result in sustained revenue and earnings growth for our shareholders. Our strategy to achieve this goal has been and continues to be built on the following pillars:

- Build, Buy, or Partner to Add Solutions to Cross-Sell Existing Clients and Win New Clients - We continue to invest in growth through internal software development, as well as through acquisitions and equity investments that complement and extend our existing solutions and capabilities, providing us with additional solutions to cross-sell existing clients and capture the interest of new clients. We also partner from time to time with other entities to provide comprehensive offerings to our prospects and customers. By investing in solution innovation and integration, we continue to expand our value proposition to our prospects and clients.

- Support Our Clients Through Innovation - Changing market dynamics, particularly in the areas of information security, regulation and innovation, are transforming the way our clients operate, which is driving incremental demand for our integrated solutions and services around our intellectual property. As prospects and customers evaluate technology, business process changes and vendor risks, our depth of services capabilities enables us to become involved earlier in their planning and design process and assist them as they manage through these changes.

- Continually Improve to Drive Margin Expansion - We strive to optimize our performance through investments in infrastructure enhancements, our workforce and other measures that are designed to drive margin expansion.

- Expand Client Relationships - The overall market we serve continues to gravitate beyond single-application purchases to multi-solution partnerships. As the market dynamics shift, we expect our clients and prospects to rely more on our multidimensional service offerings. Our leveraged solutions and processing expertise can produce meaningful value and cost savings for our clients through more efficient operating processes, improved service quality and convenience for our clients' customers.

- Build Global Diversification - We continue to deploy resources in global markets where we expect to achieve meaningful scale.

Revenues by Segment

The table below summarizes our revenues by reporting segment (in millions):

	2018	2017	2016
IFS	$4,401	$4,260	$4,178
GFS	3,718	4,050	4,183
Corporate and Other	304	358	470
Total Consolidated Revenues	$8,423	$8,668	$8,831

Integrated Financial Solutions ("IFS")

The IFS segment is focused primarily on serving North American clients for transaction and account processing, payment solutions, channel solutions, digital channels, fraud, risk management and compliance solutions, lending and wealth and retirement solutions, and corporate liquidity, capitalizing on the continuing trend to outsource these solutions. Clients in this segment include regional and community banks, credit unions and commercial lenders, as well as government institutions,

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merchants and other commercial organizations. These markets are primarily served through integrated solutions and characterized by multi-year processing contracts that generate highly recurring revenue. The predictable nature of cash flows generated from this segment provides opportunities for further investments in innovation, integration, information and security, and compliance in a cost effective manner.

Our solutions in this segment include the following:

- Core Processing and Ancillary Applications. Our core processing software applications are designed to run banking processes for our financial institution clients, including deposit and lending systems, customer management, and other central management systems, serving as the system of record for processed activity. Our diverse selection of market-focused core systems enables FIS to compete effectively in a wide range of markets. We continue to invest in our core modernization efforts to further differentiate our offerings for the long-term. We also offer a number of services that are ancillary to the primary applications listed above, including branch automation, back-office support systems and compliance support.

- Digital Solutions, Including Internet, Mobile and eBanking. Our comprehensive suite of retail delivery applications enables financial institutions to integrate and streamline customer-facing operations and back-office processes, thereby improving customer interaction across all channels (e.g., branch offices, Internet, ATM, Mobile, call centers). FIS' focus on consumer access has driven significant market innovation in this area, with multi-channel and multi-host solutions and a strategy that provides tight integration of services and a seamless customer experience. We are now adding functionality and offering Digital One, an integrated digital banking platform, to our community bank clients to provide a consistent, omnichannel experience for consumers of banking services across self-service channels like mobile banking and online banking, as well as supporting channels for bank staff operating in bank branches and contact centers. The uniform customer experience will extend to support a broad range of financial services including opening new accounts; servicing of existing accounts; providing money movement services; personal financial management; as well as a broad range of other consumer, small business and commercial banking capabilities. Digital One will be integrated into and will extend the core banking platforms offered by FIS and will also be offered to customers of non-FIS core banking systems.

- Fraud, Risk Management and Compliance Solutions. Our decision solutions offer a spectrum of options that cover the account lifecycle from helping to identify qualified account applicants to managing existing customer accounts and fraud. Our applications include know-your-customer, new account decisioning and opening, account and transaction management, fraud management and collections. Our risk management services use our proprietary risk management models and data sources to assist in detecting fraud and assessing the risk of opening a new account. Our systems use a combination of advanced authentication procedures, predictive analytics, artificial intelligence modeling and proprietary and shared databases to assess and detect fraud risk for deposit transactions for financial institutions.

- Electronic Funds Transfer and Network Services. Our electronic funds transfer and debit card processing businesses offer settlement and card management solutions for financial institution card issuers. We provide traditional ATM-based debit network access through NYCE and emerging real-time payment alternatives. NYCE connects millions of cards and point-of-sale locations nationwide, providing consumers with secure, real-time access to their money. Also through NYCE, clients such as financial institutions, retailers and independent ATM operators can capitalize on the efficiency, consumer convenience and security of electronic real-time payments, real-time account-to-account transfers, and strategic alliances such as surcharge-free ATM network arrangements.

- Card and Retail Payment Solutions. Approximately 5,500 financial institutions use a combination of our technology and/or services to issue VISA®, MasterCard® or American Express® branded credit and debit cards or other electronic payment cards for use by both consumer and business accounts. Card transactions continue to increase as a percentage of total point-of-sale payments, which fuels continuing demand for card-related services. We offer Europay, MasterCard and VISA ("EMV") integrated circuit cards, often referred to as smart cards or chip cards, as well as a variety of stored-value card types and loyalty/reward programs. Our integrated services range from card production and activation to processing to an extensive range of fraud management services and value-added loyalty programs designed to increase card usage and fee-based revenues for financial institutions and merchants. The majority of our programs are full service, including most of the operations and support necessary for an issuer to operate a credit card program. We do not make credit decisions for our card issuing clients. We are also a leading provider of prepaid card services, which include gift cards and reloadable cards, with end-to-end solutions for development, processing and administration of stored-value programs. Our closed loop gift card solutions and loyalty programs provide merchants compelling solutions to drive consumer loyalty. In addition, our merchant processing service provides a merchant or

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financial institution a comprehensive solution to manage its merchant card activities, including point-of-sale equipment, transaction authorization, draft capture, settlement, charge-back processing and reporting.

- Corporate Liquidity. Our corporate liquidity solutions help chief financial officers and treasurers manage working capital by increasing visibility to cash, reducing risk and improving communication and response time between a company's buyers, suppliers, banks and other stakeholders. Our end-to-end collaborative financial management framework helps bring together receivables, treasury and payments for a single view of cash and risk, which helps our clients optimize business processes for enhanced liquidity management.

- Wealth and Retirement. We provide wealth and retirement solutions that help banks, trust companies, brokerage firms, insurance firms, retirement plan professionals, benefit administrators and independent advisors acquire, service and grow their client relationships. We provide solutions for client acquisition, transaction management, trust accounting and recordkeeping that can be deployed stand-alone or as part of an integrated wealth or retirement platform, or on an outsourced basis.

- Item Processing and Output Services. Our item processing services furnish financial institutions with the technology needed to capture data from checks, transaction tickets and other items; image and sort items; process exceptions through keying; and perform balancing, archiving and the production of statements. Our item processing services are performed at one of our multiple item processing centers located throughout the U.S. or on-site at client locations. Our extensive solutions include distributed (i.e., non-centralized) data capture, mobile deposit capture, check and remittance processing, fraud detection, and document and report management. Clients encompass banks and corporations of all sizes, from de novo banks to the largest financial institutions and corporations. We offer a number of output services that are ancillary to the primary solutions we provide, including print and mail capabilities, document composition software and solutions, and card personalization fulfillment services. Our print and mail services offer complete computer output solutions for the creation, management and delivery of print and fulfillment needs. We provide our card personalization fulfillment services for branded credit cards and branded and non-branded debit and prepaid cards.

- Government Payments Solutions. We provide comprehensive, customized electronic service applications for government agencies, including Internal Revenue Service ("IRS") payment services and government food stamp and nutrition programs known as Supplemental Nutrition Assistance Program ("SNAP") and Women, Infants and Children ("WIC"). We also facilitate the collection of state income taxes, real estate taxes, utility bills, vehicle registration fees, driver's license renewal fees, parking tickets, traffic citations, tuition payments, court fees and fines, hunting and fishing license fees, as well as various business licenses.

- ePayment Solutions. We provide reliable and scalable bill publishing and bill consolidation technology for our clients, generating and facilitating the payment of millions of monthly bills, servicing both billers and financial institution clients. Online bill payment functionality includes credit and debit card-based expedited payments. Our end-to-end presentment and payment solution provides an all-in-one solution to meet billers' needs for the distribution and collection of bills and other customer documents. FIS also provides Automated Clearing House ("ACH") processing.

Global Financial Solutions ("GFS")

The GFS segment is focused on serving the largest global financial institutions and/or international financial institutions with a broad array of capital markets (including asset managers, buy- and sell-side securities and trading firms), asset management and insurance solutions, as well as banking and payments solutions.

GFS clients include the largest global financial institutions, including those headquartered in the United States, as well as international financial institutions we serve as clients in more than 130 countries around the world, and asset managers, buy- and sell-side securities and trading firms, insurers and private equity firms. These institutions face unique business and regulatory challenges and account for the majority of financial institution information technology spend globally. The purchasing patterns of GFS clients vary from those of IFS clients who typically purchase solutions on an outsourced basis. GFS clients purchase our solutions and services in various ways including licensing and managing technology "in-house," using consulting and third-party service providers as well as fully outsourced end-to-end solutions. We have long-established relationships with many of these financial institutions that generate significant recurring revenue. This segment included the Company's consolidated Brazilian Venture until the joint venture with Banco Bradesco was unwound and the assets we continue to own were spun-off to a new wholly-owned FIS subsidiary on December 31, 2018 (see Note 16 of the Notes to Consolidated Financial Statements).

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Our solutions in this segment include the following:

- Securities Processing and Finance. Our offerings help financial institutions to increase the efficiency, transparency and control of their back-office trading operations, post-trade processing and settlement including derivative solutions, risk management, securities lending, syndicated lending, tax processing, and regulatory compliance. The breadth of our offerings also facilitates advanced business intelligence and market data distribution based on our extensive market data access.

- Global Trading. Our trading solutions provide trade execution, data and network solutions to financial institutions, corporations and municipalities in North America, Europe and other global markets across a variety of asset classes. Our trade execution and network solutions help both buy- and sell-side firms improve execution quality, decrease overall execution costs and address today's trade connectivity challenges.

- Asset Management and Insurance. We offer solutions that help institutional investors, insurance companies, hedge funds, private equity firms, fund administrators and securities transfer agents improve both investment decision-making and operational efficiency, while managing risk and increasing transparency. Our asset management solutions support every stage of the investment process, from research and portfolio management, to valuation, risk management, compliance, investment accounting, transfer agency and client reporting. Our insurance solutions help support front-office and back-office functions including actuarial risk calculations, policy administration and financial and investment accounting and reporting for a variety of insurance lines, including life and health, annuities and pensions, property and casualty, reinsurance, and asset management.

- Retail Banking and Payments Services. Our GFS operations leverage existing applications and provide services for the specific business needs of our customers in targeted global markets. Services are delivered from our operation centers around the world. Our banking solution services include fully outsourced core bank processing arrangements including an integrated digital banking platform, application management, software licensing and maintenance and facilities management. Our payment solution services include fully outsourced card-issuer services and customer support, payment processing (including real-time payments) and switching services, prepaid and debit card processing, software licensing and maintenance, outsourced ATM management and retail point-of-sale payment services.

- Strategic Consulting Services. We completed the sale of a majority stake in Capco, which comprised our Strategic Consulting Services, on July 31, 2017 (see Note 16 of the Notes to Consolidated Financial Statements).

Corporate and Other Segment

The Corporate and Other segment consists of corporate overhead expense, certain leveraged functions and miscellaneous expenses that are not included in the operating segments, as well as certain non-strategic businesses. The overhead and leveraged costs relate to marketing, corporate finance and accounting, human resources, legal, and amortization of acquisition-related intangibles and other costs that are not considered when management evaluates revenue generating segment performance, such as acquisition integration and other costs. At the end of 2018, the only business unit remaining in this segment is our Global Commercial Services business described below:

- Global Commercial Services. Our global commercial services include solutions, both onshore and offshore, designed to meet the technology challenges facing clients, large or small, including financial institutions and non-financial institutions. These solutions range in scope from operations support for a single application to full management of information technology infrastructures. We also provide outsourcing teams to manage costs, improve operational efficiency and transform our clients' back-office and customer service processes.

The non-strategic business solutions in this segment have been divested as described below:

- Retail Check Processing. Effective August 31, 2018, FIS sold substantially all the assets of the Certegy Check Services business unit in North America (see Note 5 of the Notes to Consolidated Financial Statements).

- Public Sector and Education. We completed the sale of our Public Sector and Education business to portfolio companies of Vista Equity Partners on February 1, 2017 (see Note 16 of the Notes to Consolidated Financial Statements).

Sales and Marketing

We have experienced sales personnel with expertise in particular services and markets, as well as in the needs of particular types of customers. We believe that focusing our expertise in specific markets (e.g., global financial institutions, North American financial institutions) and tailoring integrated solution sets of particular value to participants in those markets enables us to leverage opportunities to cross-sell and up-sell. We continue to realign our sales teams to better match our solution expertise with the market opportunity and customer demand. We target the majority of our potential customers via direct and/or indirect field sales, as well as inbound and outbound lead generation and telesales efforts.

Our global marketing strategy is to develop and lead the execution of the IFS and GFS strategic marketing plans in support of their revenue and profitability goals and the FIS brand. Key components include thought leadership, integrated programs with consistent message development, internal and external communications, client conference content management, web content creation and management, trade shows, demand generation campaigns and collateral development and management.

Patents, Copyrights, Trademarks and Other Intellectual Property

The Company owns intellectual property, including trademarks, trade names, copyrights and patents, which we believe is important to our future success. Although we acquired the trademarks and trade names used by SunGard through the acquisition by FIS and certain of its wholly owned subsidiaries of SunGard and SunGard Capital Corp. II (collectively, "SunGard") on November 30, 2015 (the "SunGard acquisition"), we note that following the split-off of the Availability Services ("AS") business by SunGard in 2014, AS has the right to use the Sungard Availability Services name, which does not include the right to use the SunGard name or its derivatives.

We rely on a combination of contractual restrictions, internal security practices, patents, copyrights and applicable law to establish and protect our software, technology and expertise worldwide. We rely on trademark law to protect our rights in our brands. We intend to continue taking appropriate measures to protect our intellectual property rights, including by legal action when necessary and appropriate. In general, we own the proprietary rights necessary for the conduct of our business, although we do license certain items from third parties under arms-length agreements for varying terms, including some "open source" licenses.

Competition

The markets for our solutions and services are intensely competitive. Depending on the business line, in both our IFS and GFS segments, our primary competitors include internal technology departments within financial institutions, retailers, data processing or software development departments of large companies or large computer manufacturers, companies that deliver software and integrated services to the financial services industry, third-party payment processors, securities exchanges, asset managers, card associations, clearing networks or associations, trust companies, independent computer services firms, companies that develop and deploy software applications, companies owned by global banks selling new competitive solutions, companies that provide customized development, implementation and support services, disruptive technology innovators, and business process outsourcing companies. Many of these companies compete with us across multiple solutions, markets and geographies. Some of these competitors possess greater financial, sales and marketing resources than we do. Competitive factors impacting the success of our services across our segments include the quality of the technology-based application or service, application features and functions, ease of delivery and integration, the ability to maintain, enhance and support the applications or services, price and overall relationship management. We believe we compete favorably in each of these categories. In addition, we believe our financial services industry expertise, combined with our ability to offer multiple applications, services and integrated solutions to individual clients, enhances our competitiveness against companies with more limited offerings.

Research and Development

Our research and development activities have related primarily to the modernization of our proprietary core systems, design and development of next generation digital and innovative solutions and development of processing systems and related software applications and risk management platforms. We expect to continue our practice of investing an appropriate level of resources to maintain, enhance and extend the functionality of our proprietary systems and existing software applications, to develop new and innovative software applications and systems to address emerging technology trends in response to the needs of our clients and to enhance the capabilities of our outsourcing infrastructure. In addition, we intend to offer services compatible with new and emerging delivery channels.

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As part of our research and development process, we evaluate current and emerging technology for compatibility with our existing and future software platforms. To this end, we engage with various hardware and software vendors in evaluation of various infrastructure components. Where appropriate, we use third-party technology components in the development of our software applications and service offerings. In the case of nearly all of our third-party software, enterprise license agreements exist for the third-party component and either alternative suppliers exist or transfer rights exist to ensure the continuity of supply. As a result, we are not materially dependent upon any third-party technology components. Third-party software may be used for highly specialized business functions, which we may not be able to develop internally within time and budget constraints. Additionally, third-party software may be used for commodity-type functions within a technology platform environment. We work with our clients to determine the appropriate timing and approach to introducing technology or infrastructure changes to our applications and services. During the years ended December 31, 2018, 2017 and 2016 approximately 3% to 4% of revenues were non-capitalizable research and development expense.

Government Regulation

Our services are subject to a broad range of complex federal, state, and foreign regulation and requirements, as well as requirements under the rules of self-regulatory organizations, including federal truth-in-lending and truth-in-savings rules, Regulation AA (Unfair or Deceptive Acts or Practices), data protection and privacy laws, usury laws, laws governing state trust charters, the Equal Credit Opportunity Act, the Electronic Funds Transfer Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Bank Secrecy Act, the USA Patriot Act, the Internal Revenue Code, the Employee Retirement Income Security Act, the Health Insurance Portability and Accountability Act, the Community Reinvestment Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), the Securities Exchange Act of 1934 (the "1934 Act"), the Investment Advisors Act of 1940 (the "1940 Act"), anti-corruption laws including the U.S. Foreign Corrupt Practices Act and U.K. Bribery Act, the rules and regulations of the Financial Industry Regulatory Authority ("FINRA"), the Securities and Exchange Commission ("SEC") and the Financial Conduct Authority in the U.K. ("FCA"). The compliance of our services and applications with these and other applicable laws and regulations depends on a variety of factors, including the manner in which our clients use them. In some cases, we are directly subject to regulatory oversight and examination. In other cases, our clients are contractually responsible for determining what is required of them under applicable laws and regulations and utilize our products and services to achieve compliance with those laws and regulations. In either case, the failure of our services to comply with applicable laws and regulations may result in restrictions on our ability to provide those services and/or the imposition of civil fines and/or criminal penalties. The principal areas of regulation impacting our business are the following:

- Oversight by Banking Regulators. As a provider of electronic data processing and back-office services to financial institutions, FIS is subject to regulatory oversight and examination by the Federal Banking Agencies ("FBA"), including the Federal Deposit Insurance Corporation ("FDIC"), the Office of the Comptroller of the Currency ("OCC"), the Board of Governors of the Federal Reserve System ("FRB"), the National Credit Union Administration ("NCUA") and the Consumer Financial Protection Bureau ("CFPB") as part of the Multi-Regional Data Processing Servicer Program ("MDPS"). The MDPS program includes technology suppliers that provide mission critical applications for a large number of financial institutions that are regulated by multiple regulatory agencies. Periodic information technology examination assessments are performed using FBA Interagency guidelines to identify potential risks that could adversely affect serviced financial institutions, determine compliance with applicable laws and regulations that affect the services provided to financial institutions and ensure the services we provide to financial institutions do not create systemic risk to the banking system or impact the safe and sound operation of the financial institutions we process. In addition, independent auditors annually review several of our operations to provide reports on internal controls for our clients' auditors and regulators. We are also subject to review and examination by state and international regulatory authorities under state and foreign laws and rules that regulate many of the same activities that are described above, including electronic data processing, payments and back-office services for financial institutions and the use of consumer information.

Our U.S.-based wealth and retirement businesses held charters in 2018 in the states of Georgia and Delaware, which made us subject to the regulatory compliance requirements of the Georgia Department of Banking and Finance and the State of Delaware Office of the State Bank Commissioner. As a result, we are also authorized to provide trust services in various additional states subject to additional applicable state regulations. We divested Reliance Trust Company of Delaware effective December 31, 2018, which was our only charter in Delaware.

- Oversight by Securities Regulators. Our subsidiary that conducts our broker-dealer business in the U.S. is registered as a broker-dealer with the SEC, is a member of FINRA, and is registered as a broker-dealer in numerous states. Our broker-dealer is subject to regulation and oversight by the SEC. In addition, FINRA, a self-regulatory organization

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that is subject to oversight by the SEC, adopts and enforces rules governing the conduct, and examines the activities, of its member firms, including our broker-dealer. State securities regulators, the Municipal Securities Rulemaking Board, and various exchanges, including the New York Stock Exchange, also have regulatory or oversight authority over our broker-dealer. Broker-dealers are subject to regulations that cover all aspects of the securities business, including sales methods, trade practices among broker-dealers, public and private securities offerings, use and safekeeping of customers' funds and securities, capital structure, record keeping, the financing of customers' purchases and the conduct and qualifications of directors, officers and employees. In particular, as a registered broker-dealer and member of a self-regulatory organization, we are subject to the SEC's uniform net capital rule, Rule 15c3-1. Rule 15c3-1 specifies the minimum level of net capital a broker-dealer must maintain and also requires that a significant part of a broker-dealer's assets be kept in relatively liquid form. The SEC and various self-regulatory organizations impose rules that require notification when net capital falls below certain predefined criteria, limit the ratio of subordinated debt to equity in the regulatory capital composition of a broker-dealer and constrain the ability of a broker-dealer to expand its business under certain circumstances. Additionally, the SEC's uniform net capital rule imposes certain requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital and requiring prior notice to the SEC for certain withdrawals of capital.

Our subsidiaries also include an SEC-registered transfer agent. Our registered transfer agent is subject to the 1934 Act and the rules and regulations promulgated thereunder. These laws and regulations generally grant the SEC and other supervisory bodies broad administrative powers to address non-compliance with regulatory requirements. Sanctions that may be imposed for non-compliance with these requirements include the suspension of individual employees, limitations on engaging in certain activities for specified periods of time or for specified types of clients, the revocation of registrations, other censures and significant fines.

Subsidiaries engaged in activities outside the U.S. are regulated by various government agencies in the particular jurisdiction where they are chartered, incorporated and/or conduct their business activity. For example, pursuant to the U.K. Financial Services and Markets Act 2000 ("FSMA"), certain of our subsidiaries are subject to regulations promulgated and administered by the FCA. The FSMA and rules promulgated thereunder govern all aspects of the U.K. investment business, including sales, research and trading practices, provision of investment advice, use and safekeeping of client funds and securities, regulatory capital, record keeping, margin practices and procedures, approval standards for individuals, anti-money laundering, periodic reporting and settlement procedures.

- Privacy and Data Protection. The Company is subject to an increasing number of privacy and data protection laws, regulations and directives globally (referred to collectively as "Privacy Laws"), many of which place restrictions on the Company's ability to efficiently transfer, access and use personal data across its business. The legislative and regulatory landscape for privacy and data protection continues to evolve.

Our financial institution clients operating in the United States are required to comply with privacy regulations imposed under the Gramm-Leach-Bliley Act (referred to as "GLBA") and numerous similar state laws. GLBA and those state laws place restrictions on the use of non-public personal information. All financial institutions must disclose detailed privacy policies to their customers and offer them the opportunity to direct the financial institution not to share information with third parties. The regulations under GLBA, however, permit financial institutions to share information with non-affiliated parties who perform services for the financial institutions. As a provider of services to financial institutions, we are required to comply with the privacy laws and are bound by the same limitations on disclosure of the information received from our clients as apply to the financial institutions themselves. A determination that there have been violations of privacy laws could expose us to significant damage awards, fines and other penalties that could, individually or in the aggregate, materially harm our business and reputation.

In July 2016, the European Commission formally approved and adopted the EU-US Privacy Shield, providing a compliance framework for organizations to transfer personal data regarding citizens of the European Union (the "EU") to the U.S. While we have certified certain lines of business under the Privacy Shield, we have chosen to adopt EU model clauses published by the European Commission as the primary basis for the export of data from the EU to the U.S.

New and proposed data protection legislation and regulations also significantly affect our business. The General Data Protection Regulation ("GDPR"), which became effective on May 25, 2018 imposes a strict data compliance regime and extends the scope of the EU data protection law to all foreign companies processing data of EU residents. We have amended thousands of client and vendor contracts and put into place a thorough compliance program to comply with this new comprehensive privacy law. Although the GDPR applies across the EU without a need for local

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implementing legislation, as has been the case under the current data protection regime, local data protection authorities ("DPAs") will still have the ability to interpret the GDPR, which has the potential to create inconsistencies on a country-by-country basis. The Company will also be subject to the California Consumer Privacy Act ("CCPA"), which comes into effect on January 1, 2020 and provides California residents additional data protection rights including the right to be informed about the personal information collected by third parties and the use of that personal data. Further, certain operations of the Company will be subject to the Brazil General Personal Data Protection Act, which is also scheduled to become effective in 2020. The Company has adopted a comprehensive global privacy program to assess and manage these evolving risks.

Money Transfer. Elements of our cash access and money transmission businesses are registered as a Money Services Business and are subject to the USA Patriot Act and reporting requirements of the Bank Secrecy Act and U.S. Treasury Regulations. These businesses may also be subject to certain state, local and licensing requirements. The Financial Crimes Enforcement Network, state attorneys general, and other agencies have enforcement responsibility over laws relating to money laundering, currency transmission, and licensing. In applicable states, we have obtained money transmitter licenses. However, changes to state money transmission laws and regulations, including changing interpretations and the implementation of new or varying regulatory requirements, may result in the need for additional money transmitter licenses or for the requirement that we change the way in which we deliver certain services.

We are also subject to certain economic and trade sanctions programs that are administered by the U.S. Treasury's Office of Foreign Assets Control (referred to as "OFAC"), which prohibit or restrict transactions to or from or dealings with specified countries, their governments, and in certain circumstances, their nationals, and with individuals and entities that are specially-designated nationals of those countries, narcotics traffickers, and terrorists or terrorist organizations. Similar anti-money laundering laws apply to movements of currency and payments through electronic transactions and to dealings with persons specified in lists maintained by the country equivalents to OFAC in several other countries. We have implemented policies, procedures, and internal controls that are designed to comply with the regulations and economic sanctions programs administered by OFAC. Outside the U.S., applicable laws, rules and regulations similarly require designated types of financial institutions to implement anti-money laundering programs. We have implemented policies, procedures and internal controls that are designed to comply with all applicable anti-money laundering laws and regulations.

Consumer Reporting and Protection. Our decision solutions subsidiary (ChexSystems) maintains a database of consumer information used to provide various account opening services including credit scoring analysis and is subject to the Federal Fair Credit Reporting Act ("FCRA") and similar state laws. The FCRA regulates consumer reporting agencies ("CRAs"), including ChexSystems, and governs the accuracy, fairness, and privacy of information in the files of CRAs that engage in the practice of assembling or evaluating certain information relating to consumers for certain specified purposes. CRAs are required to follow reasonable procedures to assure maximum possible accuracy of information concerning the individual about whom the report relates and if a consumer disputes the accuracy of any information in the consumer's file, to conduct a reasonable investigation within statutory timelines. The FCRA imposes many other requirements on CRAs and users of consumer report information. Regulatory enforcement of the FCRA is under the purview of the United States Federal Trade Commission ("FTC"), the CFPB, and state attorneys general, acting alone or in concert with one another. In furtherance of our objectives of data accuracy, fair treatment of consumers, protection of consumers' personal information, and compliance with these laws, we strive to, and have made considerable investment to, maintain a high level of security for our computer systems in which consumer data resides, and we maintain consumer relations call centers to facilitate efficient handling of consumer requests for information and handling disputes. We also are focused on ensuring our operating environments safeguard and protect consumer's personal information in compliance with these laws.

Our consumer reporting and facing businesses are subject to CFPB Bulletin 2013-7 (an update to the former Regulation A - Unfair Deceptive Acts or Practices), which states the definition of Unfair, Deceptive or Abusive Acts or Practices ("UDAAP"). This specific bulletin states that UDAAPs can cause significant financial injury to consumers, erode consumer confidence, and undermine fair competition in the financial marketplace. Original creditors and other covered persons and service providers under the Dodd-Frank Act involved in collecting debt related to any consumer financial product or service are subject to the prohibition against UDAAPs in the Dodd-Frank Act.

- Debt Collection. Our collection services are subject to the Federal Fair Debt Collection Practices Act and various state collection laws and licensing requirements. The FTC, as well as state attorneys general and other agencies, have enforcement responsibility over the collection laws, as well as the various credit reporting laws.

- Anti-Corruption. FIS is subject to applicable anti-corruption laws, such as the U.S. Foreign Corrupt Practices Act and the U.K. Bribery Act, in the jurisdictions in which it operates. Anti-corruption laws generally prohibit offering, promising, giving, or authorizing others to give anything of value, either directly or indirectly, to a government official or private party in order to influence official action or otherwise gain an unfair business advantage, such as to obtain or retain business. FIS has implemented policies, procedures, and internal controls that are designed to comply with such laws, rules and regulations.

The foregoing list of laws and regulations to which our Company is subject is not exhaustive, and the regulatory framework governing our operations changes continuously. Enactment of new laws and regulations may increasingly affect the operations of our business, directly and indirectly, which could result in substantial regulatory compliance costs, litigation expense, adverse publicity, and/or loss of revenue.

Information Security

Globally, attacks on information technology systems continue to grow in frequency, complexity and sophistication. This is a trend we expect to continue. Such attacks have become a point of focus for individuals, businesses and governmental entities. The objectives of these attacks include, among other things, gaining unauthorized access to systems to facilitate financial fraud, disrupt operations, cause denial of service events, corrupt data, and steal non-public information. These circumstances present both a threat and an opportunity for FIS. As part of our business, we electronically receive, process, store and transmit a wide range of confidential information, including sensitive customer information and personal consumer data. We also operate payment, cash access and prepaid card systems.

FIS remains focused on making strategic investments in information security to protect our clients and our information systems. This includes both capital expenditures and operating expenses on hardware, software, personnel and consulting services. We also participate in industry and governmental initiatives to improve information security for our clients. Through the expertise we have gained with this ongoing focus and involvement, we have developed fraud, security, risk management and compliance solutions to target this growth opportunity in the financial services industry.

For more information on Information Security, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

Employees

As of December 31, 2018, we had more than 47,000 employees, including approximately 29,000 employees principally employed outside of the U.S. None of our U.S. workforce currently is unionized. Approximately 6,000 of our employees, primarily in Brazil, Germany, Tunisia, France, Italy, Mexico and Chile, are represented by labor unions or works councils. We consider our relations with our employees to be good.

Available Information

Our internet website address is www.fisglobal.com. We make our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, and Current Reports on Form 8-K, and any amendments to those reports, available, free of charge, on that website as soon as reasonably practicable after we file or furnish them to the Securities and Exchange Commission. Our Corporate Governance Policy and Code of Business Conduct and Ethics are also available on our website and are available in print, free of charge, to any shareholder who mails a request to the Corporate Secretary, Fidelity National Information Services, Inc., 601 Riverside Avenue, Jacksonville, FL 32204 USA. Other corporate governance-related documents can be found at our website as well. However, the information found on our website is not a part of this or any other report.

Item 1A. Risk Factors

In addition to the normal risks of business, we are subject to significant risks and uncertainties, including those listed below and others described elsewhere in this Annual Report on Form 10-K. Any of the risks described herein could result in a significant adverse effect on our results of operations and financial condition.

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Risks Related to Our Business and Operations

Security breaches or attacks, or our failure to comply with information security laws or regulations or industry security requirements, could harm our business by disrupting our delivery of services and damaging our reputation and could result in a breach of one or more client contracts.

We electronically receive, process, store and transmit sensitive business information of our clients. In addition, we collect personal consumer data, such as names and addresses, social security numbers, driver's license numbers, cardholder data and payment history records. Such information is necessary to support our clients' transaction processing and to conduct our check authorization and collection businesses. The uninterrupted operation of our information systems, as well as the confidentiality of the customer/consumer information that resides on such systems, is critical to our successful operation. For that reason, cybersecurity is one of the principal operational risks we face as a provider of services to financial institutions. If we fail to maintain an adequate security infrastructure, adapt to emerging security threats, or implement sufficient security standards and technology to protect against security breaches, the confidentiality of the information we secure could be compromised. Unauthorized access to our computer systems or databases could result in the theft or publication of confidential information, the deletion or modification of records, damages from legal actions from clients and/or their customers, or otherwise cause interruptions in our operations and damage to our reputation. These risks are greater with increased information transmission over the Internet and the increasing level of sophistication posed by cyber criminals.

As a provider of services to financial institutions and a provider of card processing services, we are bound by the same limitations on disclosure of the information we receive from our clients as apply to the clients themselves. If we fail to comply with these regulations and industry security requirements, we could be exposed to damages from legal actions from clients and/or their customers, governmental proceedings, governmental notice requirements, and the imposition of fines or prohibitions on card processing services. In addition, if more restrictive privacy laws, rules or industry security requirements are adopted in the future on the Federal or State level, or by a specific industry body, they could have an adverse impact on us through increased costs or restrictions on business processes. Any inability to prevent security or privacy breaches, or the perception that such breaches may occur, could cause our existing clients to lose confidence in our systems and terminate their agreements with us, inhibit our ability to attract new clients, result in increasing regulation, or bring about other adverse consequences from the government agencies that regulate our business.

Entity mergers or consolidations and business failures in the banking and financial services industry could adversely affect our business by eliminating some of our existing and potential clients and making us more dependent on a more limited number of clients.

There has been and continues to be substantial consolidation activity in the banking and financial services industry. In addition, certain financial institutions that experienced negative operating results, including some of our clients, have failed. These consolidations and failures reduce our number of potential clients and may reduce our number of existing clients, which could adversely affect our revenues, even if the events do not reduce the aggregate activities of the consolidated entities. Further, if our clients fail and/or merge with or are acquired by other entities that are not our clients, or that use fewer of our services, they may discontinue or reduce use of our services. It is also possible that larger financial institutions resulting from consolidations would have greater leverage in negotiating terms or could decide to perform in-house some or all of the services we currently provide or could provide. Any of these developments could have an adverse effect on our business, results of operations and financial condition.

If we fail to innovate or adapt our services to changes in technology or in the marketplace, or if our ongoing efforts to upgrade our technology are not successful, we could lose clients or our clients could lose customers and we could have difficulty attracting new clients for our services.

The markets for our services are characterized by constant technological changes, frequent introductions of new services and evolving industry standards. Our future success will be significantly affected by our ability to enhance our current solutions and develop and introduce new solutions and services that address the increasingly sophisticated needs of our clients and their customers. In addition, as more of our revenue and market demand shifts to software as a service ("SaaS"), business process as a service ("BPaaS"), cloud, and new disruptive technologies, the need to keep pace with rapid technology changes becomes more acute. These initiatives carry the risks associated with any new solution development effort, including cost overruns, delays in delivery, and performance issues. There can be no assurance that we will be successful in developing, marketing and selling new solutions or enhancements that meet these changing demands, that we will not experience difficulties that could delay or prevent the successful development, introduction, and marketing of these solutions or enhancements, or that our new solutions and enhancements will adequately meet the demands of the marketplace and achieve market acceptance. Any of these developments could have an adverse impact on our future revenues and/or business prospects.

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We operate in a competitive business environment and if we are unable to compete effectively our results of operations and financial condition may be adversely affected.

The market for our services is intensely competitive. Our competitors vary in size and in the scope and breadth of the solutions and services they offer. Some of our competitors have substantial resources. We face direct competition from third parties, and since many of our larger potential clients have historically developed their key applications in-house and therefore view their system requirements from a make-versus-buy perspective, we also often compete against our potential clients' in-house capacities. In addition, the markets in which we compete have recently attracted increasing competition from smaller start-ups with disruptive technologies, which are receiving increasing investments, global banks (and businesses controlled by combinations of global banks) and global internet companies that are introducing competitive products and services into the marketplace, particularly in the payments area. Emerging technologies and increased competition may also have the effect of unbundling bank solutions and result in picking off solutions we are currently providing from our legacy systems. International competitors are also now targeting and entering the U.S. market with greater force. There can be no assurance that we will be able to compete successfully against current or future competitors or that the competitive pressures we face in the markets in which we operate will not materially adversely affect our business, financial condition, and results of operations. See "Item 1. Business, Competition."

Global economic, political and other conditions, including business cycles and consumer confidence, may adversely affect our clients or trends in consumer spending, which may adversely impact the demand for our services and our revenue and profitability.

A significant portion of our revenue is derived from transaction processing fees. The global transaction processing industries depend heavily upon the overall level of consumer, business and government spending. Any change in economic factors, including a sustained deterioration in general economic conditions or consumer confidence, particularly in the United States, or increases in interest rates in key countries in which we operate may adversely affect consumer spending, including related consumer debt, further reduce check writing and change credit and debit card usage, and as a result, adversely affect our financial performance by reducing the number or average purchase amount of transactions that we service.

When there is a slowdown or downturn in the economy, a drop in stock market levels or trading volumes, or an event that disrupts the financial markets, our business and financial results, particularly with respect to our capital markets businesses, may suffer for a number of reasons. Customers may react to worsening conditions by reducing their capital expenditures in general or by specifically reducing their information technology spending. In addition, customers may curtail or discontinue trading operations, delay or cancel information technology projects, or seek to lower their costs by renegotiating vendor contracts. Moreover, competitors may respond to market conditions by lowering prices and attempting to lure away our customers to lower cost solutions. Any more protective trade policies or actions taken by the U.S. may also result in other countries reducing or making more expensive services permitted to be provided by U.S. based companies. If any of these circumstances remain in effect for an extended period of time, there could be a material adverse effect on our financial results.

Constraints within global financial markets or international regulatory requirements could constrain our financial institution clients' ability to purchase our services, impacting our future growth and profitability.

A significant number of our clients and potential clients may hold sovereign debt of economically struggling nations or be subject to international banking regulatory requirements such as Basel III (and a set of further reforms known as Basel IV scheduled to be phased in commencing in January 2022), which may require changes in their capitalization and hence the amount of their working capital available to purchase our services. These potential constraints could alter the ability of clients or potential clients to purchase our services and thus could have a significant impact on our future growth and profitability.

The sales and implementation cycles for many of our software and service offerings can be lengthy and require significant investment from both our clients and FIS. If we fail to close sales or if a client chooses not to complete an installation after expending significant time and resources to do so, our business, financial condition, and results of operations may be adversely affected.

The sales and associated deployment of many of our software or service offerings often involve significant capital commitments by our clients and/or FIS. Potential clients generally commit significant resources to an evaluation of available software and services and require us to expend substantial time, effort, and money educating them prior to sales. Further, as part of the sale or deployment of our software and services, clients may also require FIS to perform significant related services to complete a proof of concept or custom development to meet their needs. All of the aforementioned activities may require the expenditure of significant funds and management resources and, ultimately, the client may determine not to close the sale or

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complete the implementation. If we are unsuccessful in closing sales or if the client decides not to complete an implementation after we expend significant funds and management resources or we experience delays, it could have an adverse effect on our business, financial condition, and results of operations.

Our results may fluctuate from period to period because of the lengthy and unpredictable sales cycle for our software, changes in our mix of licenses and services, activity by competitors, and customer budgeting, operational requirements or renewal cycles.

Particularly with respect to our GFS segment, our operating results may fluctuate from period to period and be difficult to predict in a particular period due to the timing and magnitude of software license sales and other factors. We offer a number of our software solutions on a license basis, which means that the customer has the right to run the software on its own or a third party's hardware. We generally recognize license revenue when the license contract is signed, the software is delivered, and the term has begun. The value of the license often depends on a number of customer-specific factors, such as the number of customer locations, users or accounts. The sales cycle for a software license may be lengthy and take unexpected turns. Thus, it is difficult to predict when software sales will occur or how much revenue they will generate. Because there are few incremental costs associated with software sales, our operating results may fluctuate from quarter to quarter and year to year due to the timing and magnitude of software sales. Our results may also vary as a result of pricing pressures, increased cost of equipment, the evolving and unpredictable markets in which our solutions and services are sold, changes in accounting principles, and competitors' new solutions or services.

In addition, there are a number of other factors that could cause our sales and results of operation to fluctuate from period to period, including the following:

- customers periodically renew or upgrade their installed base of our solutions, which trigger buying cycles for current or new versions of our solutions and our revenue generally fluctuates with these refresh cycles as a result;
- the budgeting cycles and purchasing practices of customers, particularly large customers;
- changes in customer, distributor or reseller requirements or market needs;
- deferral of orders from customers in anticipation of new solutions or offerings announced by us or our competitors or otherwise anticipated by the market;
- our ability to successfully expand our business domestically and internationally; and
- insolvency or credit difficulties confronting our customers, which could adversely affect their ability to purchase or pay for our solutions.

Failure to obtain new clients or renew client contracts on favorable terms could adversely affect results of operations and financial condition.

We may face pricing pressure in obtaining and retaining our clients. Larger clients may be able to seek price reductions from us when they renew a contract, when a contract is extended, or when the client's business has significant volume changes. They may also reduce services if they decide to move services in-house. Further, our smaller and mid-size clients may also exert pricing pressure, particularly on renewal, due to pricing competition or other economic needs or pressures being experienced by the client. On some occasions, this pricing pressure results in lower revenue from a client than we had anticipated based on our previous agreement with that client. This reduction in revenue could result in an adverse effect on our business, operating results and financial condition.

Further, failure to renew client contracts on favorable terms could have an adverse effect on our business. Our contracts with clients generally run for several years and include liquidated damage provisions that provide for early termination fees. Terms are generally renegotiated prior to the end of a contract's term. If we are not successful in achieving a high rate of contract renewals on favorable terms, our results of operations and financial condition could be adversely affected.

Our business and operating results could be adversely affected if we experience business interruptions, errors or failure in connection with our or third-party information technology and communication systems and other software and hardware used in connection with our business, if we experience defects or design errors in the software solutions we offer, or more generally, if the third-party vendors we rely upon are unwilling or unable to provide the services we need to effectively operate our business.

Many of our services, including our transformation services, are based on sophisticated software and computing systems, and we may encounter delays when developing new technology solutions and services. Further, the technology solutions underlying our services have occasionally contained and may in the future contain undetected errors or defects when first introduced or when new versions are released. In addition, we may experience difficulties in installing or integrating our

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technologies on platforms used by our clients or our clients may cancel a project after we have expended significant effort and resources to complete an installation. Finally, our systems and operations could be exposed to damage or interruption from fire, natural disaster, power loss, telecommunications failure, unauthorized entry and computer viruses. Defects in our technology solutions, errors or delays in the processing of electronic transactions, or other difficulties could result in (i) interruption of business operations; (ii) delay in market acceptance; (iii) additional development and remediation costs; (iv) diversion of technical and other resources; (v) loss of clients; (vi) negative publicity; or (vii) exposure to liability claims. Any one or more of the foregoing could have an adverse effect on our business, financial condition and results of operations. Although we attempt to limit our potential liability through controls, including system redundancies, security controls, application development and testing controls, and disclaimers and limitation-of-liability provisions in our license and client agreements, we cannot be certain that these measures will always be successful in preventing disruption or limiting our liability.

Further, most of the solutions we offer are very complex software systems that are regularly updated. No matter how careful the design and development, complex software often contains errors and defects when first introduced and when major new updates or enhancements are released. If errors or defects are discovered in current or future solutions, we may not be able to correct them in a timely manner, if at all. In our development of updates and enhancements to our software solutions, we may make a major design error that makes the solution operate incorrectly or less efficiently. The failure of software to properly perform could result in the Company and its clients being subjected to losses or liability, including censures, fines, or other sanctions by the applicable regulatory authorities, and we could be liable to parties who are financially harmed by those errors. In addition, such errors could cause the Company to lose revenues, lose clients or damage its reputation.

In addition, we generally depend on a number of third parties, both in the United States and internationally, to supply elements of our systems, computers, research and market data, connectivity, communication network infrastructure, other equipment and related support and maintenance. We cannot be certain that any of these third parties will be able to continue providing these services to effectively meet our evolving needs. If our vendors, or in certain cases vendors of our customers, fail to meet their obligations, provide poor or untimely service, or we are unable to make alternative arrangements for the provision of these services, we may in turn fail to provide our services or to meet our obligations to our customers, and our business, financial condition and operating results could be materially harmed.

The Dodd-Frank Act, the CFPB and state regulatory authorities, such as the New York State Department of Financial Services, may result in business changes for certain of our businesses and clients that have or could have an adverse effect on our financial condition, revenues, results of operations, or prospects for future growth and overall business.

The Dodd-Frank Act represented a comprehensive overhaul of the regulations governing the financial services industry within the United States. The Dodd-Frank Act established the CFPB and provided the CFPB with rulemaking authority with respect to certain federal consumer protection statutes as well as examination and supervisory authority over consumer reporting agencies, including ChexSystems.

The CFPB continues to establish rules and regulations for regulating financial and non-financial institutions and providers to those institutions to ensure adequate protection of consumer privacy and to ensure consumers are not impacted by deceptive business practices. These rules and regulations govern our clients or potential clients and also govern certain of our businesses. These regulations have resulted and may further result in the need for FIS to make capital investments to modify our solutions and services to facilitate our clients' and potential clients' compliance, as well as to deploy additional processes or reporting to comply with these regulations. In the future, we may be subject to additional expense to ensure continued compliance with applicable laws and regulations and to investigate, defend and/or remedy actual or alleged violations. Further, requirements of the regulations have resulted and could further result in changes in our business practices, our clients' business practices and those of other marketplace participants that may alter the delivery of services to consumers, which have impacted or could further impact the demand for our software and services as well as alter the type or volume of transactions that we process on behalf of our clients. As a result, these requirements, or proposed or future requirements, could have an adverse impact on our financial condition, revenues, results of operations, prospects for future growth and overall business.

The New York Department of Financial Services has enacted new rules that require covered financial institutions to establish and maintain cybersecurity programs. The impact of these rules and any future rules may require FIS to be subject to additional regulation and adopt additional business practices that could require additional capital expenditures or impact our operating results. Changes to state money transmission laws and regulations, including changing interpretations and the implementation of new or varying regulatory requirements, may result in the need for additional money transmitter licenses. These changes could result in increased costs of compliance, as well as fines or penalties.

Many of our clients are subject to a regulatory environment and to industry standards that may change in a manner that reduces the types or volume of solutions or services we provide, or may reduce the type or number of transactions in which our clients engage, and therefore, reduce our revenues.

Our clients are subject to a number of government regulations and industry standards with which our services must comply. Our clients must ensure that our services and related solutions work within the extensive and evolving regulatory and industry requirements applicable to them. Federal, state, foreign or industry authorities could adopt laws, rules or regulations affecting our clients' businesses that could lead to increased operating costs and could reduce the convenience and functionality of our services, possibly resulting in reduced market acceptance. In addition, action by regulatory authorities relating to credit availability, data usage, privacy, or other related regulatory developments could have an adverse effect on our clients and, therefore, could have a material adverse effect on our financial condition, revenues, results of operations, prospects for future growth and overall business. Elimination of regulatory requirements could also adversely affect the sales of our solutions designed to help clients comply with complex regulatory environments.

Our revenues from the sale of services to members of VISA, MasterCard, American Express, Discover and other similar organizations are dependent upon our continued certification and sponsorship, and the loss or suspension of certification or sponsorship could adversely affect our business.

In order to provide our card processing services, we must be certified (including applicable sponsorship) by VISA, MasterCard, American Express, Discover and other similar organizations. These certifications are dependent upon our continued adherence to the standards of the issuing bodies and sponsoring member banks. The member financial institutions, some of which are our competitors, set the standards with which we must comply. If we fail to comply with these standards we could be fined, our certifications could be suspended, or our registration could be terminated. The suspension or termination of our certifications, or any changes in the rules and regulations governing VISA, MasterCard, American Express, Discover, or other similar organizations, could result in a reduction in revenue or increased costs of operation, which in turn could have a material adverse effect on our business.

Changes in card association and debit network fees or products could increase costs or otherwise limit our operations.

From time to time, card associations and debit networks increase the interchange fees that they charge. It is possible that competitive pressures will result in our absorption of a portion of such increases in the future, which would increase our operating costs, reduce our profit margin and adversely affect our business, financial condition, and results of operations. Furthermore, the rules and regulations of the various card associations and networks prescribe certain capital requirements. Any increase in the capital level required would further limit our use of capital for other purposes.

Interchange fees and related practices have been receiving significant legal and regulatory scrutiny worldwide. The resulting regulatory changes that could occur from proposed regulations could alter the fees charged by card associations and debit networks worldwide. Such changes could have an adverse impact on our business or financial condition due to reductions or changes in types of transactions processed on behalf of our clients.

Our securities brokerage operations are highly regulated and subject to risks that are not encountered in our other businesses.

One of our subsidiaries is an SEC registered broker-dealer in the U.S. and others are authorized by the FCA to conduct certain regulated business in the U.K. Domestic and foreign regulatory and self-regulatory organizations, such as the SEC, FINRA, and the FCA, can, among other things, fine, censure, issue cease-and-desist orders against, and suspend or expel a broker-dealer or its officers or employees for failure to comply with the many laws and regulations that govern brokerage activities. Those laws and regulations derive from a variety of policy considerations and address a wide range of topics, including those designed to protect customers of broker-dealers, and the privacy of their information, and those designed to protect the integrity of the markets, such as laws and regulations requiring broker-dealers to report suspicious activity of customers. Sanctions for failure to comply with such laws and regulations may arise out of currently-conducted activities or those conducted in prior periods. Our ability to comply with these laws and regulations is largely dependent on our establishment, maintenance, and enforcement of an effective brokerage compliance program. Failure to establish, maintain, and enforce the required brokerage compliance procedures, even if unintentional, could subject us to significant losses, lead to disciplinary or other actions, and tarnish our reputation. Regulations affecting the brokerage industry may change, which could adversely affect our financial results.

We are exposed to certain risks relating to the execution services provided by our brokerage operations to our customers and counterparties, which include other broker-dealers, active traders, hedge funds, asset managers, and other institutional and

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non-institutional clients. These risks include, but are not limited to, customers or counterparties failing to pay for or deliver securities, trading errors, the inability or failure to settle trades, and trade execution system failures. As trading in the U.S. securities markets has become more automated, the potential impact of a trading error or a rapid series of errors caused by a computer or human error, or a malicious act has become greater. In our other businesses, we generally can disclaim liability for trading losses that may be caused by our software, but in our brokerage operations, we may not be able to limit our liability for trading losses or failed trades even when we are not at fault. As a result, we may suffer losses that are disproportionately large compared to the relatively modest profit contributions of our brokerage operations.

Privacy laws and regulations, such as the GDPR, require FIS to adopt new business practices and contractual provisions in existing and new contracts which may require transitional and incremental expenses which may impact our future operating results.

New privacy laws, such as the GDPR in the EU, continue to develop in ways we cannot predict. Privacy laws may be interpreted and applied inconsistently from country to country and impose inconsistent or conflicting requirements. Complying with varying jurisdictional requirements could increase the costs and complexity of compliance and associated recordkeeping costs or require us to change our business practices in a manner adverse to our business. Violations of privacy laws can result in significant penalties and damage to our brand and business.

Implementation of the GDPR has required changes to certain of our business practices, thereby increasing our costs. We have put into place a thorough compliance program to comply with the known obligations under the GDPR and have performed data protection impact assessments for our businesses that are in scope and have executed data protection agreements with the clients and vendors of those businesses. If certain of our clients and vendors fail to recognize the importance and/or applicability of these requirements and do not respond to our request for such amendments, both parties may be subject to penalties and fines for non-compliance. Failure to comply with the requirements of the GDPR could result in significant penalties and loss of business, among other things.

New privacy laws in California and Brazil are expected to issue clarifying regulations prior to becoming effective in 2020 so we will continue to have uncertainties about what we will be expected to comply with these laws until they are issued, including the costs and efforts of compliance. There are also several additional privacy laws being considered by state legislatures, the federal legislature and countries around the world, so a more substantial compliance effort with varying regimes in different jurisdictions is considered probable in the future, which will increase the costs and complexities of our business.

If we fail to comply with applicable regulations or to meet regulatory expectations, our business, results of operations or financial condition could be adversely impacted.

The majority of our data processing services for financial institutions are not directly subject to federal or state regulations specifically applicable to financial institutions such as banks, thrifts and credit unions. However, as a provider of services to these financial institutions, our data processing operations are examined on a regular basis by various federal and state regulatory authorities and by international regulatory authorities, such as the FCA, in certain jurisdictions. If we fail to comply with any applicable regulations or guidelines for operations of a data services provider, we could be subject to regulatory actions or rating changes, may not meet contractual obligations, and may suffer harm to our client relationships or reputation. Failure to meet the aforementioned requirements or to adapt to new requirements at the federal, state or international level could inhibit our ability to retain existing clients or obtain new clients, which could have an adverse impact on our business, results of operations and financial condition.

In addition to our data processing services described above, we also have business operations that store, process or transmit consumer information or have direct relationships with consumers that are obligated to comply with regulations, including, but not limited to, the Federal Fair Credit Reporting Act, the Federal Fair Debt Collection Practices Act and applicable privacy requirements. Further, our international businesses must comply with applicable laws such as the U.S. Foreign Corrupt Practices Act. Failure to maintain compliance with or adapt to changes in any of the aforementioned requirements could result in fines, penalties or regulatory actions that could have an adverse impact on our business, results of operations and financial condition.

High profile payment card industry or digital banking security breaches could impact consumer payment behavior patterns in the future and reduce our card payment transaction volumes.

We are unable to predict whether or when high profile card payment or digital banking security breaches will occur and if they occur, whether consumers will transact less on their payment cards or reduce their digital banking service. If consumers

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transact less on cards issued by our clients or reduce digital banking services and we are not able to adapt to offer our clients alternative technologies, it could have a significant adverse impact on our revenue and related earnings.

Misappropriation of our intellectual property and proprietary rights or a finding that our patents are invalid could impair our competitive position.

Our ability to compete depends in some part upon our proprietary solutions and technology. Despite our efforts to protect our proprietary rights, unauthorized parties may attempt to copy aspects of our services or to obtain and use information that we regard as proprietary or challenge the validity of our patents with governmental authorities. Policing unauthorized use of our proprietary rights is difficult. We cannot make any assurances that the steps we have taken will prevent misappropriation of technology or that the agreements entered into for that purpose will be enforceable. Effective patent, trademark, service mark, copyright, and trade secret protection may not be available in every country in which our applications and services are made available online. Misappropriation of our intellectual property or potential litigation concerning such matters could have an adverse effect on our results of operations or financial condition.

If our applications or services are found to infringe the proprietary rights of others, we may be required to change our business practices and may also become subject to significant costs and monetary penalties.

As our information technology applications and services develop, we are increasingly subject to infringement claims. Any claims, whether with or without merit, could (i) be expensive and time-consuming to defend; (ii) result in an injunction or other equitable relief which could cause us to cease making, licensing or using applications that incorporate the challenged intellectual property; (iii) require us to redesign our applications, if feasible; (iv) divert management’s attention and resources; and (v) require us to enter into royalty or licensing agreements in order to obtain the right to use necessary technologies or pay damages resulting from any infringing use.

Some of our solutions contain "open source" software, and any failure to comply with the terms of one or more of these open source licenses could negatively affect our business.

We use a limited amount of software licensed by its authors or other third parties under so-called "open source" licenses and may continue to use such software in the future. Some of these licenses contain requirements that we make available source code for modifications or derivative works we create based upon the open source software, and that we license such modifications or derivative works under the terms of a particular open source license or other license granting third parties certain rights of further use. By the terms of certain open source licenses, we could be required to release the source code of our proprietary software if we combine our proprietary software with open source software in a certain manner. Additionally, the terms of many open source licenses have not been interpreted by United States or other courts, and there is a risk that these licenses could be construed in a manner that could impose unanticipated conditions or restrictions on our ability to commercialize our solutions. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on origin of the software. We have established processes to help alleviate these risks, including a review process for screening requests from our development organizations for the use of open source, but we cannot be sure that all open source is submitted for approval prior to use in our solutions. In addition, many of the risks associated with usage of open source cannot be eliminated, and could, if not properly addressed, negatively affect our business.

Lack of system integrity, fraudulent payments, credit quality, and undetected errors related to funds settlement or the availability of clearing services could result in a financial loss.

We settle funds on behalf of financial institutions, other businesses and consumers and receive funds from clients, card issuers, payment networks and consumers on a daily basis for a variety of transaction types. Transactions facilitated by us include debit card, credit card, electronic bill payment transactions, banking payments and check clearing that supports consumers, financial institutions and other businesses. These payment activities rely upon the technology infrastructure that facilitates the verification of activity with counterparties, the facilitation of the payment as well as the detection or prevention of fraudulent payments. If our continuity of operations, integrity of processing, or ability to detect or prevent fraudulent payments were compromised, this could result in a financial loss to us. In addition, we rely on various financial institutions to provide ACH services in support of funds settlement for certain of our solutions. If we are unable to obtain such ACH services in the future, that could have a material adverse effect on our business, financial position and results of operations. In addition, we may issue credit to consumers, financial institutions or other businesses as part of the funds settlement. A default on this credit by a counterparty could result in a financial loss to us. Furthermore, if one of our clients for which we facilitate settlement suffers a fraudulent event due to an error of their controls, we may suffer a financial loss if the client does not have sufficient capital to cover the loss.

The Referendum on the United Kingdom’s Membership in the European Union could cause disruption to and create uncertainty surrounding our business.

The referendum on the United Kingdom’s membership in the European Union (referred to as "Brexit"), approving the exit of the United Kingdom from the European Union could cause disruptions to and create uncertainty surrounding our business, including affecting our relationships with our existing and future clients, suppliers and employees, which could have an adverse effect on our business, financial results and operations. The effects of Brexit will depend on the agreements, if any, the U.K. makes with the EU to retain access to EU markets at the time Brexit takes effect (March 29, 2019, if not suspended/delayed), during a transitional period or more permanently. In addition, because the terms of trade between the U.K. and jurisdictions other than the EU may be currently governed by trade agreements between the EU and such other jurisdictions, the U.K. may be required to negotiate new terms of trade with such other jurisdictions. These potential measures could disrupt the markets we serve and the tax jurisdictions in which we operate and adversely change tax benefits or liabilities in these or other jurisdictions, and may cause us to lose clients, suppliers, and employees. In addition, Brexit could lead to legal uncertainty and potentially divergent national laws and regulations as the U.K. determines which EU laws to replace or replicate.

Actions to implement Brexit may also create global economic uncertainty, which may cause our clients to closely monitor their costs and reduce their spending on our solutions and services.

Any of these effects of Brexit, among others, could materially adversely affect our business, business opportunities, results of operations, financial condition and cash flows.

Failure to properly manage or mitigate risks in the operation of our wealth and retirement businesses in the U.S and the U.K could have adverse liability consequences.

We have wealth and retirement businesses in the U.S. and U.K. engaged in processing securities transactions on behalf of clients and serving as a custodian. Failure to properly manage or mitigate risks in those operations and increased volatility in the financial markets may increase the potential for and magnitude of resulting losses, including those that may arise from human errors or omissions, defects or interruptions in computer or communications systems or breakdowns in processes or in internal controls. Human errors or omissions may include failures to comply with applicable laws or corporate policies and procedures, theft, fraud or misappropriation of assets, whether arising from the intentional actions of internal personnel or external third parties. In addition, the U.S.-based business holds charters in the states of Georgia and Delaware which exposes us to further regulatory compliance requirements of the Georgia Department of Banking and Finance and the Office of the Commissioner of Banking in the State of Delaware. The U.S. wealth and retirement business is required to hold certain levels of regulatory capital as defined by the state banking regulators in the states in which it holds a bank or trust charter (Delaware and Georgia). In the U.K., our Platform Securities and broker-dealer businesses are regulated by the FCA and are subject to further regulatory capital requirements. One consequence of Brexit may be that the loss of the ability to “passport” regulated business from the U.K. to the EU may result in our having to add operations of the business in a country in the EU that may subject us to further regulatory requirements and costs in that country.

Our business is subject to the risks of international operations, including movements in foreign currency exchange rates.

The international operations of FIS represented approximately 26% of our total 2018 revenues and are largely conducted in currencies other than the U.S. Dollar, including the British Pound, Brazilian Real, Euro and Indian Rupee. Our business and financial results could be adversely affected due to a variety of factors, including the following:

- changes in a specific country or region's political and cultural climate or economic condition, including change in governmental regime;
- unexpected or unfavorable changes in foreign laws, regulatory requirements and related interpretations;
- difficulty of effective enforcement of contractual provisions in local jurisdictions;
- inadequate intellectual property protection in foreign countries;
- trade-protection measures, import or export licensing requirements such as Export Administration Regulations promulgated by the U.S. Department of Commerce and fines, penalties or suspension or revocation of export privileges;
- trade sanctions imposed by the U.S. or other governments with jurisdictional authority over our business operations;
- the effects of applicable and potentially adverse foreign tax law changes;
- significant adverse changes in foreign currency exchange rates;
- longer accounts receivable cycles;

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- managing a geographically dispersed workforce;
- trade treaties, tariffs or agreements that could adversely affect our ability to do business in affected countries; and
- compliance with the U.S. Foreign Corrupt Practices Act, or FCPA, and the Office of Foreign Assets Control regulations, particularly in emerging markets.

In foreign countries, particularly in those with developing economies, certain business practices may exist that are prohibited by laws and regulations applicable to us, such as the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act and other anti-corruption laws. Although our policies and procedures require compliance with these laws and are designed to facilitate compliance with these laws, our employees, contractors and agents may take actions in violation of applicable laws or our policies. Any such violation, even if prohibited by our policies, could have a material adverse effect on our business and reputation.

As we expand our international operations, more of our clients may pay us in foreign currencies. Conducting business in currencies other than U.S. Dollars subjects us to fluctuations in currency exchange rates that can negatively impact our results, period to period, including relative to analyst estimates or guidance. Our primary exposure to movements in foreign currency exchange rates relates to foreign currencies in Brazil, Europe, including the United Kingdom, and parts of Asia. The U.S. Dollar value of our net investments in foreign operations, the periodic conversion of foreign-denominated earnings to the U.S. Dollar (our reporting currency), and our results of operations and, in some cases, cash flows, could be adversely affected in a material manner by movements in foreign currency exchange rates. These risks could cause an adverse effect on the business, financial position and results of operations of the Company.

We have businesses in emerging markets that may experience significant economic volatility.

We have operations in emerging markets, primarily in Brazil, India, Southeast Asia, the Middle East and Africa. These emerging market economies tend to be more volatile than the more established markets we serve in North America and Europe, which could add volatility to our future revenues and earnings.

Failure to attract and retain skilled technical employees or senior management personnel could harm our ability to grow.

Our future success depends upon our ability to attract and retain highly-skilled technical personnel. Because the development of our solutions and services requires knowledge of computer hardware, operating system software, system management software and application software, our technical personnel must be proficient in a number of disciplines. Competition for such technical personnel is intense, and our failure to hire and retain talented personnel could have a material adverse effect on our business, operating results and financial condition.

Our future growth will also require sales and marketing, financial and administrative personnel to develop and support new solutions and services, to enhance and support current solutions and services and to expand operational and financial systems. There can be no assurance that we will be able to attract and retain the necessary personnel to accomplish our growth strategies and we may experience constraints that could adversely affect our ability to satisfy client demand in a timely fashion.

Our ability to maintain compliance with applicable laws, rules and regulations and to manage and monitor the risks facing our business relies upon the ability to maintain skilled compliance, security, risk and audit professionals. Competition for such skillsets is intense, and our failure to hire and retain talented personnel could have an adverse effect on our internal control environment and impact our operating results.

Our senior management team has significant experience in the financial services industry and the loss of this leadership could have an adverse effect on our business, operating results and financial condition. Further, the loss of this leadership may have an adverse impact on senior management's ability to provide effective oversight and strategic direction for all key functions within the Company, which could impact our future business, operating results and financial condition.

We are the subject of various legal proceedings that could have a material adverse effect on our revenue and profitability.

We are involved in various litigation matters, including in some instances class-action cases and patent infringement litigation. If we are unsuccessful in our defense of litigation matters, we may be forced to pay damages and/or change our business practices, any of which could have a material adverse effect on our business and results of operations.

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Unfavorable resolution of tax contingencies or unfavorable future tax law changes could adversely affect our tax expense.

Our tax returns and positions are subject to review and audit by federal, state, local and international taxing authorities. An unfavorable outcome to a tax audit could result in higher tax expense and could negatively impact our effective tax rate, financial position, results of operations and cash flows in the current and/or future periods. The U.S. enacted significant tax reform in 2017 and certain provisions of the new law could have an adverse impact to us. Unfavorable future tax law changes could also result in negative impacts. In addition, tax-law amendments in the United States and other jurisdictions could significantly impact how United States multinational corporations are taxed. Although we cannot predict whether or in what form such legislation will pass, if enacted it could have a material adverse effect on our business and financial results.

A material weakness in our internal controls could have a material adverse effect on us.

Effective internal controls are necessary for us to provide reasonable assurance with respect to our financial reports and to adequately mitigate risk of fraud. If we cannot provide reasonable assurance with respect to our financial reports and adequately mitigate risk of fraud, our reputation and operating results could be harmed. Internal control over financial reporting may not prevent or detect misstatements because of its inherent limitations, including the possibility of human error, the circumvention or overriding of controls, or fraud. Therefore, even effective internal controls can provide only reasonable assurance with respect to the preparation and fair presentation of financial statements. In addition, projections of any evaluation of effectiveness of internal control over financial reporting to future periods are subject to the risk that the control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the Company’s annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness in our internal control over financial reporting could adversely impact our ability to provide timely and accurate financial information. If we are unable to report financial information timely and accurately or to maintain effective disclosure controls and procedures, we could be subject to, among other things, regulatory or enforcement actions by the SEC, any one of which could adversely affect our business prospects.

Risks Related to Business Combinations and Ventures

Strategic transactions, including acquisitions and divestitures, involve significant risks and uncertainties that could adversely affect our business, financial condition, results of operations and cash flows.

Strategic acquisitions and divestitures we have made in the past and may make in the future present significant risks and uncertainties that could adversely affect our business, financial condition, results of operations and cash flows. These risks include the following:

- Difficulty in evaluating potential acquisitions, including the risk that our due diligence does not identify or fully assess valuation issues, potential liabilities or other acquisition risks;
- Difficulty and expense in integrating newly acquired businesses and operations, including combining product and service offerings, and in entering into new markets in which we are not experienced, in an efficient and cost-effective manner while maintaining adequate standards, controls and procedures, and the risk that we encounter significant unanticipated costs or other problems associated with integration;
- Difficulty and expense in consolidating and rationalizing IT infrastructure and integrating acquired software;
- Challenges in achieving strategic objectives, cost savings and other benefits expected from acquisitions;

- Risk that our markets do not evolve as anticipated and that the strategic acquisitions and divestitures do not prove to be those needed to be successful in those markets;
- Risk that acquired systems expose us to cybersecurity and other data security risks;
- Costs to reach appropriate standards to protect against cybersecurity and other data security risks or timeline to achieve such standards may exceed those estimated in diligence;
- Risk that acquired companies are subject to new regulatory regimes or oversight where we have limited experience that may result in additional compliance costs and potential regulatory penalties;
- Risk that we assume or retain, or that companies we have acquired have assumed or retained or otherwise become subject to, significant liabilities that exceed the limitations of any applicable indemnification provisions or the financial resources of any indemnifying parties;
- Risk that indemnification related to businesses divested or spun-off that we may be required to provide or otherwise bear may be significant and could negatively impact our business;

- Risk of exposure to potential liabilities arising out of applicable state and Federal fraudulent conveyance laws and legal distribution requirements from spin-offs in which we or companies we have acquired were involved;
- Risk that we may be responsible for U.S. Federal income tax liabilities related to acquisitions or divestitures;
- Risk that we are not able to complete strategic divestitures on satisfactory terms and conditions, including non-competition arrangements applicable to certain of our business lines, or within expected time frames;
- Potential loss of key employees or customers of the businesses acquired or to be divested; and
- Risk of diverting the attention of senior management from our existing operations.

The future results of our Brazilian operations may not meet our financial goals following the unwinding of the Brazilian Venture.

On December 31, 2018, we closed a transaction with Banco Bradesco to unwind the Brazilian Venture. Under this agreement, the Brazilian Venture spun-off certain assets of the business that also provide services to non-Bradesco clients to a new wholly-owned FIS subsidiary. The subsidiary entered into a long-term commercial agreement to provide current and new services to Banco Bradesco effective January 1, 2019 that include software licensing, maintenance, application management, card portfolio migration, business process outsourcing, fraud management and professional services. As a result of the transaction, Banco Bradesco owns 100% of the entity that previously housed the Brazilian Venture and its remaining assets that relate to card processing for Banco Bradesco, which Banco Bradesco will perform internally. The transaction is expected to result in an annualized reduction in FIS' reported revenue of approximately $225 million.
While FIS expects the net earnings from non-Bradesco customers and the current and new services provided to Bradesco by FIS to largely replace the net earnings lost from the unwinding of the Brazilian Venture, no assurance can be made in this regard, and FIS may fail to meet its financial goals to grow the business following the closing of the transaction. Further, it is possible that existing non-Bradesco clients may reduce the amount of services we perform for them following the unwinding of the Brazilian Venture. In addition, the costs of operating in Brazil on a stand-alone basis could be higher than we anticipate.

For further detail on our Brazilian Venture see Note 16 of the Notes to Consolidated Financial Statements.

There could be significant liability for us if all or part of the AS Split-Off were determined to be taxable for U.S. federal or state income tax purposes.

On March 31, 2014, SunGard completed the split-off of its Availability Services ("AS") business to its existing stockholders, including its private equity owners, on a tax-free and pro-rata basis (the "AS Split-Off"). At the time SunGard received opinions from outside tax counsel to the effect that the AS Split-Off should qualify for tax-free treatment as transactions described in Section 355 and related provisions of the Internal Revenue Code, as amended (the "Code"). In addition, actions taken following the AS Split-Off, including the SunGard acquisition and certain 50 percent or greater changes by vote or value of the stock ownership of the new entity conducting the AS business, may cause the AS Split-Off to be taxable to FIS. In connection with the SunGard acquisition, we and SunGard received opinions of outside tax counsel to the effect that the SunGard acquisition should not cause the AS Split-off to fail to so qualify.

Notwithstanding the receipt of tax opinions, the tax-free treatment of the AS Split-off is not free from doubt, and there is a risk that the Internal Revenue Service (the "IRS"), a state taxing authority or a court could conclude to the contrary that the separation of the AS business from SunGard may not qualify as tax-free transactions. An opinion of tax counsel is not binding on the IRS, state taxing authorities or any court and as a result there can be no assurance that a tax authority will not challenge the tax-free treatment of all or part of the AS Split-Off or that, if litigated, a court would not agree with the IRS or a state taxing authority. Further, these tax opinions rely on certain facts, assumptions, representations, warranties and covenants from SunGard, the new entity conducting the AS business and from some of SunGard’s stockholders regarding the past and future conduct of the companies’ respective businesses, share ownership and other matters. If any of the facts, assumptions, representations, warranties and covenants on which the opinions rely is inaccurate or incomplete or not satisfied, the opinions may no longer be valid. Moreover, the IRS or state taxing authority could determine on audit that the AS Split-Off is taxable if it determines that any of these facts, assumptions, representations, warranties or covenants are not correct or have been violated or if it disagrees with one or more conclusions in the opinions or for other reasons.

If the AS Split-Off is determined to be taxable, we and possibly our stockholders could incur significant income tax liabilities. These tax liabilities could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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Actions taken by Sungard Availability Services Capital, Inc. or its stockholders could cause the AS Split-Off to fail to qualify as a tax-free transaction, and Sungard Availability Services Capital, Inc. may be unable to fully indemnify SunGard for the resulting significant tax liabilities.

Pursuant to the Tax Sharing and Disaffiliation Agreement ("Tax Sharing Agreement") that SunGard entered into with Sungard Availability Services Capital, Inc. ("SpinCo"), SpinCo is required to indemnify SunGard for certain taxes relating to the AS Split-Off that result from (i) any breach of the representations or the covenants made by SpinCo regarding the preservation of the intended tax-free treatment of the AS Split-Off, (ii) any action or omission that is inconsistent with the representations, statements, warranties and covenants provided to tax counsel in connection with their delivery of tax opinions to SunGard with respect to the AS Split-Off, and (iii) any other action or omission that was likely to give rise to such taxes when taken, in each case, by SpinCo or any of its subsidiaries. Conversely, if any such taxes are the result of such a breach or certain other actions or omissions by SunGard, SunGard would be wholly responsible for such taxes. In addition, if any part of the AS Split-Off fails to qualify for the intended tax-free treatment for reasons other than those for which SunGard or SpinCo would be wholly responsible pursuant to the provisions described above, SpinCo will be obligated to indemnify SunGard for 23% of the liability for taxes imposed in respect of the AS Split-Off and SunGard would bear the remainder of such taxes. If SpinCo is required to indemnify SunGard for any of the foregoing reasons, SpinCo’s indemnification liabilities could potentially exceed its net asset value and SpinCo may be unable to fully reimburse or indemnify SunGard for its significant tax liabilities arising from the AS Split-Off as provided by the Tax Sharing Agreement.

We have substantial investments in recorded goodwill and other intangible assets as a result of prior acquisitions, and a severe or extended economic downturn could cause these investments to become impaired, requiring write-downs that would reduce our operating income.

As of December 31, 2018, goodwill aggregated to $13.5 billion, or 57.0% of total assets, and other indefinite-lived intangible assets aggregated to $43 million, or 0.2% of total assets. Current accounting rules require goodwill and other indefinite-lived intangible assets to be assessed for impairment at least annually or whenever changes in circumstances indicate potential impairment. Factors that may be considered a change in circumstance include significant underperformance relative to historical or projected future operating results, a significant decline in our stock price and market capitalization, and negative industry or economic trends. The results of our 2018 annual assessment of the recoverability of goodwill indicated that the fair values of the Company’s reporting units were in excess of the carrying values of those reporting units, and thus no goodwill impairment existed as of December 31, 2018. Likewise, the fair value of indefinite-lived intangible assets was also in excess of the carrying value of those assets as of December 31, 2018. However, if worldwide or United States economic conditions decline significantly with negative impacts to bank spending and consumer behavior, or if other business or market changes impact our outlook, the carrying amount of our goodwill and other indefinite-lived intangible assets may no longer be recoverable and we may be required to record an impairment charge, which would have a negative impact on our results of operations.

As of December 31, 2018, intangible assets with finite useful lives aggregated to $3,089 million, or 13.0% of total assets. Current accounting rules require intangible assets with finite useful lives to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Factors that may be considered a change in circumstance include significant underperformance relative to historical or projected future operating results, a significant decline in our stock price and market capitalization, and negative industry or economic trends.

We will continue to monitor the fair value of our intangible assets as well as our market capitalization and the impact of any economic downturn on our business to determine if there is an impairment in future periods.

Risks Related to our Indebtedness

Our existing debt levels and future levels under existing facilities and debt service requirements may adversely affect our financial condition or operational flexibility and prevent us from fulfilling our obligations under our outstanding indebtedness.

As of December 31, 2018, we had total debt of approximately $9.0 billion. This level of debt or any increase in our debt level could have adverse consequences for our business, financial condition, operating results and operational flexibility, including the following: (i) the debt level may cause us to have difficulty borrowing money in the future for working capital, capital expenditures, acquisitions or other purposes; (ii) our debt level may limit operational flexibility and our ability to pursue business opportunities and implement certain business strategies; (iii) some of our debt has a variable rate of interest, which exposes us to the risk of increased interest rates; (iv) we have a higher level of debt than some of our competitors or potential

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competitors, which may cause a competitive disadvantage and may reduce flexibility in responding to changing business and economic conditions, including increased competition and vulnerability to general adverse economic and industry conditions; (v) there are significant maturities on our debt that we may not be able to repay at maturity or that may be refinanced at higher rates; and (vi) if we fail to satisfy our obligations under our outstanding debt or fail to comply with the financial or other restrictive covenants contained in the indenture governing our senior notes, or our credit facility, an event of default could result that could cause all of our debt to become due and payable.

We may be adversely affected by changes in LIBOR reporting practices or the method in which LIBOR is determined.

As of December 31, 2018, we had outstanding approximately $208 million of variable debt that was indexed to the London Interbank Offered Rate ("LIBOR"). On July 27, 2017, the Financial Conduct Authority (the “FCA”) announced its intention to stop persuading or compelling banks to submit rates for calibration of LIBOR to the administrator of LIBOR after 2021. It is not possible to predict the further effect of the rules or policies of the FCA, any changes in the methods by which LIBOR is determined, or any other reforms to LIBOR that may be enacted in the United Kingdom, the European Union or elsewhere. Any such developments may cause LIBOR to perform differently than in the past, or cease to exist. In addition, any other legal or regulatory changes made by the FCA, ICE Benchmark Administration Limited, the European Money Markets Institute (formerly Euribor-EBF), the European Commission or any other successor governance or oversight body, or future changes adopted by such body, in the method by which LIBOR is determined or the transition from LIBOR to a successor benchmark rate may result in, among other things, a sudden or prolonged increase or decrease in LIBOR, a delay in the publication of LIBOR, and changes in the rules or methodologies in LIBOR, which may discourage market participants from continuing to administer or to participate in LIBOR’s determination, and, in certain situations, could result in LIBOR no longer being determined and published. If a published U.S. dollar LIBOR rate is unavailable after 2021, the interest rates on our debt which is indexed to LIBOR will be determined using various alternative methods, any of which may result in interest obligations which are more than or do not otherwise correlate over time with the payments that would have been made on such debt if U.S. dollar LIBOR was available in its current form. Further, the same costs and risks that may lead to the discontinuation or unavailability of U.S. dollar LIBOR may make one or more of the alternative methods impossible or impracticable to determine. Any of these proposals or consequences could have a material adverse effect on our financing costs.

Rising interest rates could increase our borrowing costs

Our exposure to market risk for changes in interest rates relates to our short-term commercial paper borrowings, Revolving Credit Facility and interest rate derivatives. In the future we may have additional borrowings under existing or new variable-rate debt. Increases in interest rates on variable-rate debt would increase our interest expense. A rising interest rate environment could increase the cost of refinancing existing debt and incurring new debt, which could have an adverse effect on our financing costs.

Credit Ratings, if lowered below investment grade, could adversely affect our cost of funds and liquidity

The Company maintains investment grade credit ratings from the major U.S. rating agencies on its senior unsecured debt (S&P BBB, Moody's Baa2, Fitch BBB), as well as its commercial paper program (S&P A-2, Moody's P-2, Fitch F2). Failure to maintain investment grade rating levels could adversely affect the Company’s cost of funds and liquidity and access to certain capital markets, but would not have an adverse effect on the Company’s ability to access its existing Revolving Credit Facility.

Please note that a security rating is not a recommendation to buy, sell or hold securities, that it may be subject to revision or withdrawal at any time by the assigning rating organization, and that each rating should be evaluated independently of any other rating.

Statement Regarding Forward-Looking Information

The statements contained in this Form 10-K or in our other documents or in oral presentations or other statements made by our management that are not purely historical are forward-looking statements within the meaning of the U.S. federal securities laws. Statements that are not historical facts, including statements about anticipated financial outcomes, including any earnings guidance of the Company, business and market conditions, outlook, foreign currency exchange rates, expected dividends and share repurchases, the Company’s sales pipeline and anticipated profitability and growth, as well as other statements about our expectations, beliefs, intentions, or strategies regarding the future are forward-looking statements. These statements relate to future events and our future results and involve a number of risks and uncertainties. Forward-looking statements are based on management's beliefs, as well as assumptions made by, and information currently available to, management. Any statements that refer to beliefs, expectations, projections or other characterizations of future events or circumstances and other statements that are not historical facts are forward-looking statements. In many cases, you can identify forward-looking statements by

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terminology such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “potential,” or “c negative of these terms and other comparable terminology. Actual results, performance or achievement could differ materially from those contained in these forward-looking statements. The risks and uncertainties that forward-looking statements are subject to include the following without limitation:

- the risk that acquired businesses will not be integrated successfully, or that the integration will be more costly or more time-consuming and complex than anticipated;
- the risk that cost savings and other synergies anticipated to be realized from acquisitions may not be fully realized or may take longer to realize than expected;
- the risk of doing business internationally;
- changes in general economic, business and political conditions, including the possibility of intensified international hostilities, acts of terrorism, changes in either or both the United States and international lending, capital and financial markets and currency fluctuations;
- the effect of legislative initiatives or proposals, statutory changes, governmental or other applicable regulations and/or changes in industry requirements, including privacy and cybersecurity laws and regulations;
- the risks of reduction in revenue from the elimination of existing and potential customers due to consolidation in, or new laws or regulations affecting, the banking, retail and financial services industries or due to financial failures or other setbacks suffered by firms in those industries;
- changes in the growth rates of the markets for our solutions;
- failures to adapt our solutions to changes in technology or in the marketplace;
- internal or external security breaches of our systems, including those relating to unauthorized access, theft, corruption or loss of personal information and computer viruses and other malware affecting our software or platforms, and the reactions of customers, card associations, government regulators and others to any such events;
- the risk that implementation of software (including software updates) for customers or at customer locations or employee error in monitoring our software and platforms may result in the corruption or loss of data or customer information, interruption of business operations, outages, exposure to liability claims or loss of customers;
- the reaction of current and potential customers to communications from us or regulators regarding information security, risk management, internal audit or other matters;
- competitive pressures on pricing related to the decreasing number of community banks in the U.S., the development of new disruptive technologies competing with one or more of our solutions, increasing presence of international competitors in the U.S. market and the entry into the market by global banks and global companies with respect to certain competitive solutions, each of which may have the impact of unbundling individual solutions from a comprehensive suite of solutions we provide to many of our customers;
- the failure to innovate in order to keep up with new emerging technologies, which could impact our solutions and our ability to attract new, or retain existing, customers;
- the failure to meet financial goals to grow the business in Brazil after the unwinding of the Brazilian Venture;
- the risks of reduction in revenue from the loss of existing and/or potential customers in Brazil after the unwinding of the Brazilian Venture;
- an operational or natural disaster at one of our major operations centers; and
- other risks detailed elsewhere in this Risk Factors section and in our other filings with the Securities and Exchange Commission.

Other unknown or unpredictable factors also could have a material adverse effect on our business, financial condition, results of operations and prospects. Accordingly, readers should not place undue reliance on these forward-looking statements. These forward-looking statements are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict. Except as required by applicable law or regulation, we do not undertake (and expressly disclaim) any obligation and do not intend to publicly update or review any of these forward-looking statements, whether as a result of new information, future events or otherwise. You should carefully consider the possibility that actual results may differ materially from our forward-looking statements.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

FIS' corporate headquarters is located at 601 Riverside Avenue, Jacksonville, Florida. In addition, FIS owns or leases support centers, data processing facilities and other facilities at approximately 177 locations. We believe our facilities and

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equipment are generally well maintained and are in good operating condition. We believe that the computer equipment that we own and our various facilities are adequate for our present and foreseeable business needs.

Item 3. Legal Proceedings

In the ordinary course of business, the Company is involved in various pending and threatened litigation matters related to its business and operations, some of which include claims for punitive or exemplary damages. The Company believes no such currently pending or threatened actions are likely to have a material adverse effect on its consolidated financial position. With respect to litigation in which the Company is involved generally, please note the following:

- These matters raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities.

- The Company reviews all of its litigation on an on-going basis and follows the authoritative provision for accounting for contingencies when making accrual and disclosure decisions. A liability must be accrued if (a) it is probable that a liability has been incurred and (b) the amount of loss can be reasonably estimated. If one of these criteria has not been met, disclosure is required when there is at least a reasonable possibility that a material loss may be incurred. When assessing reasonably possible and probable outcomes, the Company bases decisions on the assessment of the ultimate outcome following all appeals. Legal fees associated with defending litigation matters are expensed as incurred.

Indemnifications and Warranties

The Company generally indemnifies its clients, subject to certain limitations and exceptions, against damages and costs resulting from claims of patent, copyright, or trademark infringement associated solely with its customers' use of the Company's software applications or services. Historically, the Company has not made any material payments under such indemnifications, but continues to monitor the conditions that are subject to the indemnifications to identify whether it is probable that a loss has occurred and would recognize any such losses when they are estimable. In addition, the Company warrants to customers that its software operates substantially in accordance with the software specifications. Historically, no material costs have been incurred related to software warranties and no accruals for warranty costs have been made.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Our common stock trades on the New York Stock Exchange under the ticker symbol "FIS."

As of January 31, 2019, there were approximately 10,660 shareholders of record of our common stock.
We currently expect to continue to pay quarterly dividends. However, the amount, declaration and payment of future dividends is at the discretion of the Board of Directors and depends on, among other things, our investment opportunities, results of operations, financial condition, cash requirements, future prospects, and other factors that may be considered relevant by our Board of Directors, including legal and contractual restrictions. A regular quarterly dividend of $0.35 per common share is payable on March 29, 2019, to shareholders of record as of the close of

business on March 15, 2019.

Item 12 of Part III contains information concerning securities authorized for issuance under our equity compensation plans.

Our Board of Directors has approved a series of plans authorizing repurchases of our common stock in the open market at prevailing market prices or in privately negotiated transactions, the most recent of which on July 20, 2017, authorized repurchases of up to $4.0 billion through December 31, 2020. This share repurchase authorization replaced any existing share repurchase authorization plan. Approximately $2.7 billion of plan capacity remained available for repurchases as of December 31, 2018.

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The following table summarizes purchases of equity securities by the issuer during the three-month period ended December 31, 2018 (in millions, except per share amounts):

Month ended	Total number of shares purchased	Average price paid per share	Total cost of shares purchased as part of publicly announced plans or programs	Approximate dollar value of shares that may yet be purchased under the plans or programs
October 31, 2018	1.4	$105.31	$ 150	$ 2,680

There were no share repurchases in November and December 2018.

The graph below compares the cumulative 5-year total return of holders of Fidelity National Information Services, Inc.'s common stock with the cumulative total returns of the S&P 500 index and S&P Supercap Data Processing & Outsourced Services index. The graph assumes that the value of the investment in our common stock and in each index was $100 on December 31, 2013 and tracks it (including reinvestment of dividends) through December 31, 2018.

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	12/13	12/14	12/15	12/16	12/17	12/18
Fidelity National Information Services, Inc.	100.00	117.87	116.70	147.80	186.28	205.49
S&P 500	100.00	113.69	115.26	129.05	157.22	150.33
S&P Supercap Data Processing & Outsourced Services	100.00	112.46	128.51	138.77	193.67	219.65

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

Item 6. Selected Financial Data

The selected financial data set forth below constitutes historical financial data of FIS and should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data" included elsewhere in this report.

On September 28, 2018, FIS entered into an agreement with Banco Bradesco to unwind the Brazilian Venture. The transaction closed on December 31, 2018. As a result of the transaction, the Brazilian Venture spun-off certain assets of the business that also provide services to non-Bradesco clients to a new wholly-owned FIS subsidiary. Also as a result of the transaction, Banco Bradesco owns 100% of the entity that previously housed the Brazilian Venture and its remaining assets that relate to card processing for Banco Bradesco, which Banco Bradesco will perform internally. In the third quarter of 2018, FIS incurred impairment charges of $95 million related to the expected disposal, including impairments of its contract intangible asset, goodwill and its assets held for sale to fair value less cost to sell. Upon closing of the transaction, FIS recorded an additional pre-tax loss of $12 million related to the business divested, removed FIS' noncontrolling interest balance of $90 million, and recorded a $57 million increase to additional paid in capital for the business spun-off into the new wholly-owned FIS subsidiary. The impairment loss and pre-tax loss on disposal were recorded in the Corporate and Other segment. The Brazilian Venture business divested was included within the GFS segment as part of the consolidated Brazilian Venture results recorded by FIS through the transaction date. The transaction did not meet the standard necessary to be reported as discontinued operations; therefore, the impairment loss, pre-tax loss and related prior period earnings remain reported within earnings from continuing operations.

Effective August 31, 2018, FIS sold substantially all the assets of the Certegy Check Services business unit in North America, resulting in a pre-tax loss of $54 million, including goodwill distributed through the sale of business of $43 million.

Effective January 1, 2018, we adopted the new revenue recognition accounting standard, Topic 606, as described further in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Recent Accounting Pronouncements." Amounts for the years ended December 31, 2017, 2016, and 2015 were recast to reflect our retrospective applications of the new standard.

On July 31, 2017, FIS closed on the sale of a majority ownership stake in its Capco consulting business and risk and compliance consulting business to Clayton, Dubilier & Rice L.P., by and through certain funds that it manages ("CD&R"), for cash proceeds of approximately $469 million, resulting in a pre-tax loss of $41 million. The divestiture is consistent with our strategy to focus on our IP-led businesses. CD&R acquired preferred units convertible into 60% of the common units of the venture, Cardinal Holdings, L.P. ("Cardinal") and FIS obtained common units representing the remaining 40%, in each case before equity is issued to management. The preferred units are entitled to a quarterly dividend at an annual rate of 12%, payable in cash (if available) or additional preferred units at FIS' option. The businesses sold were included within the GFS and IFS segments. The sale did not meet the standard necessary to be reported as discontinued operations; therefore, the pre-tax loss and related prior period earnings remain reported within earnings from continuing operations.

FIS' 40% ownership in Cardinal was initially valued at $172 million and was recorded as an equity method investment included within other noncurrent assets on the Consolidated Balance Sheet. After the sale on July 31, 2017, FIS began to recognize the earnings in after-tax equity method investment earnings outside of operating income and segment Adjusted EBITDA. For periods prior to July 31, 2017, the Capco consulting business and risk and compliance consulting business were included within operating income and segment Adjusted EBITDA.

On February 1, 2017, FIS completed the sale of the Public Sector and Education ("PS&E") business for $850 million, resulting in a pre-tax gain of $85 million. The transaction included all PS&E solutions, which provided a comprehensive set of technology solutions to address public safety and public administration needs of government entities as well as the needs of

K-12 school districts. The divestiture is consistent with our strategy to serve the financial services markets. Cash proceeds were used to reduce outstanding debt (see Note 10 of the Notes to Consolidated Financial Statements). Net cash proceeds, after payment of taxes and transaction-related expenses, were approximately $500 million. The PS&E business was included in the Corporate and Other segment. The sale did not meet the standard necessary to be reported as discontinued operations; therefore, the pre-tax gain and related prior period earnings remain reported within earnings from continuing operations.

On November 30, 2015, we completed the SunGard acquisition. The results of operations and financial position of SunGard are included in the Consolidated Financial Statements since the date of acquisition.

During the second quarter of 2015, we sold certain assets associated with our gaming industry check warranty business, resulting in a pre-tax gain of $139 million, which is included in Other income (expense), net. The sale did not meet the standard necessary to be reported as discontinued operations; therefore, the gain and related prior period earnings remain reported within earnings from continuing operations.

We have engaged in share repurchases in the periods presented. In 2018, 2017, 2015 and 2014, we repurchased a total of approximately 12.0 million shares for $1,215 million, 1.1 million shares for $105 million, 5 million shares for $300 million and 9 million shares for $476 million, respectively. There were no share repurchases in 2016.

The effective tax rate for the 2018 period included the impact of the reduction in the U.S. federal income tax rate from 35% to 21% due to tax reform enacted December 22, 2017. The effective tax rate for the 2017 period included a net benefit of $761 million related to tax reform items including $48 million of tax credits due to tax planning strategies implemented in the fourth quarter and a net detriment of $180 million due to the book basis in excess of the tax basis of certain businesses sold during the year. The effective tax rate for the 2015 period included a net detriment of $90 million due to the book basis in excess of the tax basis of a business sold during the year. The effective tax rate for the 2016 through 2014 periods did not include a net benefit for the recognition of excess tax benefit for stock compensation as the effective date of ASU 2016-09 was for reporting periods beginning after December 15, 2016.

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	Year Ended December 31,				
	2018	2017	2016	2015	2014
		(In millions, except per share data)			
Statement of Earnings Data:					
Revenue	$8,423	$8,668	$8,831	$6,260	$6,413
Cost of revenue	5,569	5,794	5,895	4,071	4,327
Gross profit	2,854	2,874	2,936	2,189	2,086
Selling, general and administrative expenses	1,301	1,442	1,707	1,102	815
Asset impairments	95	—	—	—	—
Operating income	1,458	1,432	1,229	1,087	1,271
Total other income (expense), net	(354)	(456)	(392)	(62)	(218)
Earnings from continuing operations before income taxes and equity method investment earnings (loss)	1,104	976	837	1,025	1,053
Provision (benefit) for income taxes	208	(321)	291	375	335
Equity method investment earnings (loss)	(15)	(3)	—	—	—
Earnings from continuing operations, net of tax	881	1,294	546	650	718
Earnings (loss) from discontinued operations, net of tax	—	—	1	(7)	(11)
Net earnings	881	1,294	547	643	707
Net (earnings) loss attributable to noncontrolling interest	(35)	(33)	(22)	(19)	(28)
Net earnings attributable to FIS common stockholders	$846	$1,261	$525	$624	$679
Net earnings per share — basic from continuing operations attributable to FIS common stockholders	$2.58	$3.82	$1.61	$2.21	$2.42
Net earnings (loss) per share — basic from discontinued operations attributable to FIS common stockholders	—	—	—	(0.03)	(0.04)
Net earnings per share — basic attributable to FIS common stockholders *	$2.58	$3.82	$1.61	$2.19	$2.38
Weighted average shares — basic	328	330	326	285	285
Net earnings per share — diluted from continuing operations attributable to FIS common stockholders	$2.55	$3.75	$1.59	$2.18	$2.39
Net earnings (loss) per share — diluted from discontinued operations attributable to FIS common stockholders	—	—	—	(0.03)	(0.04)
Net earnings per share — diluted attributable to FIS common stockholders *	$2.55	$3.75	$1.59	$2.16	$2.35
Weighted average shares — diluted	332	336	330	289	289
Amounts attributable to FIS common stockholders:					
Earnings from continuing operations, net of tax	$846	$1,261	$524	$631	$690
Earnings (loss) from discontinued operations, net of tax	—	—	1	(7)	(11)
Net earnings attributable to FIS common stockholders	$846	$1,261	$525	$624	$679

* Amounts may not sum due to rounding.

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	As of December 31,				
	2018	2017	2016	2015	2014
	(In millions, except per share data)				
Balance Sheet Data:					
Cash and cash equivalents	$ 703	$ 665	$ 683	$ 682	$ 493
Goodwill	13,545	13,730	14,178	14,745	8,878
Intangible assets, net	3,132	3,885	4,590	5,080	1,268
Total assets	23,770	24,526	26,026	26,185	14,521
Total debt	8,985	8,763	10,478	11,444	5,068
Total FIS stockholders’ equity	10,215	10,711	9,675	9,298	6,557
Noncontrolling interest	7	109	104	86	135
Total equity	10,222	10,820	9,779	9,384	6,692
Cash dividends declared per share	$ 1.28	$ 1.16	$ 1.04	$ 1.04	$ 0.96

Selected Quarterly Financial Data

Selected unaudited quarterly financial data is as follows:

	Quarter Ended			
	March 31	June 30	September 30	December 31
	(In millions, except per share data)			
2018				
Revenue	$ 2,066	$ 2,106	$ 2,084	$ 2,167
Gross profit	652	692	720	790
Earnings from continuing operations before income taxes and equity method investment earnings (loss)	225	276	204	400
Net earnings attributable to FIS common stockholders	182	212	154	299
Net earnings per share — basic attributable to FIS common stockholders	$ 0.55	$ 0.64	$ 0.47	$ 0.92
Net earnings per share — diluted attributable to FIS common stockholders	$ 0.54	$ 0.64	$ 0.47	$ 0.91
2017				
Revenue	$ 2,148	$ 2,258	$ 2,096	$ 2,166
Gross profit	657	738	710	768
Earnings from continuing operations before income taxes and equity method investment earnings (loss)	209	283	119	365
Net earnings attributable to FIS common stockholders	129	139	59	934
Net earnings per share — basic attributable to FIS common stockholders	$ 0.39	$ 0.42	$ 0.18	$ 2.81
Net earnings per share — diluted attributable to FIS common stockholders	$ 0.39	$ 0.42	$ 0.18	$ 2.77

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following section discusses management's view of the financial condition and results of operations of FIS and its consolidated subsidiaries as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016.

This section should be read in conjunction with the audited Consolidated Financial Statements and related Notes of FIS included elsewhere in this Annual Report. Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements. See "Forward-Looking Statements" and "Risk Factors" for a discussion of the uncertainties, risks and assumptions associated with these forward-looking statements that could cause future results to differ materially from those reflected in this section.

Overview

FIS is a global leader in financial services technology, providing solutions and services to clients in the retail and institutional banking, payments, capital markets, asset management, and wealth and retirement markets. Through the depth and breadth of our solutions portfolio, global capabilities and domain expertise, FIS serves clients in over 130 countries. Headquartered in Jacksonville, Florida, FIS employs more than 47,000 people worldwide and holds leadership positions in payment processing, financial software and banking solutions. Providing software, services and outsourcing of the technology that empowers the financial world, FIS is a Fortune 500 company and is a member of the Standard & Poor's 500® Index.

We have grown organically, as well as through acquisitions, which have contributed critical applications and services that complement or enhance our existing offerings, diversifying our revenue by customer, geography and service offering. We evaluate possible acquisitions that might contribute to our growth or performance on an ongoing basis.

FIS reports its financial performance based on three segments: Integrated Financial Solutions ("IFS"), Global Financial Solutions ("GFS") and Corporate and Other. A description of these segments is included in Note 19 to the Notes to Consolidated Financial Statements. Revenue by segment and the adjusted EBITDA of our segments are discussed below in Segment Results of Operations.

Business Trends and Conditions

Our revenue is primarily derived from a combination of recurring technology and processing services, professional services and software license fees. The majority of our revenue has historically been recurring, and has been provided under multi-year contracts that contribute relative stability to our revenue stream. These services, in general, are considered critical to our clients' operations. A considerable portion of our recurring revenue is derived from transaction processing fees that fluctuate with the level of accounts and card transactions, among other variable measures, associated with consumer, commercial and capital markets activity. Professional services revenue is typically non-recurring, and sales of software licenses are less predictable, a portion of which can be regarded as discretionary spending by our clients.

We continue to assist financial institutions in migrating to outsourced integrated technology solutions to improve their profitability and address increasing and ongoing regulatory requirements. As a provider of outsourcing solutions, we benefit from multi-year recurring revenue streams, which help moderate the effects of broader year-to-year economic and market changes that otherwise might have a larger impact on our results of operations. We believe our integrated solutions and outsourced services are well positioned to address this outsourcing trend across the markets we serve.

Over the last three years, we have moved approximately 50% of our server compute to our FIS cloud located in our strategic data centers and our goal is to increase that percentage to 65% by the end of 2019 and 80% by the end of 2021. This allows us to further enhance security for our clients' data and increases the flexibility and speed with which we can provide services and solutions to our clients, eventually at lesser cost. Concurrently, we have continued to consolidate our data centers, closing 10 additional data centers in 2018. Our consolidation has generated a savings for the Company as of year-end 2018 exceeding $100 million in run rate annual expense reduction since the program's inception in mid-2016. We plan to close and consolidate approximately 20 more data centers by 2021, which should result in additional run rate annual expense reduction of about $150 million.

We continue to invest in modernization, innovation and integrated solutions and services in order to meet the demands of the markets we serve and compete with global banks, international providers, and disruptive technology innovators. We invest both organically and through investment opportunities in companies building complementary technologies in the financial services space. Our internal efforts in research and development activities have related primarily to the modernization of our proprietary core systems, design and development of next generation digital and innovative solutions and development of processing systems and related software applications and risk management platforms. We have increased our investments in these areas in each of the last three years. We expect to continue our practice of investing an appropriate level of resources to maintain, enhance and extend the functionality of our proprietary systems and existing software applications, to develop new and innovative software applications and systems to address emerging technology trends in response to the needs of our clients and to enhance the capabilities of our outsourcing infrastructure.

Consumer preference continues to shift from traditional branch banking services to digital banking solutions, and our clients seek to provide a single integrated banking experience through their branch, mobile, internet and voice banking channels. We have been providing our large regional banking customers in the U.S. with Digital One, an integrated digital banking platform, and are now adding functionality and offering Digital One to our community bank clients to provide a consistent, omnichannel experience for consumers of banking services across self-service channels like mobile banking and online banking, as well as supporting channels for bank staff operating in bank branches and contact centers. The uniform customer experience will extend to support a broad range of financial services including opening new accounts; servicing of existing accounts; providing money movement services; personal financial management; as well as a broad range of other consumer, small business and commercial banking capabilities. Digital One will be integrated into and will extend the core banking platforms offered by FIS and will also be offered to customers of non-FIS core banking systems.

We continue to see demand for innovative solutions in the payments market that will deliver faster, more convenient payment solutions in mobile channels, internet applications and cards. We believe digital payments will grow and partially replace existing payment tender volumes over time as consumers and merchants embrace the convenience, incremental services and benefits. Additionally, new formidable non-traditional payments competitors and large merchants are investing in and innovating digital payment technologies to address the emerging market opportunity, and it is unclear the extent to which particular technologies or services will succeed. We believe the growth of digital payments continues to present both an opportunity and a risk to us as the market develops. Although we cannot predict which digital payment technologies or solutions will be successful, we cautiously believe our client relationships, payments infrastructure and experience, adapted solutions and emerging solutions are well positioned to maintain or grow our clients' existing payment volumes, which is our focus.

We anticipate consolidation within the banking industry will continue, primarily in the form of merger and acquisition activity among financial institutions, which we believe as a whole is detrimental to our business. However, consolidation resulting from specific merger and acquisition transactions may be beneficial to our business. When consolidations of financial institutions occur, merger partners often operate systems obtained from competing service providers. The newly formed entity generally makes a determination to migrate its core and payments systems to a single platform. When a financial institution processing client is involved in a consolidation, we may benefit by their expanding the use of our services if such services are chosen to survive the consolidation and support the newly combined entity. Conversely, we may lose revenue if we are providing services to both entities, or if a client of ours is involved in a consolidation and our services are not chosen to survive the consolidation and support the newly combined entity. It is also possible that larger financial institutions resulting from consolidation may have greater leverage in negotiating terms or could decide to perform in-house some or all of the services that we currently provide or could provide. We seek to mitigate the risks of consolidations by offering other competitive services to take advantage of specific opportunities at the surviving company.

In certain of the international markets in which we do business, we continue to experience growth on a constant currency basis. Demand for our solutions may also continue to be driven in developing countries by government-led financial inclusion policies aiming to reduce the unbanked population and by growth in the middle classes in these markets driving the need for more sophisticated banking solutions. The majority of our international revenue is generated by clients in Brazil, the United Kingdom, Germany, Canada and India. For the full year of 2019, we anticipate an approximate $45 million adverse impact to revenue due to foreign currency translation, although the actual amount of impact is uncertain due to the many factors that affect exchange rates.

On December 31, 2018, FIS closed the transaction we previously announced to unwind the Brazilian Venture with Banco Bradesco. Under this agreement, the Brazilian Venture spun-off certain assets of the business that also provide services to non-Bradesco clients to a new wholly-owned FIS subsidiary. This subsidiary entered into a long-term commercial agreement to provide current and new services to Banco Bradesco effective January 1, 2019 that include software licensing, maintenance, application management, card portfolio migration, business process outsourcing, fraud management and professional services. As a result of the transaction, Banco Bradesco owns 100% of the entity that previously housed the Brazilian Venture and its remaining assets that relate to card processing for Banco Bradesco, which Banco Bradesco will perform internally. The transaction is expected to result in an annualized reduction in FIS' reported revenue of approximately $225 million. In addition, it resulted in impairment charges of $95 million in the third quarter of 2018. For further detail on our Brazilian

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Venture see Note 16 of the Notes to Consolidated Financial Statements and "Item 1A. Risk Factors" included elsewhere in this report.

Globally, attacks on information technology systems continue to grow in frequency, complexity and sophistication. This is a trend we expect to continue. Such attacks have become a point of focus for individuals, businesses and governmental entities. The objectives of these attacks include, among other things, gaining unauthorized access to systems to facilitate financial fraud, disrupt operations, cause denial of service events, corrupt data, and steal non-public information. These circumstances present both a threat and an opportunity for FIS. As part of our business, we electronically receive, process, store and transmit a wide range of confidential information, including sensitive customer information and personal consumer data. We also operate payment, cash access and prepaid card systems.

FIS remains focused on making strategic investments in information security to protect our clients and our information systems. This includes both capital expenditures and operating expense on hardware, software, personnel and consulting services. We also participate in industry and governmental initiatives to improve information security for our clients. Through the expertise we have gained with this ongoing focus and involvement, we have developed fraud, security, risk management and compliance solutions to target this growth opportunity in the financial services industry.

As described in Note 16 of the Notes to Consolidated Financial Statements, on July 31, 2017, we sold a majority interest in certain of our consulting businesses to affiliates of CD&R. These businesses had lower margins than many of our other businesses. The consulting businesses sold were included within the GFS and IFS segments. Also, on February 1, 2017, we sold our PS&E business, which had been included in our Corporate and Other segment. These divestitures affect the comparability of our results of operations for the 2018, 2017 and 2016 periods presented.

Critical Accounting Policies

The accounting policies described below are those we consider critical in preparing our Consolidated Financial Statements. These policies require management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosures with respect to contingent liabilities and assets at the date of the Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting periods. Actual amounts could differ from those estimates. See Note 2 of the Notes to Consolidated Financial Statements for a more detailed description of the significant accounting policies that have been followed in preparing our Consolidated Financial Statements.

Revenue Recognition

The Company generates revenue in a number of ways, including from the delivery of account- or transaction-based processing, SaaS, BPaaS, cloud offerings, software licensing, software-related services and professional services. We are frequently a party to multiple concurrent contracts with the same client. These situations require judgment to determine whether the individual contracts should be combined or evaluated separately for purposes of revenue recognition. In making this determination, we consider the timing of negotiating and executing the contracts, whether the different elements of the contracts are negotiated as a package with a single commercial objective, whether the solutions or services promised in the contracts are a single performance obligation, and whether any of the payment terms of the contracts are interrelated. Our individual contracts also frequently include multiple promised solutions or services. At contract inception, we assess the solutions and services promised in our contracts with customers and identify a performance obligation for each promise to transfer to the customer a solution or service (or bundle of solutions or services) that is distinct - i.e., if a solution or service is separately identifiable from other items in the bundled package and if a customer can benefit from it on its own or with other resources that are readily available to the customer. We must apply judgment in these circumstances in determining whether individual promised solutions or services can be considered distinct or should instead be combined with other promised solutions or services in the contract. We recognize revenue when or as we satisfy a performance obligation by transferring control of a solution or service to a customer. We must use judgment to determine the appropriate measure of progress for performance obligations satisfied over time and the timing of when the customer obtains control for performance obligations satisfied at a point in time. Judgment is also required in estimating and allocating variable consideration to one or more, but not all, performance obligations in a contract, determining the standalone selling prices of each performance obligation, and allocating the transaction price to each distinct performance obligation in a contract.

Due to the large number, broad nature and average size of individual contracts we are party to, the impact of judgments and assumptions that we apply in recognizing revenue for any single contract is not likely to have a material effect on our consolidated operations or financial position. However, the broader accounting policy assumptions that we apply across similar contracts or classes of clients could significantly influence the timing and amount of revenue recognized in our historical and

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future results of operations or financial position. Additional information about our revenue recognition policies is included in Note 2 of the Notes to Consolidated Financial Statements.

Computer Software

Computer software includes the fair value of software acquired in business combinations, purchased software and capitalized software development costs. Purchased software is recorded at cost and amortized using the straight-line method over its estimated useful life, which is generally three to five years. Software acquired in business combinations is recorded at its fair value and amortized using straight-line or accelerated methods over its estimated useful life, which is three to 10 years (as discussed below in the Critical Accounting Policy section Purchase Accounting). As of December 31, 2018 and 2017, computer software, net of accumulated amortization, was $1.8 billion and $1.7 billion, respectively, and amortization of computer software was $468 million, $436 million, and $396 million for the years ended December 31, 2018, 2017, and 2016, respectively. Balances related to acquired software represent a significant portion of these balances, particularly for the periods after the acquisition of SunGard, which resulted in acquired software of $674 million.

The capitalization of software development costs is governed by FASB ASC Subtopic 985-20 if the software is to be sold, leased or otherwise marketed, or by FASB ASC Subtopic 350-40 if the software is for internal use. After the technological feasibility of the software has been established (for software to be marketed), or at the beginning of application development (for internal-use software), software development costs, which include primarily salaries and related payroll costs and costs of independent contractors incurred during development, are capitalized. Research and development costs incurred prior to the establishment of technological feasibility (for software to be marketed), or prior to application development (for internal-use software), are expensed as incurred. Evaluating whether technological feasibility has been achieved requires the use of management judgment.

Software development costs are amortized on a product-by-product basis commencing on the date of general release of the solutions (for software to be marketed) or the date placed in service (for internal-use software). Software development costs for software to be marketed are amortized using the greater of (1) the straight-line method over its estimated useful life, which ranges from three to 10 years, or (2) the ratio of current revenues to total anticipated revenues over its useful life.

In determining useful lives, management considers historical results and technological trends that may influence the estimate. Useful lives for all computer software range from three to 10 years.

We also assess the recorded value of computer software for impairment on a regular basis by comparing the carrying value to the estimated future cash flows to be generated by the underlying software asset (for software to be marketed). There are inherent uncertainties in determining the expected useful life or cash flows to be generated from computer software. For the years ended December 31, 2018, 2017, and 2016, respectively, we have not had more than minimal charges for impairments of software. While we have not historically experienced significant changes in these balances due to changes in estimates, our results of operations could be subject to such changes in the future.

Purchase Accounting

We are required to allocate the purchase price of acquired businesses to the assets acquired and liabilities assumed in the transaction at their estimated fair values. The estimates used to determine the fair value of long-lived assets, such as intangible assets or computer software, are complex and require a significant amount of management judgment. We generally engage independent valuation specialists to assist us in making fair value determinations.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, we are required to record provisional amounts in the financial statements for the items for which the accounting is incomplete. Adjustments to provisional amounts initially recorded that are identified during the measurement period are recognized in the reporting period in which the adjustment amounts are determined. This includes any effect on earnings of changes in depreciation, amortization, or other income effects as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. During the measurement period, we are also required to recognize additional assets or liabilities if new information is obtained about facts and circumstances that existed as of the acquisition date that, if known, would have resulted in the recognition of those assets and liabilities as of that date. The measurement period ends the sooner of one year from the combination date or when we receive the information we were seeking about facts and circumstances that existed as of the acquisition date or we learn that more information is not obtainable.

We are also required to estimate the useful lives of intangible assets to determine the amount of acquisition-related intangible asset amortization expense to record in future periods. We periodically review the estimated useful lives assigned to

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our finite-lived intangible assets to determine whether such estimated useful lives continue to be appropriate. Additionally, we review our indefinite-lived intangible assets to determine if there is any change in circumstances that may indicate the asset's useful life is no longer indefinite.

We had no significant business combinations during the 2018 and 2017 periods.

Goodwill and Other Intangible Assets

Goodwill represents the excess of cost over the fair value of identifiable assets acquired and liabilities assumed in business combinations. Goodwill and other intangible assets with indefinite useful lives should not be amortized, but shall be tested for impairment annually, or more frequently if circumstances indicate potential impairment. FASB ASC Subtopic 350-20 allows an entity first to assess qualitatively whether it is more likely than not that a reporting unit's carrying amount exceeds its fair value, referred to in the guidance as "step zero." If an entity concludes that it is more likely than not that a reporting unit's fair value is less than its carrying amount (that is, a likelihood of more than 50 percent), the "step one" quantitative assessment must be performed for that reporting unit. FASB ASC Subtopic 350-20 provides examples of events and circumstances that should be considered in performing the step zero qualitative assessment, including macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, events affecting a reporting unit or the entity as a whole and a sustained decrease in share price. Performance of a qualitative impairment assessment requires judgment.

In applying the quantitative analysis, we determine the fair value of our reporting units based on a weighted average of multiple valuation techniques, principally a combination of an income approach and a market approach. The income approach calculates a value based upon the present value of estimated future cash flows, while the market approach uses earnings multiples of similarly situated guideline public companies. If the fair value of a reporting unit exceeds the carrying value of the reporting unit's net assets, goodwill is not impaired and further testing is not required.

We assess goodwill for impairment on an annual basis during the fourth quarter or more frequently if circumstances indicate potential impairment. For each of 2018, 2017, and 2016, we began our annual impairment test with the step zero qualitative assessment. In performing the step zero qualitative assessment for each year, examining those factors most likely to affect our valuations, we concluded that it remained more likely than not that the fair value of each of our reporting units continued to exceed their carrying amounts. Consequently, we did not perform a step one quantitative assessment specifically for the purpose of our annual impairment test for these years.

Similar to the FASB ASC Subtopic 350-20 guidance for goodwill, FASB ASC Subtopic 350-30 allows an organization to first perform a qualitative assessment of whether it is more likely than not that an indefinite-lived intangible asset has been impaired. We assess indefinite-lived intangible assets for impairment on an annual basis during the fourth quarter or more frequently if circumstances indicate potential impairment. For 2016, we engaged independent specialists to perform a valuation of our indefinite-lived intangible assets, using a form of income approach valuation known as the relief-from-royalty method. There was substantial excess of fair value over carrying value for our indefinite-lived intangible assets in the 2016 independent valuations. Based upon this quantitative assessment performed, there was no impairment for 2016. For each of 2018 and 2017, we performed a qualitative assessment examining those factors most likely to affect our valuations and concluded that it remained more likely than not that our indefinite-lived intangible assets were not impaired. Consequently, we did not perform a quantitative impairment assessment specifically for the purpose of our annual impairment test for either of these years.

Determining the fair value of a reporting unit or acquired intangible assets with indefinite lives involves judgment and the use of significant estimates and assumptions, which include assumptions regarding forecasted revenue growth rates, operating margins, capital expenditures, tax rates, and other factors used to calculate estimated future cash flows. In addition, risk-adjusted discount rates and future economic and market conditions and other assumptions are applied. Goodwill was $13.5 billion and $13.7 billion as of December 31, 2018 and 2017, respectively, and indefinite-lived intangible assets were $43 million and $48 million as of December 31, 2018 and 2017, respectively. As a result, a meaningful change in one or more of the underlying forecasts, estimates, or assumptions used in testing these assets for impairment could result in a material impact on the Company's results of operations and financial position. However, because there was a substantial excess of fair value over carrying value in our previous independent valuations performed in 2015 for goodwill and 2016 for indefinite-lived intangible assets, we believe the likelihood of obtaining materially different results based on a change of assumptions is low.

Related Party Transactions

We are a party to certain historical related party agreements as discussed in Note 15 of the Notes to Consolidated Financial Statements.

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Factors Affecting Comparability

For information regarding factors affecting comparability, see "Item 6. Selected Financial Data." As a result of the transactions noted in Item 6. Selected Financial Data, our financial position, results of operations, earnings per share and cash flows in the periods covered by the Consolidated Financial Statements may not be directly comparable.

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Consolidated Results of Operations
(in millions, except per share amounts)

	2018	2017	2016
Revenue	$8,423	$8,668	$8,831
Cost of revenue	5,569	5,794	5,895
Gross profit	2,854	2,874	2,936
Selling, general and administrative expenses	1,301	1,442	1,707
Asset impairments	95	—	—
Operating income	1,458	1,432	1,229
Other income (expense):			
Interest income	17	22	20
Interest expense	(314)	(359)	(403)
Other income (expense), net	(57)	(119)	(9)
Total other income (expense), net	(354)	(456)	(392)
Earnings from continuing operations before income taxes and equity method investment earnings (loss)	1,104	976	837
Provision (benefit) for income taxes	208	(321)	291
Equity method investment earnings (loss)	(15)	(3)	—
Earnings from continuing operations, net of tax	881	1,294	546
Earnings (loss) from discontinued operations, net of tax	—	—	1
Net earnings	881	1,294	547
Net (earnings) loss attributable to noncontrolling interest	(35)	(33)	(22)
Net earnings attributable to FIS common stockholders	$846	$1,261	$525
Net earnings per share — basic from continuing operations attributable to FIS common stockholders	$2.58	$3.82	$1.61
Net earnings (loss) per share — basic from discontinued operations attributable to FIS common stockholders	—	—	—
Net earnings per share — basic attributable to FIS common stockholders *	$2.58	$3.82	$1.61
Weighted average shares outstanding — basic	328	330	326
Net earnings per share — diluted from continuing operations attributable to FIS common stockholders	$2.55	$3.75	$1.59
Net earnings (loss) per share — diluted from discontinued operations attributable to FIS common stockholders	—	—	—
Net earnings per share — diluted attributable to FIS common stockholders *	$2.55	$3.75	$1.59
Weighted average shares outstanding — diluted	332	336	330
Amounts attributable to FIS common stockholders:			
Earnings from continuing operations, net of tax	$846	$1,261	$524
Earnings (loss) from discontinued operations, net of tax	—	—	1
Net earnings attributable to FIS common stockholders	$846	$1,261	$525

* Amounts may not sum due to rounding.

Revenue

Revenue for 2018 decreased $245 million, or 2.8% from 2017, due to (1) the reduction in revenue from the sale of the Capco consulting business and the risk and compliance consulting business during the third quarter of 2017; (2) the reduction in revenue from the sale of the PS&E business during the first quarter of 2017; and (3) the reduction in revenue from the sale of the Certegy Check Services business unit in North America during the third quarter of 2018. This decrease was partially offset by (1) increased volumes in banking and wealth solutions (excluding the effects of the sale of the risk and compliance consulting business); (2) increased sales for GFS banking and payments solutions; (3) growth in corporate and digital solutions;

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(4) growth in retail payments; and (5) payments growth in Latin America. Additionally, 2018 was impacted by a $40 million unfavorable foreign currency impact primarily resulting from a stronger U.S. Dollar versus the Brazilian Real.

Revenue for 2017 decreased $163 million, or 1.8% from 2016, due to the reduction in revenue from the sale of the PS&E business during the first quarter of 2017 and the sale of the Capco consulting business and the risk and compliance consulting business during the third quarter of 2017. These decreases were partially offset by (1) increased volumes in banking and wealth solutions (excluding the effects of the sale of the risk and compliance consulting business); (2) volume growth in payment solutions in Brazil; (3) continued growth with our existing customers for our post-trade derivative solutions; and (4) growth in corporate and digital solutions. The 2017 period also benefited from a lower purchase accounting adjustment, as compared to the 2016 period, to reduce SunGard acquired deferred revenue to fair value and a $16 million favorable foreign currency impact primarily resulting from a stronger Brazilian Real versus the U.S. Dollar, partially offset by a weaker Pound Sterling. See "Segment Results of Operations" for more detailed explanation.

Cost of Revenue and Gross Profit

Cost of revenues totaled $5,569 million, $5,794 million and $5,895 million during 2018, 2017 and 2016, respectively, resulting in gross profit of $2,854 million, $2,874 million and $2,936 million, respectively. Gross profit as a percentage of revenues ("gross margin") was 33.9%, 33.2% and 33.2% in 2018, 2017 and 2016, respectively. The decrease in gross profit for 2018 as compared to 2017 primarily resulted from the revenue variances noted above. The gross profit percentage for 2018 as compared to 2017 benefited from higher margin software licenses and the realization of ongoing expense synergies.

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Selling, General and Administrative Expenses

Selling, general and administrative expenses for 2018 decreased $141 million, or 9.8% from 2017. The year-over-year decrease is primarily driven by the sale of PS&E during the first quarter of 2017, the sale of the Capco consulting business and risk and compliance consulting business during the third quarter of 2017, the sale of Certegy Check Services business unit in North America during the third quarter of 2018 and cost management initiatives.

Selling, general and administrative expenses for 2017 decreased $265 million, or 15.5% from 2016, primarily driven by the sale of PS&E during the first quarter of 2017, the sale of the Capco consulting business and risk and compliance consulting business during the third quarter of 2017 and integration and cost management initiatives.

Operating Income

Operating income totaled $1,458 million, $1,432 million and $1,229 million for 2018, 2017 and 2016, respectively. Operating income as a percentage of revenue ("operating margin") was 17.3%, 16.5% and 13.9% for 2018, 2017 and 2016, respectively. The annual changes in operating income resulted from the revenue and cost variances addressed above. The change in operating margin during 2018 was negatively impacted by asset impairments of $95 million related to the unwinding of the Brazilian Venture. Notwithstanding the asset impairments, however, operating margins improved primarily from cost management initiatives and the Capco consulting business divestiture during 2017. The increase in operating margin from 2017 as compared to 2016 resulted primarily from integration and cost management initiatives.

Total Other Income (Expense), Net

Interest expense is typically the primary component of total other income (expense), net.

The decrease of $45 million in interest expense in 2018 as compared to 2017 is primarily due to a lower weighted-average interest rate on the outstanding debt and benefits realized from interest rate swaps executed in the fourth quarter of 2018, which are discussed in Note 11 of the Notes to Consolidated Financial Statements.

The decrease of $44 million in interest expense in 2017 as compared to 2016 is primarily due to lower outstanding debt and lower weighted-average interest rate on the outstanding debt.

Other income (expense), net for 2018 includes a pre-tax loss of $54 million on the sale of the Certegy Check Services business unit in North America and $12 million to unwind the Brazilian Venture, partially offset by a pre-tax gain of $19 million on the sale of Reliance Trust Company of Delaware.

Other income (expense), net for 2017 includes (1) a pre-tax charge of $171 million in tender premiums and the write-off of previously capitalized debt issuance costs on the repurchase of approximately $2,000 million in aggregate principal of debt

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securities; (2) a net pre-tax loss of $29 million on the sale of the Capco consulting and risk and compliance business and other divestitures; (3) a pre-tax charge of approximately $25 million due to the redemption of the Senior Notes due March 2022 and the pay down of the 2018 Term Loans, consisting of the call premium on the Senior Notes due March 2022 and the write-off of previously capitalized debt issuance costs; partially offset by (4) a pre-tax gain of $85 million on the sale of the PS&E business, an $8 million pre-tax gain on an investment sale and a $12 million foreign currency gain.

During 2016, FIS paid down the 2017 Term Loans and partially paid down the 2018 Term Loans resulting in a pre-tax charge upon extinguishment of approximately $2 million due to the write-off associated with previously capitalized debt issue costs. Additionally in 2016 as a result of these debt pay downs, FIS terminated interest rate swaps with a notional amount totaling $1,250 million resulting in a pre-tax loss of $2 million due to the release of fair value changes from other comprehensive earnings.

Provision (Benefit) for Income Taxes

Provision (benefit) for income taxes from continuing operations totaled $208 million, $(321) million and $291 million for 2018, 2017 and 2016, respectively. This resulted in an effective tax rate on continuing operations of 18.8%, (32.9)% and 34.8% for 2018, 2017 and 2016, respectively. The effective tax rate for the 2018 period included the impact of the reduction in the U.S. federal income tax rate from 35% to 21% due to tax reform enacted December 22, 2017, and a net detriment of $33 million due to the book basis in excess of the tax basis of certain businesses sold during the year. The effective tax rate for the 2017 period included a net benefit of $761 million related to tax reform items including $48 million of tax credits due to tax planning strategies implemented in the fourth quarter and a net detriment of $180 million due to the book basis in excess of the tax basis of certain businesses sold during the year. The effective tax rate for the 2016 period did not include a net benefit for the recognition of excess tax benefit for stock compensation as the effective date of ASU 2016-09 was for reporting periods beginning after December 15, 2016.

Equity Method Investment Earnings (Loss)

On July 31, 2017, FIS obtained a 40% equity interest in Cardinal as further described in Note 16 of the Notes to Consolidated Financial Statements. As a result, we recorded equity method investment losses of $15 million and $3 million during the years ended December 31, 2018 and 2017, respectively.

Earnings (Loss) from Discontinued Operations, Net of Tax

During 2018, 2017 and 2016, operations for Participacoes, our former item processing and remittance services business in Brazil are classified as discontinued operations. Reporting for discontinued operations classifies revenues and expenses as one line item, net of tax, in the Consolidated Statements of Earnings. The table below outlines discontinued operations for 2018, 2017 and 2016, net of tax (in millions):

Earnings (loss), net of tax	2018	2017	2016
Participacoes operations	$ —	$ —	$ 1

Participacoes had no revenue in 2018, 2017 and 2016. Participacoes' processing volume were transitioned to other vendors or back to its clients during the second quarter of 2011. Participacoes had earnings (losses) before taxes of $(1) million, $0 million and $2 million during the years ended December 31, 2018, 2017 and 2016, respectively. The shut-down activities involved the transfer and termination of approximately 2,600 employees, which was completed in 2011. Former employees generally had up to two years from the date of terminations, extended through April 2013, to file labor claims and a number of them did file labor claims. As of December 31, 2018, there were approximately 346 active claims remaining. Consequently, we have continued exposure on these active claims, which were not transferred with other assets and liabilities in the disposal.

Net (Earnings) Loss Attributable to Noncontrolling Interest

Net (earnings) loss attributable to noncontrolling interest predominantly relates to the joint venture in Brazil (see Notes 15 and 16 of the Notes to Consolidated Financial Statements) and totaled $(35) million, $(33) million and $(22) million for 2018, 2017 and 2016, respectively.

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Net Earnings Attributable to FIS Common Stockholders

Net earnings attributable to FIS common stockholders totaled $846 million, $1,261 million and $524 million for 2018, 2017 and 2016, respectively, or $2.55, $3.75 and $1.59 per diluted share, respectively, due to the factors described above coupled with the impact of our share repurchase initiatives.

Segment Results of Operations

Adjusted EBITDA is defined as EBITDA (defined as net earnings (loss) before net interest expense, income tax provision (benefit) and depreciation and amortization) plus certain non-operating items. This measure is reported to the chief operating decision maker for purposes of making decisions about allocating resources to the segments and assessing their performance. For this reason, Adjusted EBITDA, as it relates to our segments, is presented in conformity with FASB ASC Topic 280, Segment Reporting. The non-operating items affecting the segment profit measure generally include acquisition accounting adjustments; acquisition, integration and certain other costs, and asset impairment. For consolidated reporting purposes, these costs and adjustments are recorded in the Corporate and Other segment for the periods discussed below. Adjusted EBITDA for the respective segments excludes the foregoing costs and adjustments. Financial information, including details of our adjustments to EBITDA, for each of our segments is set forth in Note 19 of the Notes to Consolidated Financial Statements.

Integrated Financial Solutions

	2018	2017	2016
	(In millions)		
Revenue	$4,401	$4,260	$4,178
Adjusted EBITDA	$1,962	$1,874	$1,792

Year ended December 31, 2018:

Revenue increased $141 million, or 3.3%, due to (1) increased volumes in banking and wealth solutions (excluding the effects of the sale of the risk and compliance consulting business) contributing 2.0%; (2) growth in retail payments contributing 1.2%; and (3) growth in corporate and digital solutions contributing 0.7%. These items were partially offset by the sale of the risk and compliance consulting business contributing (0.6)%.

Adjusted EBITDA increased $88 million, or 4.7%, primarily resulting from the revenue variances noted above and continued cost management initiatives. Adjusted EBITDA margin increased 60 basis points to 44.6% primarily driven by a revenue mix shift and operating efficiencies.

Year ended December 31, 2017:

Revenue increased $82 million, or 2.0%, due to (1) increased demand in banking and wealth solutions (excluding the effects of the sale of the risk and compliance consulting business) contributing 2.9%; (2) growth in payment solutions excluding the card production business contributing 0.7%; (3) growth in corporate and digital solutions contributing 0.9%; partially offset by (4) the decline and sale of the risk and compliance consulting business contributing (1.4)%; and (5) the slow-down in card production activities associated with the roll-out of EMV contributing (1.2)%.

Adjusted EBITDA increased $82 million, or 4.6%, primarily resulting from the revenue variances noted above. Adjusted EBITDA margin increased 110 basis points to 44.0% primarily resulting from the favorable revenue mix shift and continued cost management.

Global Financial Solutions

	2018	2017	2016
	(In millions)		
Revenue	$3,718	$4,050	$4,183
Adjusted EBITDA	$1,391	$1,323	$1,211

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Year ended December 31, 2018:

Revenue decreased $332 million, or 8.2%, primarily due to (1) the sale of the Capco consulting business and other divestitures contributing (9.1)% and (2) unfavorable foreign currency impact contributing (1.0)% or approximately $42 million driven primarily by a stronger U.S. Dollar versus the Brazilian Real, partially offset by (1) growth in GFS banking and payments solutions in North America contributing 0.9%; and (2) payments growth in Latin America contributing 1.1%.

Adjusted EBITDA increased $68 million, or 5.1%, primarily resulting from favorable revenue mix and continued cost management initiatives. Adjusted EBITDA margins increased 470 basis points to 37.4%, resulting from the positive impact of the Capco consulting business divestiture during 2017, as well as continued cost management initiatives.

Year ended December 31, 2017:

Revenue decreased $133 million, or 3.2%, primarily due to the sale of the Capco consulting business contributing (5.4)%, partially offset by continued growth in our post-trade derivatives utility contributing 0.6%, volume growth in payment solutions in Brazil contributing 0.9% and a favorable currency impact contributing 0.4% primarily resulting from a stronger Brazilian Real versus the U.S. Dollar, partially offset by a weaker Pound Sterling.

Adjusted EBITDA increased $112 million, or 9.2%, primarily resulting from higher margin revenue and the realization of ongoing expense synergies. Adjusted EBITDA margins increased 370 basis points to 32.7% primarily resulting from growth in higher margin licenses, the divestiture of the Capco consulting business, as well as realization of ongoing expense synergies.

Corporate and Other

	2018	2017	2016
	(In millions)		
Revenue	$304	$358	$470
Adjusted EBITDA	$(220)	$(213)	$(148)

The Corporate and Other segment results consist of selling, general and administrative expenses and depreciation and intangible asset amortization not otherwise allocated to the reportable segments. Corporate and Other also includes operations from the Global Commercial Services business and non-strategic businesses, including the PS&E business (which was divested on February 1, 2017) and the Certegy Check Services business unit in North America (which was divested on August 31, 2018).

Year ended December 31, 2018:

Revenue decreased $54 million, or 15.1%, and was primarily due to the sale of the PS&E business during the first quarter of 2017 and Certegy Check Services business unit in North America during the third quarter of 2018.

Adjusted EBITDA decreased $7 million, or 3.3%, primarily resulting from the reduction in revenue from the sale of the PS&E business during the first quarter of 2017 and Certegy Check Services business unit in North America during the third quarter of 2018, partially offset by a reduction in infrastructure technology expenses and the early results of our data center consolidation program.

Year ended December 31, 2017:

Revenue decreased $112 million, or 23.8%, primarily due to the sale of the PS&E business during the first quarter of 2017 and a decline in the Global Commercial Services business, partially offset by lower 2017 SunGard purchase accounting impact on deferred revenue (all of which was recorded as a contra-revenue item in the Corporate and Other segment).

Adjusted EBITDA decreased $65 million, or 43.9%, primarily resulting from the reduction in revenue from the sale of the PS&E business during the first quarter of 2017, partially offset by integration and cost management initiatives.

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Liquidity and Capital Resources

Cash Requirements

Our ongoing cash requirements include operating expenses, income taxes, mandatory debt service payments, capital expenditures, stockholder dividends, working capital and timing differences in settlement-related assets and liabilities, and may include discretionary debt repayments, share repurchases and business acquisitions. Our principal sources of funds are cash generated by operations and borrowings, including the capacity under our Revolving Credit Facility and the Commercial Paper Program described in Note 10 of the Notes to Consolidated Financial Statements.
As of December 31, 2018, we had cash and cash equivalents of $703 million and debt of $8,985 million, including the current portion, net of capitalized debt issuance costs. Of the $703 million cash and cash equivalents, approximately $340 million is held by our foreign entities. The majority of our domestic cash and cash equivalents represents net deposits-in-transit at the balance sheet dates and relates to daily settlement activity. We expect that cash and cash equivalents plus cash flows from operations over the next 12 months will be sufficient to fund our operating cash requirements, capital expenditures and mandatory debt service.

We currently expect to continue to pay quarterly dividends. However, the amount, declaration and payment of future dividends is at the discretion of our Board of Directors and depends on, among other things, our investment opportunities, results of operations, financial condition, cash requirements, future prospects, and other factors that may be considered relevant by our Board of Directors, including legal and contractual restrictions. Additionally, the payment of cash dividends may be limited by covenants in certain debt agreements. A regular quarterly dividend of $0.35 per common share is payable on March 29, 2019 to shareholders of record as of the close of business on March 15, 2019.

On July 20, 2017 our Board of Directors approved a plan authorizing repurchases of up to $4.0 billion of our outstanding common stock in the open market at prevailing market prices or in privately negotiated transactions through December 31, 2020. This share repurchase authorization replaced any existing share repurchase authorization.

Cash Flows from Operations

Cash flows from operations were $1,993 million, $1,741 million and $1,925 million in 2018, 2017 and 2016 respectively. Our net cash provided by operating activities consists primarily of net earnings, adjusted to add back depreciation and amortization. Cash flows from operations increased $252 million in 2018 and decreased $184 million in 2017. The 2018 increase in cash flows from operations is primarily due to lower trade receivables from increased collections resulting from a reduction in days sales outstanding. These increases were partially offset by U.S. federal estimated income tax payments normally due in the third and fourth quarters of 2017 that were paid during the first quarter of 2018 due to the Hurricane Irma Relief Program and timing of working capital. The 2017 decrease in cash flows from operations is primarily due to increased trade receivables resulting from timing differences in billing and collections and increased deferred contract costs.

Capital Expenditures and Other Investing Activities

Our principal capital expenditures are for computer software (purchased and internally developed) and additions to property and equipment. We invested approximately $622 million, $613 million and $616 million in capital expenditures (excluding capital leases and other financing obligations) during 2018, 2017 and 2016, respectively. We expect to invest approximately 7.5% of 2019 revenue in capital expenditures.

In 2017, cash flows from investing activities included proceeds from the sale of businesses and investments primarily relating to the sale of PS&E and the Capco consulting and risk and compliance businesses.

Financing

For more information regarding the Company's debt and financing activity, see Note 10 of the Notes to Consolidated Financial Statements.

Contractual Obligations

FIS’ long-term contractual obligations generally include its long-term debt, interest on long-term debt, lease payments on certain of its property and equipment and payments for data processing and maintenance. For information regarding the

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Company's long-term debt, see Note 10 of the Notes to Consolidated Financial Statements. The following table summarizes FIS' significant contractual obligations and commitments as of December 31, 2018 (in millions):

		Payments Due in	
			$ 4,573
U.K. buildings held for sale	307	1,814	
Other current assets	1,291	733	
Total	$ 6,267	$ 7,120	

At December 31, 2007, the Company had a property in the U.K. available for sale, with a net book value of $1.5 million, which building was sold in 2008 for $3.2 million. The Company recorded a net gain of $1.7 million.

Other Accrued Expenses

	September 26, 2008	December 31, 2007 (As Restated)
	(In thousands)	
Accrued interest	$ 2,567	$
Accrued warranty	4,848	4,216
Accrued professional fees	1,393	1,236
Accrued third party sales commissions	610	612
Customer deposits	568	35
Accrued restructuring, current portion	3,366	327
Other	3,887	2,554
Total	$ 17,239	$ 8,980

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GSI GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Accrued Warranty

	September 26, 2008	December 31, 2007 (As Restated)
	(In thousands)	
Balance at beginning of the year	$ 4,216	$ 4,814
Assumed in Excel acquisition	1,214	
Charged to costs and expenses	4,929	4,283
Use of provision	(5,667)	(4,888)
Foreign currency exchange rate changes	156	7
Balance at September 26, 2008	$ 4,848	$ 4,216

8. Debt

On August 20, 2008 (the Closing Date), the Company issued to various investors $210.0 million of unsecured senior notes (the Senior Notes), along with detachable warrants (the Warrants) for the purchase of 5,882,520 of the Company s common shares, for collective net proceeds to the Company of $203.5 million. The proceeds were used to fund a portion of the Company s acquisition of Excel, and the Senior Notes carry a fixed interest rate of 11.0%. The Warrants were net exercised by the holders in October 2008, in exchange for 5,858,495 common shares of the Company. The Company ascribed a fair value to the Warrants in the amount of $26.3 million as of the Closing Date. The fair value was based upon the Black-Scholes option pricing model, assuming a risk-free interest rate of 3.0%, an expected term of 5.0 years, a volatility rate of 85.0% and a 0.0% dividend yield.

The Senior Notes pay interest semi-annually and mature in August 2013. After the first year anniversary of the Closing Date, the Company may redeem up to 50% of the Senior Notes with no penalty or premium. After the third anniversary of the Closing Date, the Company may redeem all remaining Senior Notes, again with no penalty or premium. The Senior Notes require the Company to comply with certain covenants that restrict the Company from taking on additional debt, repurchasing equity, making investments or selling certain assets. Under the Bankruptcy Code, our status as a bankruptcy debtor automatically accelerates the payment of all of the Company s debt, including that arising under the Senior Notes. Accordingly, the Company has classified this debt as current in its September 26, 2008 consolidated financial statements. As further discussed in Note 1, under The Third Modified Joint Chapter 11 Plan of Reorganization the holders of the Senior Notes have agreed to exchange their Senior Note Claims in exchange for: (i) approximately 53.8% of GSIG s post-consummation outstanding shares, (ii) new secured notes in the aggregate amount of $110 million, (iii) excess cash available under the Plan to the extent certain allowed claims exceed $22.5 million, and (iv) their pro rata portion of the Cash Payment.

The $26.3 million value of the warrants was recorded as a discount against the debt. This discount is being amortized to interest expense using the effective interest method over the life of the Senior Notes. In connection with the issuance of the Senior Notes, the Company incurred $6.5 million in issuance fees which are included in other current assets. These issuance fees are being amortized to interest expense over the contractual term of the Senior Notes. As of September 26, 2008, the unamortized portion of the valuation of the warrants was $26.2 million, and the unamortized debt issuance costs were $6.3 million. The Senior Notes, net of the value of the warrants and net of the debt issuance costs, constitute a net carrying value of $183.8 million at September 26, 2008. There was no debt outstanding as of December 31, 2007. For the nine months ended September 26, 2008, the total amount recorded to interest expense, including the accretion of the warrant value, and of the debt issuance costs, was $2.8 million.

As discussed further at Note 2 of Notes to Consolidated Financial Statements, in connection with the Revenue Review, the Company failed to timely file its annual and quarterly reports. In connection with the issuance of the Warrants, the Company and the Warrant holders entered into a Registration Rights Agreement (the RRA), dated as of August 20, 2008, pursuant to which the Company agreed to register the common shares issuable upon exercise of the Warrants. The Company filed that registration statement on Form S-3 in October 2008, simultaneously with the exercise of the Warrants. As a result of its failure to file its Quarterly Report on Form 10-Q for the period ended September 26, 2008, on November 12, 2008 the Company notified the former Warrant holders that it was indefinitely suspending its registration statement on Form S-3. Pursuant to the RRA , the Company is obligated to maintain the effectiveness of the registration statement until the earlier of (i) the date which is twelve (12) months after the Effective Time (October 23, 2008) and (ii) the date on which there are no registrable securities (the Maintenance Period). Under the RRA, monetary penalties accrue and are payable to the former Warrant holders for failure to maintain an effective registration statement during the Maintenance Period, subject to certain terms and conditions more specifically set forth therein. The maximum penalty payments payable under these provisions is approximately $4.0 million. As of September 26, 2008, the Company incurred no penalties under the RRA.

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(Unaudited)

Chapter 11 Bankruptcy Filing

On November 20, 2009 the Debtors filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. The filing by the Debtors constitutes a pre-arranged proposed joint plan of reorganization (the Plan), which was supported by 88.1% of the holders of the Senior Notes. As proposed, the Plan, among other things, would allow the Company to (a) restructure the currently outstanding Senior Notes, and (b) restructure currently outstanding intercompany debt of $20.0 million that is owed from GSI US to GSI Group Limited.

Refer to Note 1 for further discussion of the Chapter 11 Bankruptcy Filing , The Third Modified Joint Chapter 11 Plan of Reorganization , and The Plan Support Agreement.

Fair Value of Debt

The estimated fair value of the Company s Senior Notes approximated $204.0 million at September 26, 2008. This fair value estimate represents the value at which the Company estimates the lenders could trade our debt within the financial markets, and do not represent the settlement value of these long-term debt liabilities to the Company. The fair value of these long-term debt issues will continue to fluctuate each period based on fluctuations in market interest rates, and these fluctuations may have little to no correlation to the Company s outstanding debt balances. Our Senior Notes are not publicly traded, but private party sales may occur. The fair value of our Senior Notes is based on quoted prices for similar liabilities, or similar liabilities traded as assets.

9. Stockholders Equity

Capital stock

The authorized capital of the Company consists of an unlimited number of common shares without nominal or par value. Holders of common shares are entitled to one vote per share. Holders of common shares are entitled to receive dividends, if and when declared by the Board of Directors, and to share ratably in its assets legally available for distribution to the stockholders in the event of liquidation. Holders of common shares have no redemption or conversion rights.

Warrants

As discussed in Note 8, in August 2008 the Company issued Warrants which were later net exercised in October 2008 for an aggregate of 5,858,495 common shares.

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Shareholders Rights Plan

At the annual meeting of shareholders held on May 15, 2008, shareholders approved a resolution approving the continuation, amendment and restatement of the Company s shareholders rights plan.

Prior to the 2008 annual meeting of shareholders, the board of directors of the Company approved an amended and restated shareholder rights plan agreement to be dated May 15, 2008, if approved by shareholders at such meeting. The rights plan was originally approved by the Company s shareholders on May 26, 2005 and its continued existence had to be approved and confirmed by independent shareholders on or before the date of the Company s 2008 annual meeting of shareholders or the rights plan would expire.

The amended and restated shareholder rights plan continues to create a right (which is only triggered if a person or a control group acquires 20% or more of the Company s issued and outstanding publicly traded common shares) for each shareholder, other than the acquiring person or its associates or affiliates, to acquire additional common shares of the Company at one-half of the then market price at the time of exercise. The net effect of an exercise is to dilute the prospective acquirer s share position, and inhibits a change of control event unless the rights plan has been withdrawn or the buyer makes a bid that is permitted by the terms of the plan.

The rights plan is intended to give the Company s Board of Directors more time and control over any sale process and increase the likelihood of maximizing shareholder value.

Stock Repurchase Plan

In December 2005, the Company s Board of Directors authorized a stock repurchase program providing for the repurchase of up to $15.0 million in shares of the Company s common shares. In February 2008, the Company s Board of Directors authorized an increase in the Stock Repurchase Program up to a total of $40.0 million. The Company repurchased and retired 772,467 shares, 816,830 shares, and 381,300 shares in 2008, 2007, and 2006, respectively, at an aggregate cost of $6.4 million, $7.8 million, and $3.8 million, respectively. The program was suspended in May 2008 as a result of the Company s decision to acquire Excel. At September 26, 2008, $21.9 million remains available for future Company purchases under this program.

10. Share-Based Compensation

The Company has several share-based compensation plans, including the 2006 Equity Incentive Plan, under which stock-based grants may be issued and several other plans under which no new grants will be made. The 2006 Equity Incentive Plan provides for grants of various stock-based awards including, but not limited to, stock options, stock appreciation rights and restricted stock. Since 2006, the Company has issued only restricted stock in the form of time and performance-based grants to senior executives, key employees and directors.

2006 Equity Incentive Plan

On May 15, 2006, shareholders of the Company approved the 2006 Equity Incentive Plan which provides for the sale or grant of various awards of, or the value of, the Company s common shares including stock options, stock appreciation rights, restricted stock and performance shares and units, performance-based awards, and stock grants, to officers, directors, employees and certain consultants to the Company. The maximum number of shares of the Company s common shares which may be issued pursuant to the 2006 Equity Incentive Plan is 9,406,000 shares, including a 2.5 million share increase as approved by the Company s shareholders at the May 2008 annual meeting, and subject to adjustment in the event of certain corporate events and reduced by the number of shares already issued pursuant to awards under the Company s 1992 and 1995 Equity Incentive Plans. The plan has a ten year term. As of September 26, 2008, there were 3,162,909 common shares available for future issuance under this plan.

The Company recorded compensation expense related to restricted stock awards issued under the 2006 Equity Incentive Plan totaling $0.8 million in the three month periods ended September 26, 2008 and September 28, 2007, and $2.3 million and $1.8 million in the nine month periods ended September 26, 2008 and September 28, 2007, respectively. Stock compensation expense is primarily included in selling, general, and administrative expenses, and as an increase to additional paid-in capital on the Company s consolidated balance sheets. Earnings before income taxes were reduced by these amounts. As the restricted stock is issuable to the holder, subject to vesting provisions, with no consideration payable by the holder, the grant date fair value per share is based on the quoted stock price on the date of the grant.

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It is the Company s policy to issue new shares for equity awards. The Company recognizes compensation expense on fixed awards on a straight-line basis over the requisite service period, which is generally from the grant of the awards through the end of the vesting period. Restricted stock awards have generally been issued with a three-year vesting period. The Company reduces the compensation expense by an estimated forfeiture rate which is based on actual experience. The Company assesses the likelihood that performance-based shares will be earned based on the probability of meeting the performance criteria. For those performance-based awards that are deemed probable of achievement, an expense is recorded, and for those awards that are deemed not probable of achievement no expense is recorded. The Company assesses the probability of achievement each quarter.

The table below summarizes activity relating to restricted stock awards issued under the 2006 Equity Incentive Plan, which includes both time-based and performance-based awards:

	Number of Shares (in thousands)	Weighted-Average Grant Date Fair Value
Nonvested restricted stock at December 31, 2007	1,167	$ 9.78
Granted	805	$ 7.91
Vested	(305)	$ 9.67
Forfeited	(399)	$ 9.62
Nonvested restricted stock at September 26, 2008	1,268	$ 8.67

Other Incentive Compensation Plans

The Company has several stock option plans and a warrant plan with outstanding grants that pre-date the 2006 Equity Incentive Plan. In 2005, the unvested options were accelerated. No new options will be granted under pre-2006 equity plans as all future equity grants will be issued exclusively under the 2006 Equity Incentive Plan.

Stock option and warrant activity under these plans is presented below:

	Number of Shares (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value (millions)
Outstanding at December 31, 2007	1,228	$ 10.46		
Granted				
Exercised	(16)	3.89		
Forfeited and expired	(440)	12.37		
Outstanding at September 26, 2008	772	$ 9.51	1.8	$ 387.9

Exercisable at September 26, 2008	772	$	9.51	1.8	$ 387.9

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying options and warrants and the quoted price of common shares for the options and warrants that were in the money at September 26, 2008.

11. Employee Benefit Plans

U.K. Defined Benefit Pension Plan

The Company maintains a pension plan in the United Kingdom that consists of two components: the Final Salary Plan (the U.K. Plan), which is a defined benefit plan, and the Retirement Savings Plan, which is a defined contribution

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plan. In 1997, membership to the U.K. Plan was closed and in 2003 the Company was allowed to stop accruing additional benefits to the participants. Benefits under the U.K. Plan were based on the employees years of service and compensation. Most of the beneficiaries of this plan are no longer employed by the Company. The Company follows a pension funding policy based on widely used actuarial methods as permitted by regulatory authorities. The funded amounts reflect actuarial assumptions regarding compensation, interest and other projections. The assets of the U.K. Plan consist primarily of equity, real estate and fixed income securities of U.K. and foreign issuers.

Pension and other benefit costs reflected in the accompanying consolidated statements of operations are based on the projected benefit method of valuation. Within the accompanying consolidated balance sheets, pension plan benefit liabilities are included in accrued compensation and benefits.

The table below sets forth the estimated net periodic pension cost (benefit) of the U.K. Plan (in thousands):

	Three Months Ended		Nine Months Ended	
	September 26, 2008	September 28, 2007 (As Restated)	September 26, 2008	September 28, 2007 (As Restated)
Components of the net periodic pension cost (benefit):				
Service cost	$	$	$	$
Interest cost	412	409	1,200	1,227
Expected return on plan assets	(465)	(449)	(1,329)	(1,348)
Amortization of unrecognized gains	23	97	45	292
Net periodic pension cost (benefit)	$ (30)	$ 57	$ (84)	$ 171

Japan Defined Benefit Pension Plan

The Company maintains a tax qualified pension plan in Japan that covers substantially all Japanese employees. The Company deposits funds in various fiduciary-type arrangements and/or purchases annuities. Benefits are based on years of service and the employee s compensation at retirement. Employees with less than twenty years of service to the Company receive a lump sum benefit payout. Employees with twenty or more years of service to the Company, receive a benefit that is guaranteed for a certain number of years. Participants may under certain circumstances, receive a benefit upon termination of employment.

The assumptions that are used to value the costs and obligations of the plan reflect the Japanese economic environment. The Company continues to fund the plan sufficient to meet current benefits as well as fund a portion of future benefits as permitted by regulatory authorities.

The net periodic benefit cost for the defined benefit pension plan was determined as follows (in thousands):

	Three Months Ended	Nine Months Ended

	September 26, 2008	September 28, 2007 (As Restated)	September 26, 2008	September 28, 2007 (As Restated)
Components of the net periodic pension cost:				
Service cost	$ 51	$ 40	$ 154	$ 120
Interest cost	6	5	19	16
Expected return on plan assets	(1)	(1)	(4)	(2)
Amortization of unrecognized gains	17	15	52	43
Net periodic pension cost	$ 73	$ 59	$ 221	$ 177

12. Income Taxes

At the end of each interim reporting period, the Company determines its estimated annual effective tax rate, which is revised, as required, at the end of each successive interim period based on facts known at that time. The estimated annual

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effective tax rate is applied to the year-to-date pre-tax income at the end of each interim period. The tax effect of significant unusual items is reflected in the period in which they occur. Since the Company is incorporated in Canada, it is required to use Canada s statutory tax rate of 29.5% in the determination of the estimated annual effective tax rate. The Company s reported effective tax rate for continuing operations, after restatement, of 33.2% for the nine months ended September 26, 2008, differed from the expected Canadian federal statutory rate of 29.5%, primarily due to the mix of jurisdictions in which the Company earns it income, the tax impact or non-deductibility of the acquired in-process research and development related to the Excel acquisition, and the adjustment of utilization of net operating losses during the Internal Revenue Service (the IRS) appeal review for the tax years from 1999 to 2002, offset in part by the increase in interest receivable resulting from the IRS audit for the tax years from 1999 to 2002, the increase in the potential refunds and accrued interest income from the potential refunds claimed on the federal amended returns for the tax years from 2000 to 2006, and the provision to return adjustments in the United States.

As part of the process of preparing the consolidated financial statements, the Company is required to estimate its income tax provision (benefit) in each of the jurisdictions in which it operates. This process involves estimating the current income tax provision (benefit) together with assessing the future effects of temporary differences resulting from differing treatment of items for tax and accounting purposes. The Company recognizes deferred tax assets and liabilities based on the differences between the financial statement carrying amount and the tax bases of assets and liabilities.

The Company records a valuation allowance if it is more likely than not that a portion of its deferred tax assets will not be realized. The Company has considered historical losses, future taxable income, and expected reversals of existing temporary differences in assessing the need for a valuation allowance. The Company has not recorded a provision for withholding tax on undistributed earnings of foreign subsidiaries as the Company currently has no plans to repatriate those earnings. Determination of the amount of unrecognized deferred tax liabilities is not practicable because of the complexities associated with its hypothetical calculation.

As of September 26, 2008, the Company had total unrecognized tax benefits of $4.3 million, all of which, if recognized would favorably affect its effective tax rate. The Company expects that the changes in the unrecognized benefits within the next twelve months will not be material. The total unrecognized tax benefits changed materially from last quarter due to adding Excel s unrecognized tax benefits of $1.3 million at the time of the acquisition. Given the uncertainty regarding when the authorities will complete their examinations and the possible outcomes of their examinations, a current estimate of the range of reasonably possible significant increases or decreases in income tax that may occur within the next twelve months cannot be made. However, the Company expects that the changes in the unrecognized benefits within the next twelve months would not be material. In addition the Company has settled its Canadian audit after the balance sheet date and this settlement will have no significant effect on the Company s uncertain tax positions.

The reconciliation of the total amounts of unrecognized tax benefits at the beginning of the first quarter and the end of the third quarter of 2008 is as follows:

Balance at January 1, 2008	$ 3,537
Additions based on tax positions related to the current year	43
Additions for tax positions of prior years	700
Additions for Excel s tax positions at the acquisition	1,300
Reductions for tax positions of prior years	
Lapse of the applicable statute of limitations	(952)
Reclassified due to payment made	(378)
Balance at September 26, 2008	$ 4,250

The Company recognizes interest and penalties related to unrecognized tax benefits as income tax expense. As of September 26, 2008, the Company had approximately $0.7 million of accrued interest and penalties related to uncertain tax positions. During the nine months ended

September 26, 2008, the Company recognized approximately $0.3 million in interest and penalties.

The Company files state and federal income tax returns in the United States and in foreign jurisdictions. Generally, the Company is no longer subject to United States federal, state or local, or foreign income tax examinations by tax authorities for the years before 2002 as these years have been effectively settled as described in FSP FIN 48-1 *Definition of Settlement in FASB Interpretation No. 48* . During 2007, the Company settled an audit with the Internal Revenue Service for tax years 1999 2002. Furthermore, the Company closed an audit with the Japanese tax authorities for tax years 2004 -2006 resulting in no adjustments. Currently, the Company is under audit in the United States for tax years 2004 and 2005 and in Canada for tax years 2002 2004. The Company s income tax returns may be reviewed in the following countries and for the following periods under the appropriate statutes of limitations: United States (2004-present), Canada (2002-present), United Kingdom (2004-present), Germany (2004-present), Japan (2007-present), Taiwan (2003-present), and Korea (2003-present).

In connection with the Chapter 11 Cases described in Note 1 of Notes to Consolidated Financial Statements, the IRS has filed amended proofs of claim aggregating approximately $7.7 million for amounts it claims the Company owes for 2002 through 2008. The IRS has provided no information to substantiate its claims. The Company believes the IRS claims are without merit and intends to vigorously object to them in Bankruptcy Court. Consequently, the Company believes no adjustment of its estimated tax liability pursuant to FIN 48 is required.

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13. Restructuring

The following table summarizes restructuring expense (net of benefit) in the consolidated statement of operations:

	Three Months Ended		Nine Months Ended	
	September 26, 2008	September 28, 2007 (As Restated)	September 26, 2008	September 28, 2007 (As Restated)
United Kingdom restructuring	$	$ 2,002	$ (322)	$ 5,973
Munich restructuring	16	(63)	147	(107)
Novi restructuring	45		1,369	2
Bedford restructuring	3,012		3,012	
Total restructuring expense (net of benefit)	$ 3,073	$ 1,939	$ 4,206	$ 5,868

United Kingdom Restructuring

In 2007, the Company implemented a plan to expand its manufacturing operations in China and restructure its manufacturing operations in the United Kingdom. These actions are part of the Precision Technology segment s overall plan to expand its presence in Asia and increase profitability. For the nine months ended September 28, 2007, the Company incurred $6.0 million in restructuring costs of which: $2.6 million related to termination benefits, $3.0 million was for inventory write offs and $0.4 million was for manufacturing transition costs.

On February 29, 2008 and June 27, 2008, the Company executed agreements to sell assets related to its otherwise discontinued Impact product line, and certain assets related to its LaserMark and Excimer laser product lines. The majority of the assets sold in the transaction represent inventory that had already been written off and were included as part of the restructuring charges recorded in 2007. The results of the sales resulted in a restructuring benefit of $0.3 million for the nine months ended September 26, 2008. Payments received on asset sales that are due beyond one year will be recorded as restructuring benefits when they are received.

Munich Restructuring

As a result of restructuring programs undertaken in 2000 through 2004, and the subsequent sublease of the Company s Munich, Germany facility, in May 2007 through the end of its lease term, the Company historically carried a $1.1 million accrual for the cost of this lease. The Company regularly reviews its assumptions with respect to this excess space, including contractual lease payments, and proceeds from the sublease. Following this review, the Company has booked adjustments to the lease restructuring in each of 2008 and 2007, and as of September 26, 2008, cumulative expense related to this restructuring program is $2.6 million. The remaining accrual will be paid ratably over the remaining term of the lease, which expires in January 2013.

Novi Restructuring

In the second quarter of 2008, the Company implemented a plan to close its Novi, Michigan facility, which provided U.S. sales, applications and service support to a product line included in the Company s Precision Technology segment. The Novi facility was consolidated within the Company s Bedford, Massachusetts facility. In connection with this action, the Company recorded a restructuring charge of $1.4 million, consisting of $0.7 million for employee severance and $0.7 million in lease abandonment and related costs. The majority of these employee severance payments were made in 2008, and the remaining amounts have been paid in 2009. The lease costs are being paid ratably over the duration of the lease, which ends in 2012.

Bedford Restructuring

In September 2008, the Company consolidated its operations and facilities in Massachusetts to a new facility in Bedford, Massachusetts. At that time, the Company implemented a plan to reduce its United States workforce by approximately 50 people and took a restructuring charge in the third quarter of 2008 of $3.0 million for severance costs. $1.2 million of this amount was charged to the Semiconductor Systems Segment; $0.7 million was charged to the Precision Technology Segment; and $1.1 million was charged against corporate operations. The workforce reduction is expected to save the Company $6.8 million in annual salary and related costs.

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Rollforward of Accrued Expenses related to Restructuring

The following table summarizes the balance of the restructuring accruals on the Company s consolidated balance sheets (in thousands):

	Total
Balance at December 31, 2007	$ 1,342
Restructuring charges (benefits), net	4,206
Cash payments and other adjustments	(1,076)
Balance at September 26, 2008	$ 4,472

14. Commitments and Contingencies

Operating leases

The Company leases certain equipment and facilities under operating lease agreements. Most of these lease agreements expire between 2009 and 2020. In the United Kingdom, where longer lease terms are more common, the Company has land leases that extend through 2078. Under the terms of the facility leases, the Company is responsible to pay real estate taxes and other operating costs. In connection with its acquisition of Excel in 2008, the Company assumed fourteen new facility leases used in manufacturing, research and development, sales and administration. The rent on certain leases is subject to escalation clauses in future years.

In 2007, the Company signed a 12-year lease for a 147,000 square foot facility in Bedford, Massachusetts. The terms of the lease provide the Company with two renewal options for periods of five years each. The Company consolidated its Natick, Massachusetts, Billerica, Massachusetts and Wilmington, Massachusetts operations into this facility. The consolidation was completed in the second quarter of 2008. Under the terms of the lease agreement, the landlord waived the first 5.5 months rent (representing a savings of $0.7 million). This savings is being amortized as a reduction to rent expense over the life of the lease, and is included in other liabilities. The Company incurred $14.2 million in expenditures through September 26, 2008 to fit-up and occupy the Bedford facility, of which the landlord provided $4.0 million in allowances. The landlord allowance has been included in the Company s accompanying consolidated balance sheets in property, plant and equipment, and in other liabilities. The property, plant and equipment balance being amortized to depreciation expense ratably over this life of the lease, and the landlord allowance is being offset as a reduction to rent expense, ratably over the life of the lease.

Legal proceedings and disputes

The Company s French subsidiary, GSI Lumonics SARL (Lumonics), is subject to a claim by a customer, SCGI, that a Laserdyne 890 system delivered in 1999 had unresolved technical problems. During the third quarter of 2005, GSI France, parent of Lumonics, filed for bankruptcy protection, which was granted by the French court on July 7, 2005. On April 18, 2006, the court fixed SCGI s claim against Lumonics at 598,079 Euros, plus court costs and expert fees of 85,945 Euros. SCGI accepted the court s determination. SCGI is now demanding that the Liquidator bring an action in the United Kingdom against GSI Group Ltd., the parent corporation of GSI France. The Company is not aware of any facts to support a claim. The Company s French counsel is addressing these points directly with the Liquidator. At this time, the Company does not believe it will be required to make any payments regarding this action. Accordingly, nothing has been accrued in the Company s accompanying consolidated financial statements.

On August 6, 2008, a purported stockholder of Excel Technology, Inc., a subsidiary of the Company, filed a complaint seeking certification of a class action lawsuit in the Supreme Court of the State of New York, County of New York, docketed as Joseph Choquette, v. Antoine Dominic, Steven Georgiev, Donald E. Weeden, Ira J. Lamel, J. Donald Hill and Excel Technology, Inc., Index No. 08/602294 (the Choquette Action) against Excel and each of its directors. The Choquette Action purports to be brought individually and on behalf of all public stockholders of Excel. The Choquette Action alleges that Excel s director defendants breached their fiduciary duties to Excel s stockholders in connection with the proposed tender offer by the Company and that each of the defendants aided and abetted such alleged breach of Excel s director defendants fiduciary duties. Based on these allegations, the Choquette Action seeks, among other relief, an order

GSI GROUP INC.

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declaring the action to be a class action, enjoining preliminarily and permanently the tender offer and the merger with the Company, rescinding, to the extent already implemented, the tender offer and the merger with the Company or any of the terms thereof or awarding rescissory damages, directing that the defendants account to plaintiff and other members of the class for all damages caused by them and account for all profits and any special benefits obtained as a result of a breach of their fiduciary duties to the purported stockholder and other members of the class, awarding plaintiff the costs of the Choquette Action including a reasonable allowance for the expenses of plaintiff s attorneys and experts and granting plaintiff and other members of the class such further relief as the court deems just and proper. On August 14, 2008, Excel and the individual defendants in the Choquette Action filed a motion to dismiss the lawsuit. On August 18, 2008, the plaintiff in the Choquette Action filed a motion seeking a preliminary injunction to enjoin consummation of the tender offer and to require Excel to issue additional and supplementary disclosures in Excel s Schedule 14D-9 filing. On August 19, 2008, the court denied plaintiff s motion for a preliminary injunction. On April 15, 2009, the court granted defendants motion to dismiss and entered judgment dismissing the complaint with prejudice.

On December 12, 2008, in connection with the delayed filing of its results for the quarter ended September 26, 2008, and the announcement of a review of revenue transactions, a putative shareholder class action alleging federal securities violations was filed in the United States District Court for the District of Massachusetts against us, a former officer and a current officer and director. Specifically, the complaint alleges that the Company and the individual defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, and seeks recovery of damages in an unspecified amount. The action was brought on behalf of a putative class of shareholders who purchased the Company s stock between April 30, 2008 and December 3, 2008. A lead plaintiff, Mason Tenders District Council Trust Funds, was appointed on May 8, 2009. On July 1, 2009, the Court ordered lead plaintiff to file a consolidated or amended complaint within 30 days of the Company s filing of restatements for certain of its historical financial results with the SEC. During the last several months, the parties have been in settlement discussions and the parties have reached an agreement in principle to settle this lawsuit. The settlement would, in general, cover purchasers of the common stock of the Company between February 27, 2007 and June 30, 2009. The agreement in principle is subject to a number of contingencies including confirmatory discovery by the Lead Plaintiff, after which Lead Plaintiff may affirm or void the agreement in principle, preliminary and final approval by the District Court, and to the extent required by law, approval by the Bankruptcy Court. Although the agreement in principle is not final, the total settlement amount is well within the Company s insurance policy limits; the Company s contribution to the settlement amount would be limited to the balance of the company s self-insured retention.

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 the Company s financial conditions 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 the Company s financial condition or results of operations.

Chapter 11 Bankruptcy Filing

On November 20, 2009, the Debtors filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for Delaware, as discussed in Note 1.

SEC Investigation

As discussed in the Explanatory Note to the Quarterly Report on Form 10-Q, we have conducted a Revenue Review of certain of our historic revenue transactions. On May 14, 2009, we received a notice from the SEC indicating that the SEC is conducting a formal investigation relating to our historical accounting practices and the restatement of our historical consolidated financial statements. The Company is cooperating fully with the SEC s investigation. The Company cannot predict the outcome of the investigation at this time.

Issuance of Unregistered Securities

The Company inadvertently issued unregistered shares of common stock under its 2006 Plan as a result of its inadvertent failure to file with the SEC a registration statement on Form S-8. The 2006 Plan was approved by the Company s shareholders in May 2006. From March 2007 through March 2010, the Company issued approximately 773,037 duly authorized common shares with a total fair market value at the date of issuance of approximately $3,889,796 to fifty-two employees and directors under its 2006 Plan. As a result, the Company may be subject to civil litigation, enforcement proceedings, fines, sanctions and/or penalties.

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(Unaudited)

The Company may also be subject to claims by participants in the 2006 Plan for rescission of their acquisitions of common shares under the 2006 Plan under federal securities laws until the expiration of the applicable statute of limitations period, which is one year under federal law from the date of transaction. If applicable, such participants may have the right to rescind their purchases for an amount equal to the purchase price for the shares (or if the shares have been disposed of, claims for any damages with respect to any loss on such disposition) plus interest from the date of purchase. However, under applicable provisions of federal law (including section 510(b) of the Bankruptcy Code (11 U.S.C. §-510(b)), and in connection with our Chapter 11 Cases, if the Company s proposed Plan is confirmed, the holders of any such damage claims and related rescission or other rights would, the Company believes, be entitled to receive a distribution under the Plan of common shares of the reorganized Company only. The Company believes that the most likely result is that any such claims, if allowed, would result in the holder receiving that quantity of common shares in the reorganized Company that are determined by a court to result in equal treatment of such claim holders and existing equity holders. Furthermore, rescission or damages claims of a shareholder who holds the above described unregistered shares, but receives new shares, as contemplated by the Plan, would be discharged upon the Company s emergence from the bankruptcy proceedings. Such new shares would be issued pursuant to an exemption from registration under §1145 of the Bankruptcy Code and be freely tradable by holders who are not deemed to be underwriters. The Company cannot predict the outcome of this matter at this time and the effect it may have on the Company s financial condition or results of operations.

Guarantees and Indemnifications

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

Credit Risks and Other Uncertainties

The Company maintains financial instruments such as cash and cash equivalents, trade receivables and financial instruments used in hedging activities. From time to time, certain of these instruments may subject the Company to concentrations of credit risk whereby one institution may hold a significant portion of the cash and cash equivalents, or one customer may compose a large portion of the accounts receivable balances.

At December 31, 2007, there was a concentration of credit risk related to the Company s position in trade accounts receivable. At that time, one customer, Rexchip Electronics Corporation, represented 21% of the outstanding accounts receivable. There was no such concentration of credit risk as of September 26, 2008. Credit risk with respect to trade accounts receivables is generally minimized because of the diversification of the Company s operations, as well as its large customer base and its geographical dispersion.

The Company acquired certain auction rate securities in connection with its purchase of Excel. In current markets, the fair value of these auction rate securities is not able to be ascertained by observable inputs. See Note 3 of the Notes to Consolidated Financial Statements for further discussion.

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GSI GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Certain of the components and materials included in the Company s laser systems and optical products are currently obtained from single source suppliers. There can be no assurance that a disruption of this outside supply would not create substantial manufacturing delays and additional cost to the Company.

The Company s operations involve a number of other risks and uncertainties including, but not limited to, the cyclicality of the semiconductor and electronics markets, the effects of general economics conditions, rapidly changing technology, and international operations.

15. Segment Information

As a result of the Company s acquisition of Excel, it reassessed its segment reporting based on the operating and reporting structure of the combined company. The Company has concluded that the acquisition of Excel has resulted in the establishment of a third segment which is comprised solely of the operations of the newly acquired entity. The Company s segments and their principal activities consist of the following:

Precision Technology

This segment s products include technologies for precision motion, linear and rotary motion control, medical printers, lasers, electro-optical components and precision optics used in a broad range of commercial and semiconductor applications. These products are used in the electronics, aerospace, materials processing, data storage, imaging and other light industrial markets. The products are designed and manufactured at the Company s facilities in the United States, Europe and Asia.

Semiconductor Systems

The Company s Semiconductor Systems Segment s products are designed and manufactured at its facility in the United States. Specific applications include laser repair to improve yields in the production of memory chips; laser marking systems for work-in-process management and traceability of silicon wafers; laser trimming of linear and mixed signal integrated circuits and chip resistors; and inspection of solder paste and component placement on printed circuit boards. The Semiconductor Systems Segment also derives significant revenues from parts and service to its installed base.

Excel

This segment s products include lasers, electro-optical components, precision optics and photonics-based solutions primarily consisting of laser systems used in a broad range of commercial and scientific research applications. These products are used in the electronics, aerospace, materials processing, data storage, imaging and other light industrial markets. The products are designed and manufactured at the Company s facilities in the United States and Europe.

Reportable Segment Financial Information

	Three Months Ended		Nine Months Ended	
	September 26, 2008	September 28, 2007 (As Restated)	September 26, 2008	September 28, 2007 (As Restated)

	(In thousands)			
Sales				
Precision Technology	$ 34,568	$ 53,270	$ 118,941	$ 137,996
Semiconductor Systems	17,116	32,121	55,025	89,209
Excel	20,410		20,410	
Intersegment sales elimination	(651)	(1,314)	(2,239)	(3,506)
Total	$ 71,443	$ 84,077	$ 192,137	$ 223,699

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GSI GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

	Three Months Ended September 26, 2008	Three Months Ended September 28, 2007 (As Restated)	Nine Months Ended September 26, 2008	Nine Months Ended September 28, 2007 (As Restated)
	(In thousands)			
Gross Profit				
Precision Technology	$ 11,000	$ 20,626	$ 42,913	$ 51,015
Semiconductor Systems	3,923	11,652	17,213	37,213
Excel	7,673		7,673	
Intersegment sales elimination	290	423	252	533
Total	$ 22,886	$ 32,701	$ 68,051	$ 88,761

The Company reports operating expenses and its assets on a consolidated basis to the chief operating decision maker.

Significant Customers

At September 26, 2008, no customer accounted for 10% or more of the Company s accounts receivable balance. At December 31, 2007, there was one customer, Rexchip Electronics Corporation, which accounted for 21% of the Company s accounts receivable balance.

16. Related Party Transactions

Richard B. Black, the Chairman of the Company, is also the President and Chief Executive Officer of ECRM, Inc., a company which manufactures laser systems equipment for the printing and publishing industry and which is a customer of the Company. All sales to ECRM, Inc. were made pursuant to the Company s standard contract terms and conditions. The Nominating and Governance Committee of the Company s Board of Directors has reviewed and confirmed that ECRM, Inc. received no favored commercial treatment.

The Company recorded sales and raw material purchases from Sumitomo Heavy Industries Ltd., a significant shareholder. The amounts and terms are essentially equivalent to similar third-party transactions.

The following table summarizes related party transactions in the consolidated statements of operations (in thousands):

	Three Months Ended September 26, 2008	Three Months Ended September 28, 2007 (As Restated)	Nine Months Ended September 26, 2008	Nine Months Ended September 28, 2007 (As Restated)
Sales to ECRM, Inc.	$	$ 117	$ 245	$ 709
Sales to Sumitomo Heavy Industries Ltd.	769	953	2,791	2,619
Purchases from Sumitomo Heavy Industries Ltd.	60		107	52

The following table summarizes the related party transactions on the balance sheet (in thousands):

	September 26, 2008	December 31, 2007 (As Restated)
Accounts receivable from ECRM, Inc.	$ 146	$ 211
Accounts receivable from Sumitomo Heavy Industries Ltd.	468	461
Accounts payable to Sumitomo Heavy Industries Ltd.	4	

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GSI GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

17. Subsequent Events

Impairment of Goodwill, Intangible Assets and Other Long-lived Assets

As discussed in Note 3 of Notes to Consolidated Financial Statements, the Company tests its goodwill balances and assesses its indefinite-lived assets annually in the beginning of the second quarter or more frequently if indicators are present or changes in circumstances suggest that impairment may exist. Definite-lived intangible and other long-lived assets are reviewed for impairment whenever changes in events or circumstances indicate their carrying value may not be recoverable.

The significant downturn in the global economy during the fourth quarter of 2008 negatively impacted the Company s projected revenues, expenses and cash flows, suggesting that an impairment of the Company s goodwill, intangible and other long-lived assets might exist. As a result, the Company undertook a review of these assets. Based upon the results of that review, the Company recorded an impairment charge of $215.1 million on its goodwill, intangible assets and other long-lived assets as of December 31, 2008

Bankruptcy Proceedings

Refer to Note 1 for further discussion of the Chapter 11 Bankruptcy Filing , The Third Modified Joint Chapter 11 Plan of Reorganization , and The Plan Support Agreement.

NASDAQ Delisting Determination

On November 3, 2009, the NASDAQ Hearing Panel of NASDAQ notified the Company that it had determined to delist the Company s common shares from the NASDAQ Global Select Market and to suspend trading in the Company s common shares. In accordance with Listing Rule 5830 and Rule 12d2-2 under the Securities Exchange Act of 1934, NASDAQ filed an application on Form 25 with the SEC on April 5, 2010, to delist the Company s securities from NASDAQ. The application will become effective ten days after filing. See Note 1 NASDAQ Delisting Determination of the Notes to Consolidated Financial Statements for further discussion.

SEC Investigation

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

Costs Associated with Exit or Disposal Activities

In December 2008, the Company announced the transfer of all volume related manufacturing from its Rugby, U.K. facility, to the Company s facilities in China and newly acquired Excel manufacturing sites. These activities were completed in 2009, at a total cost of $5.0 million, which is composed of non-cash land and building impairment charges of $3.6 million, employee severance costs of $1.1 million, and facility related charges of $0.3 million. In December 2008, the Company recorded $3.9 million of this total to restructuring expense. It was composed of $3.6 million of non-cash land and building charges, and $0.3 million of employee severance costs. In addition to the amount recorded to restructuring and other expense, the Company recorded a charge of $0.6 million for inventory write-offs against cost of goods sold in 2008. The remaining portion of this restructuring activity has been recorded to restructuring and other expense in 2009. Additionally, in October 2009, the Company sold the Rugby, U.K. facility for proceeds of $3.6 million. The Company recorded a gain of $0.1 million on sale of the Rugby, U.K. facility in 2009.

Additionally, the Company has undertaken a number of cost reduction initiatives, including a workforce reduction of approximately 214 employees in fiscal 2009. The total approximate severance paid in 2009 by the Company in connection with these initiatives was approximately $3.9 million.

Auction Rate Securities

As discussed in Note 3 of Notes to Consolidated Financial Statements, the Company has holdings in Auction Rate Securities for which market stability does not currently exist. The Company had some success in liquidating these holdings during 2009. Of the $32.3 million in par value securities that the Company held as of September 26, 2008, it sold $19.3 million in 2009, and recorded net realized gains of $2.4 million on its sales of these securities. As of December 31, 2009, the Company continues to hold auction rate securities with a par value of $13.0 million. If the credit ratings of the issuer, the

GSI GROUP INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

bond insurers or the collateral deteriorate further or if the issuers of these auction rate securities are unable to successfully close further auctions, the Company may further reduce the carrying value of these investments and may in the future be required to record impairment charges against these investments, some of which may be considered other-than-temporary impairment charges. The Company may be required to wait until market stability is restored for these instruments or until the final maturity of the underlying notes (up to 30 years) to recover its investment.

Amended Lease Agreement

In February 2010, the Company entered into an Amended Lease Agreement with 125 Middlesex Turnpike, LLC to reduce the term of its current lease at 125 Middlesex Turnpike, Bedford, Massachusetts from 12 years (of which approximate 10 years were remaining) to 3 years from the new effective date of March 12, 2010. The rental payment will continue at $0.1 million per month. The landlord has the right to terminate upon a written notice of termination (the Termination Notice) setting forth the new date on which the term of the lease shall expire (the Early Termination Date), which date shall be (a) no less than nine (9) months after the date of the Termination Notice, and (b) in any event, no earlier than June 1, 2011.

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

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) should be read in conjunction with the Consolidated Financial Statements and Notes included in Item 1 of this Quarterly Report on Form 10-Q. The MD&A contains certain forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 27A of the United States Securities Act of 1933, as amended, and Section 21E of the United States Securities Exchange Act of 1934, as amended. These forward-looking statements include, but are not limited to anticipated financial performance; drivers of revenue growth; management s plans and objectives for future operations and expenditures; business prospects; industry trends; market conditions; changes in accounting principles and changes in actual or assumed tax liabilities; expectations regarding tax exposure; anticipated capital requirements and working capital needs; amounts of debt, including expectations relative to the restructuring of the debt through Chapter 11 bankruptcy proceedings; anticipated reinvestment of future earnings; anticipated expenditures in regard to the Company s benefit plans; and its anticipated use of currency hedges. These forward-looking statements are neither promises nor guarantees, but involve risks and uncertainties that may cause actual results to differ materially from those in the forward-looking statements. Factors that may cause such differences include, but are not limited to, management s ability to maintain or accurately forecast revenue growth or to anticipate and accurately forecast a decline in revenue from any of the Company s products or services; the Company s ability to compete in an intensely competitive market; its ability to develop and introduce new products or enhancements on schedule and that respond to customer requirements and rapid technological change; new product introductions and enhancements by competitors; the Company s ability to select and implement appropriate business models; plans and strategies and efforts to execute on them; the Company s ability to identify, hire, train, motivate, and retain highly qualified management/other key personnel and its ability to manage changes and transitions in management/other key personnel; the impact of global economic conditions on the Company s business; unauthorized use or misappropriation of its intellectual property; as well as the risk factors discussed herein and in other periodic reports filed with the SEC. 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

We design, develop, manufacture and sell photonics-based solutions (consisting of lasers, laser systems and electro-optical components), precision motion devices, associated precision motion control technology and systems. Our customers incorporate our technology into their products or manufacturing processes, for a wide range of applications in the industrial, scientific, electronics, semiconductor, medical and aerospace markets. Our products allow customers to make advances in materials and processing technology and to meet extremely precise manufacturing specifications, including device complexity and miniaturization.

The photonics and electro-optical industry is subject to intense competition and rapid technological developments. Our strength and success is dependent upon developing and delivering successful, timely and cost effective solutions to our customers. For us to maintain our performance, we believe we must continue to increase our operational efficiencies, improve and refine our existing products, expand our product offerings and develop new applications for our technology.

The Company strives to create shareholder value through:

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

We and our subsidiaries serve three primary industries or market segments: Precision Technology, Semiconductor Systems, and Excel. The Company s Precision Technology Segment primarily sells components to original equipment manufacturers (OEMs), who then integrate its products into application specific products or systems. The Company s OEM products include those based on its core competencies in laser, precision motion and motion control technology. The Company s Semiconductor Systems Segment designs, develops and sells production systems that process semiconductor wafers using laser beams and high precision motion technology. The Company sells manufacturing systems to integrated

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device manufacturers and wafer processors. The Company s Excel Segment, acquired in August 2008, designs, manufactures and markets photonics-based solutions consisting of lasers, laser-based systems, precision motion devices and electro-optical components, primarily for industrial and scientific applications. The Company s Excel Segment primarily sells components to OEMs, who then integrate its products into application specific products or systems.

Strategy

GSI strives to expand its presence in its most attractive markets both through organic growth and strategic acquisitions. This strategy led to our acquisition of Excel in the third quarter of 2008. This transaction was a major step for us, as it introduced our presence in some of the attractive markets in which the Excel Segment operates, and it expanded our presence in some of the most attractive markets in which the Precision Technology Segment operates. During 2008 and 2009, we initiated the integration of Excel s operations with ours. In 2010, we intend to focus on the completion of the integration of Excel into our operations and on the continued development and introduction of new products. In addition, we intend to continue to explore potential divestments of non-strategic businesses.

We had a number of significant events in 2008, 2009 and 2010 through the filing of this Quarterly Report on Form 10-Q. A discussion of those events follows.

Significant Events in 2008

Financial data, when presented throughout Management s Discussion and Analysis of Financial Condition and Results of Operations, includes the effect of each of the following in the applicable reporting period:

1. ***Restatement of our Financial Results.*** This restatement is more fully described in the Explanatory Note immediately preceding Part I of this Quarterly Report on Form 10-Q, and in Note 2, Restatement of Previously Issued Financial Statements , of Notes to Consolidated Financial Statements. The following table presents revenues and deferred revenues as reported and as restated (in thousands):

	Nine Months Ended September 26, 2008 (Unaudited)	Year-Ended December 31, 2007	2006	2005 (Unaudited)	2004 (Unaudited)
Revenues:					
As reported (a)	$ 192,137	$ 306,067	$ 302,083	$ 251,761	$ 321,367
As restated		$ 291,081	$ 259,030	$ 248,283	$ 319,508
Deferred revenue (b):					
As reported (a)	$ 108,591	$ 9,949	$ 2,965	$ 2,963	$ 1,811
As restated		$ 101,563	$ 80,283	$ 36,511	$ 30,411

(a) Excludes U.S. Optics Business which is classified as discontinued operations.
(b) Includes current and non-current deferred revenue.

2. ***Divestiture of our U.S. Optics Business.*** On October 8, 2008, we completed the sale of our U.S. Optics Business for $21.6 million. The U.S. Optics Business was included in our Precision Technology Segment and is shown in the accompanying consolidated statement of operations as discontinued operations since the business was held for sale as of September 26, 2008. The divestiture of the U.S. Optics Business is more fully described in Note 5, Discontinued Operations of Notes to Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

3. ***Excel Acquisition.*** In August 2008, we completed the acquisition of Excel Technology, Inc., a designer, manufacturer and marketer of photonics-based solutions consisting of lasers, laser based systems, precision motion devices and electro-optical components, primarily for industrial and scientific applications. We believe that Excel s

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complementary products, technologies, and distribution channels will enable us to provide customers with a significantly broader set of technical solutions thereby allowing us to expand our market share. The Excel acquisition had a material impact on our results of operations in 2008. Excel is included in our consolidated financial statements since August 20, 2008. See Note 4, Business Combinations , of Notes to Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q for additional details.

4. ***Debt Financing.*** The acquisition of Excel was financed in part with net cash proceeds received from the sale of $210.0 million of 11% unsecured senior notes and warrants to purchase our common shares. The remainder of the purchase price we paid for Excel was provided by cash on hand at the time of closing.

5. ***Impairment of Goodwill, Intangible Assets and Other Long-lived Assets.*** During the fourth quarter of 2008, we recorded an impairment charge of $215.1 million resulting from our assessment of the fair value of our goodwill, intangible and other long-lived assets as of December 31, 2008. The impairment charge included an impairment of the goodwill, intangible and other long-lived assets we acquired as part of the Excel acquisition in August 2008, that is more fully discussed below under Critical Accounting Policies and Estimates , and also in Note 3 of Notes to Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

6. ***Restructuring Charges.*** During the three-month and nine-month periods ended September 26, 2008, we recorded restructuring charges of $3.1 million and $4.2 million, respectively, resulting from various actions including workforce reductions and the cessation or relocation of certain activities. These actions are discussed below, in our discussion of our results of operations for the three-month and nine-month periods ended September 26, 2008 and September 28, 2007.

Significant Events in 2009 and 2010

In 2009 and 2010, the Company had a number of significant developments. These developments are discussed in the Explanatory Note that precedes Part I of this Quarterly Report on Form 10-Q, Note 1 of Notes to Consolidated Financial Statements under the headings NASDAQ Delisting Determination, Chapter 11 Bankruptcy Filing, The Third Modified Joint Chapter 11 Plan of Reorganization and The Plan Support Agreement and in Note 17 of Notes to Consolidated Financial Statements under the headings, SEC Investigation, Costs Associated with Exit or Disposal Activities, Auction Rate Securities and Amended Lease Agreement.

In addition to these events, we undertook a number of restructuring activities in 2009. We also undertook a number of cost reduction initiatives, including a workforce reduction of approximately 214 employees in fiscal 2009. The total approximate severance paid in 2009 by the Company in connection with these initiatives was approximately $3.9 million. The approximate annualized savings realized by us from these workforce reductions was approximately $11.2 million in 2009.

Our Revenue Review and related restatement of historic financial statements continued into 2009. The costs for these activities are significant, and have been charged to restructuring and other costs as incurred.

Going Concern

As a result of certain of the significant events discussed above and uncertainties inherent in the bankruptcy process, there is substantial doubt about our ability to continue as a going concern. Operating in bankruptcy imposes significant risks and uncertainties on our business. See Item 1A Risk Factors Risks Relating to Bankruptcy of Part II of this Quarterly Report on Form 10-Q for a discussion of the risks and uncertainties relating to our business and investing in our securities as a result of the Chapter 11 Cases.

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We believe that when we emerge from bankruptcy, we will be sufficiently capitalized. We expect that we will have assets that exceed our liabilities, and that those assets, as well as the net assets derived from our continuing operations, will be sufficient to meet our obligations, including the obligations with respect to the payment of interest, and repayment of principal under the New Term Loan (see *The Third Modified Joint Chapter 11 Plan of Reorganization* in Note 1 of Notes to Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q). Notwithstanding our expectation upon our emergence from bankruptcy, uncertainties inherent in the bankruptcy process raise substantial doubt about our ability to continue as a going concern. In particular, until the Plan is confirmed by the Court, we may be required to pay the Senior Note Claims under the original terms of the Senior Notes. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Overview of Financial Results

As a result of the significant events described above, our financial results in 2008 differ significantly from those in recent years. During the nine months ended September 26, 2008, we reported a net loss of $14.1 million, compared to net income of $13.6 million in the corresponding period in 2007. Our operating results for the nine-month period included a significant charge of $12.1 million relating to the write-off of acquisition related in-process research and development in connection with our acquisition of Excel. In addition, we expensed $4.2 million in connection with restructuring activities during the first nine months of 2008 compared with $5.9 million during the first nine months of 2007.

Results of Operations for the Three Months Ended September 26, 2008 Compared with the Three Months Ended September 28, 2007

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

	Three Months Ended	
	September 26, 2008	September 28, 2007 (As Restated)
Sales	100.0%	100.0%
Cost of goods sold	68.0	61.1
Gross profit	32.0	38.9
Research and development and engineering	12.4	8.8
Selling, general and administrative	23.3	18.0
Amortization of purchased intangibles	2.3	0.6
Restructuring	4.3	2.3
Acquisition related in-process research and development charge	17.0	
Total operating expenses	59.3	29.7

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	Three Months Ended	
	September 26, 2008	September 28, 2007 (As Restated)
Income (loss) from operations	(27.3)	9.2
Interest income	0.8	2.0
Interest expense	(4.0)	
Foreign exchange transaction gain (losses)		0.8
Other income (expense), net		
Income (loss) from continuing operations before income taxes	(30.5)	12.0
Income tax provision (benefit)	(10.6)	4.1
Income (loss) from continuing operations	(19.9)	7.9
Income from discontinued operations, net of tax		
Net income (loss)	(19.9)%	7.9%

Sales

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

	Three Months Ended			
	September 26, 2008	September 28, 2007 (As Restated)	Increase (Decrease)	Percentage Change
Precision Technology	$ 34,568	$ 53,270	$ (18,702)	(35.1)%
Semiconductor Systems	17,116	32,121	(15,005)	(46.7)%
Excel	20,410		20,410	
Intersegment sales elimination (1)	(651)	(1,314)	663	(50.5)%
Total	$ 71,443	$ 84,077	$ (12,634)	(15.0)%

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

Sales of the various product lines that comprise our Precision Technology Segment decreased by $18.7 million, or 35.1%, from $53.3 million during the three months ended September 28, 2007 to $34.6 million during the three months ended September 26, 2008. The decrease in sales of these product lines was primarily attributable to declines in our

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Spindles, Scanners and Encoders product lines in the third quarter of 2008 compared with the third quarter of 2007. Worldwide demand for those products weakened markedly beginning in the third quarter of 2008 as turmoil in world financial markets intensified, credit conditions tightened and business and consumer confidence plummeted. The weakness in demand continued during the fourth quarter of 2008 and early 2009. Also, during the third quarter of 2007, we recognized approximately $8.5 million of revenue that had previously been deferred because the customer arrangements were not fixed and determinable. When the customer arrangements became fixed and determinable in the third quarter of 2007, the revenue was recognized.

Semiconductor Systems Segment revenues decreased by $15.0 million, or 46.7%, from $32.1 million during the three months ended September 28, 2007 to $17.1 million during the three months ended September 26, 2008. The decrease in Semiconductor Systems sales was primarily attributable to the global slowdown which had a dramatic adverse effect on the semiconductor market, which saw a markedly weakened end-user market for products. This weakened end-user demand directly affected our customers purchases of equipment that is used to produce semiconductor products. Revenue for both the third quarter of 2008 and the third quarter of 2007 includes revenue from orders that were placed by customers prior to the quarter, but that were not able to be fully delivered in those prior periods. The revenue has been recorded in the third quarter of 2008 or the third quarter of 2007, upon our completion of all deliverables for this equipment. At the end of the third quarter of 2008 and 2007, our worldwide deferred revenue was primarily related to our Semiconductor Systems Segment. Total deferred revenue increased by 6.9% from $101.6 million at December 31, 2007 to $108.6 million at September 26, 2008. We expect that a significant portion of the deferred revenue relating to undelivered elements as of September 26, 2008 will be recognized in the fourth quarter of 2008, 2009 and 2010. The decrease in shipments of Semiconductor Systems was particularly pronounced in the third and fourth quarters of 2008 compared with the third and fourth quarters of 2007 and continued at a low level throughout most of 2009. The outlook for 2010 is uncertain.

The Excel Segment contributed sales of $20.4 million from August 20, 2008, the date of acquisition, to September 26, 2008.

Gross Profit

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

	Three Months Ended	
	September 26, 2008	September 28, 2007 (As Restated)
Gross profit:		
Precision Technology	$ 11,000	$ 20,626
Semiconductor Systems	3,923	11,652
Excel	7,673	
Intersegment sales elimination	290	423
Total	$ 22,886	$ 32,701
Gross profit percentages:		
Precision Technology	31.8%	38.7%
Semiconductor Systems	22.9%	36.3%
Excel	37.6%	
Intersegment sales elimination	(44.5)%	(32.2)%
Total	32.0%	38.9%

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Gross profit as a percentage of sales can be influenced by a number of factors including product mix, pricing, volume, costs for raw materials and outsourced manufacturing, warranty costs and charges related to excess and obsolete inventory, at any particular time.

During the three months ended September 26, 2008, gross profit of the Precision Technology Segment decreased by $9.6 million or 46.7%, from $20.6 million during the three months ended September 28, 2007 to $11.0 million during the three months ended September 26, 2008. The Precision Technology Segment s gross profit margin was 31.8% during the three months ended September 26, 2008 compared with a gross profit margin of 38.7% during the three months ended September 28, 2007. The decrease in gross profit and gross profit margin was primarily attributable to changes in product mix, as the gross profits vary among the product lines in this segment.

During the three months ended September 26, 2008, gross profit of the Semiconductor Systems Segment decreased by $7.7 million or 66.3%, from $11.7 million during the three months ended September 28, 2007 to $3.9 million during the three months ended September 26, 2008. The Semiconductor System Segment s gross profit margin was 22.9% during the three months ended September 26, 2008 compared with a gross profit margin of 36.3% during the three months ended September 28, 2007. The decrease in the Semiconductor Systems Segment gross profit and gross profit margin was primarily attributable to fixed costs being absorbed into the revenue base that decreased by $15.0 million, or 46.7%, from $32.1 million during the three months ended September 28, 2007 to $17.1 million during the three months ended September 26, 2008.

Research and Development and Engineering Expenses

Research and development and engineering (R&D) expenses are primarily comprised of labor and other employee-related expenses. R&D expenses were $8.9 million, or 12.4% of sales, during the three months ended September 26, 2008 compared with $7.4 million, or 8.8% of sales, during the corresponding period in 2007. R&D expenses, in terms of their total dollars, increased as a result of our acquisition of Excel in August 2008. The increases were partially offset by the elimination of certain staff positions in 2008 in connection with the restructuring activities discussed below. We believe the development and market introduction of new products and the enhancement of existing products are essential to our success. Accordingly, during 2009, we continued to invest in the development of new products across all three of our segments. We plan to continue to invest in R&D as we continue to pursue market leadership in all of our segments.

Selling, General and Administrative Expenses

Selling, general and administrative (SGA) expenses include costs for sales and marketing, sales administration, finance, human resources, legal, information systems, facilities and executive management, and includes personnel related costs, commissions, advertising, legal, tax, accounting and other professional fees. SG&A expenses were $16.7 million in the three months ended September 26, 2008, representing 23.3% of sales compared to $15.1 million, or 18.0%, of sales in the corresponding period in 2007. SG&A expenses, in terms of their total dollars, increased primarily as a result of our acquisition of Excel in August 2008. The increases were offset in part by the elimination of certain staff positions in 2008 in connection with restructuring activities discussed below.

Amortization of Purchased Intangible Assets

Amortization of intangible assets is discussed below in Critical Accounting Policies and Estimates . All amortization of purchased intangible assets is charged to our Precision Technology and Excel Segments. Amortization of purchased intangible assets, excluding the amortization for core technology that is included in cost of goods sold, was $1.6 million or 2.3% of sales in the three months ended September 26, 2008, compared with $0.6 million, or 0.6%, of sales in the corresponding period in 2007. The increase in 2008, in terms of both dollars and as a percentage of sales, was primarily related to the amortization of intangible assets we acquired as part of the Excel acquisition in August 2008.

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Restructuring and Other

We recorded restructuring and other charges of $3.1 million and $1.9 million in the three months ended September 26, 2008 and September 28, 2007, respectively. The restructuring charges recorded during the three months ended September 26, 2008 primarily relate to the consolidation of certain of our operations within the United States, and include charges for redundant facilities and staffing reductions associated with the consolidation of certain of our operations into a new facility in Bedford, Massachusetts. As part of the consolidation, the Company implemented a plan to reduce its United States workforce by approximately 50 people and, accordingly, recorded a restructuring charge in the third quarter of 2008 of $3.0 million for severance costs. Approximately $1.2 million of this amount was attributable to headcount reductions in our Semiconductor Systems Segment; approximately $0.7 million was attributable to our Precision Technology Segment; and $1.1 million was attributable to corporate operations.

The restructuring charges of $1.9 million for the three months ended September 28, 2007 related primarily to our expansion of certain manufacturing operations into China, and out of the United Kingdom.

The following table summarizes the balance of the restructuring accrual on our consolidated balance sheets (in thousands):

	Total
Balance at December 31, 2007	$ 1,342
Restructuring and other charges, net	4,206
Cash payments and other adjustments	(1,076)
Balance at September 26, 2008	$ 4,472

Acquisition Related In-Process Research and Development Charge

In connection with our acquisition of Excel in August 2008, we recorded a $12.1 million charge for acquisition related in-process research and development. The value assigned to in-process research and development was determined using an income approach by estimating the costs to develop the acquired technology into commercially viable products, estimating the resulting net cash flows from the projects, and discounting the net cash flows to their present value. At the date of acquisition, the development of these projects had not yet reached technological feasibility, and had no alternative future uses; accordingly, we have expensed the value of this research and development at the acquisition date in accordance with the provisions of SFAS 141.

Interest Income

Interest income decreased by $1.1 million, or 65.2%, from $1.7 million during the three months ended September 28, 2007 to $0.6 million during the three month period ending September 26, 2008. The decrease in interest income was primarily attributable to lower cash and investment balances following our acquisition of Excel in August 2008, as well as from us receiving lower returns on the balances. A significant portion of our cash balances was used to pay a portion of the purchase price paid for Excel.

Interest Expense

Interest expense was $2.9 million in the three month period ending September 26, 2008, compared to $26,000 in the comparable period in 2007. Interest expense increased due to the issuance of $210.0 million of 11% unsecured senior notes in August 2008 in connection with the acquisition of Excel.

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

Other income (expense) and foreign exchange currency transaction gains (losses), net, were $10,000 in the three month period ending September 26, 2008, compared to $701,000 in the comparable period in 2007. The difference is primarily due to foreign exchange currency transaction gains that were recognized in the 2007 period.

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Income Taxes

The effective tax (benefit) rate on the loss from continuing operations for the three months ended September 26, 2008, was (34.7%) compared with an effective tax rate of 57.5% on income from continuing operations for the three months ended September 28, 2007. The effective tax rate the for three months ended September 26, 2008 reflects the Company s estimated annual effective tax rate and is primarily due to the tax rates in effect in the jurisdictions where income is earned, the tax impact or non deductibility of the acquired in-process research and development related to the Excel acquisition, the adjustments to record differences between the income tax returns that are filed and income tax provisions calculated for purposes of financial reporting in the United States, and recognizing interest income, interest expense, penalties, tax liabilities, and tax refunds from amended federal and state returns.

Statement of Financial Accounting Standards No. 109 Accounting for Income Taxes (SFAS No. 109) requires that a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized. When making this determination, a review of all available positive and negative evidence needs to be considered, including the Company s performance, the market environment in which the Company operates, length of carry-back and carry-forward periods, existing sales backlog, future taxable income projections and tax planning strategies. The Company has previously provided valuation allowances against losses in the parent company and subsidiaries with an inconsistent history of taxable income and loss due to the uncertainty of their realization. In addition, the Company has provided a valuation allowance on tax credits and net operating losses due to the uncertainty of generating earned income to use the tax credits or net operating losses.

In the event that actual results differ from estimates of future taxable income, or these estimates are adjusted in future periods, the Company may need to establish an additional valuation allowance, which could have a material impact on its financial position and results of operations.

In connection with the Chapter 11 Cases described in Note 1 of Notes to Consolidated Financial Statements, the IRS has filed amended proofs of claim aggregating approximately $7.7 million for amounts it claims the Company owes for 2002 through 2008. The IRS has provided no information to substantiate its claims. The Company believes the IRS claims are without merit and intends to vigorously object to them in Bankruptcy Court. Consequently, the Company believes no adjustment of its estimated tax liability pursuant to FIN 48 is required.

Income from Discontinued Operations, Net of Tax

On October 8, 2008, we completed the sale of our U.S. Optics Business, located in Moorpark, California, which was a part of our Precision Technology Segment, for $21.6 million and recorded a gain on sale, net of tax, of $8.7 million. The operating results of this business have been reclassified and reported as income from discontinued operations in our accompanying consolidated statements of operations for all periods presented.

Results of Operations for the Nine Months Ended September 26, 2008 Compared to the Nine Months Ended September 28, 2007

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

	Nine Months Ended	
	September 26, 2008	**September 28, 2007 (As Restated)**
Sales	100.0%	100.0%
Cost of goods sold	64.6	60.3
Gross profit	35.4	39.7
Operating expenses:		
Research and development and engineering	12.4	10.1
Selling, general and administrative	24.4	19.7

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	Nine Months Ended September 26, 2008	September 28, 2007 (As Restated)
Amortization of purchased intangibles	1.4	0.7
Restructuring	2.2	2.6
Acquisition related in-process research and development charges	6.3	
Total operating expenses	46.7	33.1
Income (loss) from operations	(11.3)	6.6
Interest income	1.4	2.2
Interest expense	(1.5)	
Foreign exchange transaction gains (losses)	0.1	0.2
Other income	0.1	
Income (loss) from continuing operations before income taxes	(11.2)	9.0
Income tax provision (benefit)	(3.7)	3.0
Income (loss) from continuing operations	(7.5)	6.0
Income (loss) from discontinued operations, net of tax of 0.1%	0.1	0.1
Net income (loss)	(7.4)%	6.1%

Sales

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

	Nine Months Ended September 26, 2008	September 28, 2007 (As Restated)	Increase (Decrease)	Percentage Change
Precision Technology	$ 118,941	$ 137,996	$ (19,055)	(13.8)%
Semiconductor Systems	55,025	89,209	(34,184)	(38.3)%
Excel	20,410		20,410	
Intersegment sales elimination (1)	(2,239)	(3,506)	1,267	(36.1)%
Total	$ 192,137	$ 223,699	$ (31,562)	(14.1)%

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

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Sales of the various product lines that comprise our Precision Technology Segment decreased by $19.1 million, or 13.8%, from $138.0 million during the nine months ended September 28, 2007 to $118.9 million during the nine months ended September 26, 2008. The decrease in sales of these product lines was primarily attributable to declines in our Spindles, Scanners and Encoders product lines in the nine months ended September 26, 2008 compared with the nine months ended September 28, 2007. Worldwide demand for those products weakened markedly beginning in the third quarter of 2008 as turmoil in world financial markets intensified, credit conditions tightened and business and consumer confidence plummeted. The weakness in demand continued during the fourth quarter of 2008 and early 2009. Sales for both the first nine months of 2008 and the first nine months of 2007 include revenue from orders that were placed by customers in prior periods, but that were not able to be fully delivered in those earlier periods.

Semiconductor Systems Segment sales decreased by $34.2 million, or 38.3%, from $89.2 million during the nine months ended September 28, 2007 to $55.0 million during the nine months ended September 26, 2008. The decrease in Semiconductor Systems sales was primarily attributable to the global slowdown which had a dramatic adverse effect on the semiconductor market, which saw a markedly weakened end-user market for products. Sales for the nine months of 2008 and the nine months of 2007 include sales attributable to orders that were placed by customers in earlier periods, but that were not able to be fully delivered in those prior periods. The sales have been recognized in the period in which all deliverables were completed. At the end of the first nine months of 2008 and 2007, our worldwide deferred revenue was primarily related to our Semiconductor Systems Segment.

The Excel Segment contributed sales of $20.4 million from August 20, 2008, the date of acquisition, to September 26, 2008.

Gross Profit

The following table sets forth gross profit and gross profit percentage by business segments for the periods noted (dollars in thousands):

	Nine Months Ended	
	September 26, 2008	**September 28, 2007 (As Restated)**
Gross profit:		
Precision Technology	$ 42,913	$ 51,015
Semiconductor Systems	17,213	37,213
Excel	7,673	
Intersegment sales elimination	252	533
Total	$ 68,051	$ 88,761
Gross profit percentages:		
Precision Technology	36.1%	37.0%
Semiconductor Systems	31.3%	41.7%
Excel	37.6%	
Intersegment sales elimination	(11.3)%	(15.2)%
Total	35.4%	39.7%

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Gross profit as a percentage of sales can be influenced by a number of factors including product mix, pricing, volume, costs for raw materials and outsourced manufacturing, warranty costs and charges related to excess and obsolete inventory, at any particular time.

During the nine months ended September 26, 2008, gross profit of the Precision Technology Segment decreased by $8.1 million or 15.9%, from $51.0 million during the nine months ended September 28, 2007 to $42.9 million during the three months ended September 26, 2008. The Precision Technology Segment s gross profit margin was 36.1% during the nine months ended September 26, 2008 compared with a gross profit margin of 37.0% during the nine months ended September 28, 2007. The decrease in gross profit and gross profit margin was primarily attributable to changes in product mix, as the gross profits vary among the product lines in this segment.

During the nine months ended September 26, 2008, gross profit of the Semiconductor Systems Segment decreased by $20.0 million or 53.7%, from $37.2 million during the nine months ended September 28, 2007 to $17.2 million during the nine months ended September 26, 2008. The Semiconductor System Segment s gross profit margin was 31.3% during the nine months ended September 26, 2008 compared with a gross profit margin of 41.7% during the nine months ended September 28, 2007. The decrease in the Semiconductor Systems Segment gross profit and gross profit margin was primarily attributable to fixed costs being absorbed into the revenue base that decreased by $34.2 million, or 38.3%, from $89.2 million during the nine months ended September 28, 2007 to $55.0 million during the nine months ended September 26, 2008.

During the nine months ended September 26, 2008, Excel generated $7.7 million of gross profit, or 37.6% of sales. Excel was acquired in August 2008.

Research and Development and Engineering Expenses

Research and development and engineering (R&D) expenses were $23.8 million in the nine months ended September 26, 2008, representing 12.4% of sales, compared with $22.5 million, or 10.1% of sales in the corresponding period in 2007. R&D expenses, in terms of their total dollars, increased as a result of our acquisition of Excel in August 2008. The increase was partially offset by the elimination of certain staff positions during 2008 in connection with restructuring activities discussed below.

Selling, General and Administrative Expenses

Selling, general and administrative (SGA) expenses include costs for sales and marketing, sales administration, finance, human resources, legal information systems, facilities and executive management, and includes personnel related costs, commissions, advertising, legal, tax, accounting and other professional fees. SGA expenses were $46.9 million, or 24.4% of sales in the nine months ended September 26, 2008 compared with $44.0 million, or 19.7% of sales in the corresponding period in 2007. SGA expenses, in terms of their total dollars, increased primarily as a result of our acquisition of Excel in August 2008. The increases were partially offset by the elimination of certain staff positions in 2008 in connection with the restructuring activities discussed below. Additionally, in 2007, we recorded a $2.0 million reduction to our SGA expenses due to the cash payment we received in connection with the settlement of our claims against Lumenis Ltd.

Amortization of Purchased Intangible Assets

Amortization of intangible assets is discussed below in Critical Accounting Policies and Estimates . All amortization of purchased intangible assets is charged to our Precision Technology and Excel Segments. Amortization of purchased intangible assets, excluding the amortization for core technology that is included in cost of goods sold, was $2.7 million or 1.4% of sales in the nine months ended September 26, 2008, compared to $1.7 million, or 0.7%, of sales in the corresponding period in 2007. The increase in 2008 was primarily related to the amortization of intangible assets we acquired as part of the Excel acquisition in August 2008.

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Restructuring and Other

We recorded restructuring and other charges of $4.2 million and $5.9 million in the nine month periods ended September 26, 2008 and September 28, 2007, respectively.

In 2007, the Company implemented a plan to expand its manufacturing operations in China and restructure its manufacturing operations in the United Kingdom. These actions were part of the Precision Technology Segment s overall plan to expand its presence in Asia and increase profitability. These restructuring efforts were largely completed in 2007.

On February 29, 2008 and June 27, 2008, the Company executed agreements to sell assets related to its otherwise discontinued Impact product line, and certain assets related to its LaserMark and Excimer laser product lines. The majority of the assets sold in the transaction represented inventory that had already been written off and were included as part of the restructuring charges recorded in 2007. The sale of these assets resulted in a restructuring benefit of $0.3 million for the nine months ended September 26, 2008. Payments received on asset sales that are due beyond one year will be recorded as restructuring benefits when they are received.

In the second quarter of 2008, the Company implemented a plan to close its Novi, Michigan facility, which provided U.S. sales, applications and service support to a product line included in the Company s Precision Technology Segment. The Novi facility was consolidated within the Company s Bedford, Massachusetts facility. In connection with this action, the Company recorded a restructuring charge of $1.4 million, consisting of $0.7 million for employee severance and $0.7 million in lease abandonment and related costs.

Interest Income

Interest income decreased by $2.2 million, or 43.9%, from $4.9 million during the nine months ended September 28, 2007 to $2.8 million during the nine month period ending September 26, 2008. The decrease in interest income was primarily attributable to lower cash and investment balances following our acquisition of Excel in August 2008, as well as from us receiving lower returns on cash and investment balances. We used a significant portion of our cash balances to pay a portion of the Excel purchase price in August 2008.

Interest Expense

Interest expense was $2.9 million during the nine month period ending September 26, 2008, compared to $0.1 million in the comparable period in 2007. Interest expense increased due to the issuance of $210.0 million of 11% unsecured senior notes in August 2008 in connection with the acquisition of Excel.

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

Other income (expense) and foreign exchange currency transaction gains (losses), net, was $0.4 million in the nine month period ending September 26, 2008, compared to $0.6 million in the comparable period in 2007. The difference is primarily due to foreign exchange currency transaction gains that were recorded in the 2007 period.

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Income Taxes

The effective tax (benefit) rate on loss from continuing operations for the nine months ended September 26, 2008, was (33.2%) compared with an effective tax rate of 34.0% on income from continuing operations for the nine months ended September 28, 2007. The effective tax rate for nine months ended September 26, 2008 reflects the Company s estimated annual effective tax rate and is primarily due to the tax rates in effect in the jurisdictions where income is earned, the tax impact or non deductibility of the acquired in-process research and development related to the Excel acquisition, the adjustment of utilization of net operating losses during the IRS appeal review for the tax years from 1999 to 2002, the increase in interest receivable resulting from the IRS audit for the tax years from 1999 to 2002, the increase in the potential refunds and accrued interest income from the potential refunds claimed on the federal amended returns for the tax years from 2000 to 2006 and adjustments for differences between filed income tax returns and the tax provisions calculated for purposes of financial reporting in the United States.

SFAS No. 109 requires a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized. When making this determination, a review of all available positive and negative evidence needs to be considered, including a company s performance, the market environment in which the company operates, length of carry-back and carry-forward periods, existing sales backlog, future taxable income projections and tax planning strategies. The Company has previously provided valuation allowances against losses in the parent company and subsidiaries with an inconsistent history of taxable income and loss due to the uncertainty of their realization. In addition, the Company has provided a valuation allowance on tax credits and net operating losses due to the uncertainty of generating earned income to use the tax credits or net operating losses.

In the event that actual results differ from estimates of future taxable income, or these estimates are adjusted in future periods, the Company may need to establish an additional valuation allowance, which could have a material impact on the financial position and results of operations.

In connection with the Chapter 11 Cases described in Note 1 of Notes to Consolidated Financial Statements, the IRS has filed amended proofs of claim aggregating approximately $7.7 million for amounts it claims the Company owes for 2002 through 2008. The IRS has provided no information to substantiate its claims. The Company believes the IRS claims are without merit and intends to vigorously object to them in Bankruptcy Court. Consequently, the Company believes no adjustment of its estimated tax liability pursuant to FIN 48 is required.

Liquidity and Capital Resources

On November 20, 2009, GSIG, together with two of its subsidiaries, voluntarily filed petitions for relief under Chapter 11 of the United States Bankruptcy Code. Under the Bankruptcy Code, GSIG s status as a bankruptcy debtor automatically accelerates the payment of all of its debt, including the debt arising under the Senior Notes. Accordingly, this debt has been classified as current. These conditions raise substantial doubt about our ability to continue as a going concern, including uncertainty with respect to the realization of the value of our assets, and our ability to discharge our liabilities. The consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Cash and cash equivalents totaled $52.1 million at September 26, 2008, compared to $172.4 million at December 31, 2007. The decrease in cash and cash equivalents is primarily related to the portion of cash on hand that we used during 2008 to fund a portion of our acquisition of Excel in August 2008.

As of September 26, 2008 we also held auction rate securities, recorded at fair value of $25.9 million. These auction rate securities are student loans backed by the federal government and are privately insured. Current capital market conditions have impacted our ability to liquidate certain auction rate securities. Liquidity for these auction rate securities is typically provided by an auction process that resets the applicable interest rate at pre-determined intervals, usually every 7, 28, 35 or 90 days. In the past, the auction process has allowed investors to roll over their holdings or obtain immediate liquidity by selling the securities at par. Due to the current capital market conditions, auctions have not had sufficient bidders to allow investors to complete a sale of some auction rate securities. Due to the uncertainty in the market as to when these auction rate notes will be refinanced or the auctions will resume. We have had some success in liquidating these holdings during 2009. Of the $32.3 million par value of auction rate securities that we held as of September 26, 2008, we sold $19.3 million of the securities in 2009.

Cash Flows for Nine Months Ended September 26, 2008 and September 28, 2007

Cash provided by operating activities for the first nine months in 2008 was $42.8 million, compared to $22.3 million during the corresponding period in 2007, a difference of $20.5 million. The increase in cash provided by operating activities was primarily attributable to the following factors:

For the first nine months in 2008, we recorded a net loss of $14.1 million, compared with net income of $13.6 million during the corresponding period in 2007, before non-cash adjustments to reconcile net income (loss) to net cash from operating activities.

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Non-cash adjustments to reconcile net income (loss) to cash provided by operating activities, included the following material items:

Acquisition-related in-process R&D charge of $12.1 million during the first nine months in 2008; there were no such charges during the corresponding period in 2007.

Depreciation and amortization charges were $11.7 million during the first nine months in 2008 compared with $11.0 million during the first nine months of 2007.

Share-based compensation was $2.3 million in the first nine months in 2008, compared with $1.8 million during the first nine months in 2007.

Net gain on the sale of property and equipment was $1.2 million during the first nine months in 2008; there was no gain or loss from the sale of property and equipment recognized in 2007.

During the nine months ended September 26, 2008, deferred income taxes increased by $0.4 million, compared with a $2.7 million decrease in the corresponding period in 2007.

During the first nine months of 2008, we incurred non-cash interest expense of $274,000, comprised of $142,000 of amortization of debt discount and $132,000 of amortization of debt issuance costs.

Changes in our operating assets and liabilities provided $32.1 million of cash during the first nine months in 2008 and used $6.5 million of cash during the first nine months of 2007.

A decrease in our accounts receivable balance in the first nine months of 2008 provided $26.4 million of cash; an increase in our accounts receivable balance during the first nine months of 2007 used $17.2 million of cash.

Inventory decreased by approximately $13.0 million during the first nine months of 2008 and decreased by $6.0 million during the first nine months of 2007.

An increase in other current assets during the first nine months of 2008 resulted in a use of cash of $5.0 million; during the first nine months of 2007, $5.7 million of cash was provided by a decrease in other current assets.

The net change to deferred revenue and related deferred cost of goods sold resulted in a $1.6 million use of cash in the first nine months of 2008 and a $1.6 million use of cash in the first nine months of 2007.

A decrease in accounts payable and accrued expenses resulted in a use of cash of $0.6 million during the first nine months of 2008 while an increase in accounts payable and accrued expenses during the first nine months of 2007 provided cash of $1.7 million.

Income from discontinued operations during the first nine months of 2008 was $310,000, compared with income of $266,000 during the first nine months in 2007. Our discontinued operations used $0.2 million of cash to fund their operating activities during the first nine months of 2008 and $1.0 million to fund their operating activities during the first nine months of 2007.

Cash used in investing activities was $360.3 million during the first nine months in 2008; during the first nine months of 2007, our investing activities used $6.7 million of cash. Cash used in investing activities increased during the first nine months of 2008 compared with the first nine months of 2007 as a result of the following events:

We used approximately $358.3 million of cash, net of cash acquired, in August 2008 to acquire Excel; during the first nine months of 2007, we used approximately $3.0 million of cash for the acquisition of our U.K. beryllium business.

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We used $16.4 million of cash during the first nine months in 2008 to acquire property, plant and equipment, primarily in connection with the consolidation of several Precision Technology Segment product lines and our Semiconductor Systems Segment into one facility, compared with $3.9 million used to acquire property, plant and equipment during the first nine months of 2007.

Changes in long-term assets and liabilities generated $10.2 million of cash during the first nine months in 2008 compared with $0.4 million during the corresponding period in 2007.

During the first nine months of 2008, we generated $3.2 million of cash from the sale of property, plant and equipment as a result of our restructuring efforts with the U.K. and China operations.

Cash provided by investing activities from discontinued operations during the first nine months in 2008 was $1.0 million compared to $250,000 used during the corresponding period in 2007.

Cash provided by financing activities was $197.2 million during the first nine months in 2008 compared with $5.3 million of cash provided during the corresponding period in 2007. The increase in cash provided by financing activities of continuing operations was primarily attributable to the following factors:

In August 2008, we received cash proceeds, net of issuance costs, of $203.5 million from the issuance of 11% unsecured Senior Notes that were used to fund a portion of our acquisition of Excel. We did not issue any debt during the nine months ended September 28, 2007.

During the first nine months of 2008 we used $6.4 million of cash to repurchase shares of our common stock, compared to $2.4 million used to repurchase our common stock in the first nine months of 2007.

Net cash proceeds of $63,000 were received from the issuance of share capital during the first nine months of 2008 compared with net cash proceeds of $7.3 million received in the corresponding period in 2007.

In addition to cash flows from operating, investing and financing activities, exchange rate changes resulted in an increase of $0.1 million in our cash balances during the first nine months of 2008 compared with $2.6 million during the corresponding period in 2007.

Other Liquidity Matters

Debt

On August 20, 2008 (the Closing Date), we issued to various investors $210.0 million of unsecured senior notes (the Senior Notes), along with detachable warrants (the Warrants), for collective net proceeds to us of $203.5 million. The proceeds were used to fund a portion of our acquisition of Excel. The Senior Notes carry a fixed interest rate of 11.0%. The detachable Warrants allowed the holders to purchase 5,882,520 of our common shares. We ascribed a fair value to the Warrants in the amount of $26.3 million as of the closing date of the acquisition. The fair value was based upon the Black-Scholes option pricing model, assuming a risk-free interest rate of 3.0%, an expected term of 5.0 years, a volatility rate of 85.0% and no dividends. The Warrants were exercised by the warrant holders in the fourth quarter of 2008, under a net exercise , from which 5,858,495 shares of our common stock were issued.

The Senior Notes pay interest semi-annually and mature in August 2013. After the first year anniversary of the Closing Date, we may redeem up to 50% of the Senior Notes with no penalty or premium. After the third anniversary of the Closing Date, we may redeem all remaining Senior Notes, again with no penalty or premium. The Senior Notes require us to comply with certain covenants that restrict the Company from taking on additional debt, repurchasing equity, making investments or selling certain assets. Under the Bankruptcy Code, our status as a bankruptcy debtor automatically accelerates the payment of all of our debt, including that arising under the Senior Notes. Accordingly, we have classified this debt as current in our September 26, 2008 consolidated financial statements. As further discussed above under The Third Modified Joint Chapter 11 Plan of Reorganization the holders of the Senior Notes have agreed to exchange their Senior Note Claims in exchange for: (i) approximately 53.8% of GSIG s post-consummation outstanding shares, (ii) new secured notes in the aggregate amount of $110 million and (iii) their pro rata portion of the Cash Payment.

The $26.3 million value of the Warrants was recorded as a discount against the debt. This discount is being amortized to interest expense using the effective interest method over the life of the Senior Notes. In connection with the issuance of the Senior Notes, the Company incurred $6.5 million in issuance fees which are included in other current assets. These issuance fees are being amortized to interest expense over the contractual term of the Senior Notes. As of September 26, 2008, the unamortized portion of the valuation of the warrants was $26.2 million, and the unamortized debt issuance costs were $6.3 million. The Senior Notes, net of the value of the warrants and net of the debt issuance costs, constitute a net carrying value of $183.8 million at September 26, 2008. There was no debt outstanding as of December 31, 2007. For the nine months ended September 26, 2008, the total amount recorded to interest expense, including the accretion of the warrant value, and of the debt issuance costs, was $2.8 million.

As discussed further at Note 2 of Notes to Consolidated Financial Statements, in connection with the Revenue Review, we failed to timely file our annual and quarterly reports. In connection with the issuance of the Warrants, the Company and the Warrant holders entered into a Registration Rights Agreement (the RRA), dated as of August 20, 2008, pursuant to which we agreed to register the common shares issuable upon exercise of the Warrants. We filed that registration statement on Form S-3 in October 2008, simultaneously with the exercise of the Warrants. As a result of our failure to file our Quarterly Report on Form 10-Q for the period ended September 26, 2008, on November 12, 2008 we notified the former Warrant holders that we were indefinitely suspending the Company s registration statement on Form S-3. Pursuant to the RRA, the Company is obligated to maintain the effectiveness of the registration statement until the earlier of (i) the date which is twelve (12) months after the Effective Time (October 23, 2008) and (ii) the date on which there are no registrable securities (the Maintenance Period). Under the RRA, monetary penalties accrue and are payable to the former Warrant holders for failure to maintain an effective registration statement during the Maintenance Period, subject to certain terms and conditions more specifically set forth therein. As of September 26, 2008, we had not incurred any penalties under the RRA. In the fourth quarter of 2008, we incurred penalties under the RRA and have accordingly recorded expenses and corresponding accrued liability of $0.8 million. We have continued to incur penalties under the RRA into 2009. The maximum penalty payments payable under these provisions is approximately $4.0 million.

Acquisition Related In-Process Research and Development

In connection with our acquisition of Excel in August 2008, we acquired certain in-process research and development projects. Because these projects had not yet reached the point of technological feasibility and had no alternative uses, the costs which had been incurred for these projects of $12.1 million were written off at the date of acquisition as described above. We have continued work on several of these projects and anticipate that costs to complete the development of these projects will be approximately $4.4 million, and will be completed between December 2008 and December 2010. The successful development of new products and product enhancements is subject to numerous risks and uncertainties, both known and unknown, including unanticipated delays, access to capital, budget overruns, technical problems and other difficulties that could result in the abandonment or substantial change in the design, development and commercialization of these new products and enhancements. Given the uncertainties inherent with product development and introduction, there can be no assurance that any of our product development efforts will be successful on a timely basis or within budget, if at all. The failure of the combined Company to develop new products and product enhancements on a timely basis or within budget could harm our results of operations and financial condition.

Pension Plans

We maintain two plans that are considered to be defined benefit plans under the provisions of SFAS 158, a plan in the U.K., and a plan in Japan.

Our U.K. plan was closed to new members in 1997 and we curtailed our sponsorship in 2002, thereby limiting our obligation to benefits earned through that date. Benefits under this plan were based on the employees years of service and compensation. We continue to follow our policy to fund this pension plan based on widely accepted actuarial methods. Our Japanese plan is an active plan.

Our funding policy is to fund pensions and other benefits 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.

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In the U.K., funding valuations are conducted every three years. Based on the last completed funding valuation on November 30, 2006, the Company and the Plan Trustees agreed to a schedule of contributions under which the Company is contributing approximately $48,000 per month until March 2018. We subsequently changed our U.K. plan year end to December 31, and so we are required to conduct a funding valuation sooner than the previously scheduled date of November 30, 2009. Accordingly, we began a funding valuation as of December 31, 2008. Upon the completion of this valuation, these monthly contributions may change. The Japanese plan includes a guarantee of return of principal and yearly interest of 0.75%; therefore, there are no significant fluctuations in this plan.

See Note 11 of Notes to Consolidated Financial Statements for further information about these plans.

Off-Balance Sheet Arrangements, Contractual Obligations

Contractual Obligations

Historically, the Company s contractual obligations have primarily consisted of operating leases, purchase commitments, deferred compensation arrangements and pension obligations. During the nine months ended September 26, 2008, the Company issued $210 million of 11% unsecured senior notes pursuant to the terms of an indenture agreement together with detachable warrants for the purchase of 5,882,520 shares of common stock as described in Note 8, Debt of Notes to Consolidated Financial Statements included elsewhere in this Quarterly Report. Interest on the Senior Notes is payable semi-annually. When they were issued, the Senior Notes were due in 2013. However, as discussed in Item 4 of Part II of this Quarterly Report, the filing of the Chapter 11 Petitions constituted an event of default under the Indenture, dated as of August 20, 2008, by and among GSI Group Corporation, as issuer, the Company, as guarantor, the other guarantors party thereto from time to time and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to the Senior Notes. The Company has $210 million aggregate principal amount of Senior Notes outstanding. As a result of the filing of the Chapter 11 Petitions, all indebtedness outstanding under the Senior Notes was accelerated and became due and payable, subject to an automatic stay of any action to collect, assert or recover a claim against the Company and the application of applicable bankruptcy law.

If the Senior Notes remained outstanding until their original scheduled maturity date in 2013, annual interest expense on the Senior Notes would be as follows (in thousands):

Year Ending December 31,	Annual Interest Expense	
2009	$	23,100
2010		23,100
2011		23,100
2012		23,100
2013		14,438
Thereafter		
Total	$	106,838

In connection with the Revenue Review discussed in Note 2 of Notes to Consolidated Financial Statements, we have failed to timely file our annual and quarterly reports with the Securities and Exchange Commission. In connection with the issuance of the detachable warrants noted above, the Company and the warrant holders entered into a Registration Rights Agreement (the RRA), dated as of August 20, 2008, pursuant to which we agreed to register the common shares issuable upon exercise of the warrants. We filed that registration statement on Form S-3 in October 2008, simultaneously with the exercise of the warrants. As a result of our failure to file this Quarterly Report on Form 10-Q for the period ended September 26, 2008, by November 12, 2008 we notified the former warrant holders that we were indefinitely suspending the Company s registration statement on Form S-3. Pursuant to the RRA, the Company is obligated to maintain the effectiveness of the registration statement until the earlier of (i) the date which is twelve (12) months after the Effective Time (October 23, 2008) and (ii) the date on which there are no registrable securities (the Maintenance Period). Monetary penalties accrue and are payable to the former holders of the detachable warrants issued in connection with the issuance of the Senior Notes for failure to maintain an effective registration statement during the Maintenance Period, subject to certain terms and conditions set forth in the RRA. As of September 26, 2008, we had not incurred any penalties under the RRA. In the fourth quarter of 2008, we incurred penalties under the RRA and recorded expenses and corresponding accrued liability of $0.8 million. We have continued to incur penalties under the RRA into 2009. The maximum penalty payments payable under these provisions is approximately $4.0 million.

Off-Balance Sheet Arrangements

Through September 26, 2008, we had 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 sales and expenses during the reporting periods. On an ongoing basis, we evaluate our estimates, assumptions and judgments, including those related to revenue recognition, fair value measurements, allowance for doubtful accounts, inventory costing and reserves, the assessment of the valuation of goodwill, intangible assets and tangible long-lived assets, accounting for business combinations, employee benefit plans, accounting for restructuring activities; accounting for income taxes and related valuation allowances, and accounting for loss contingencies. Actual results could differ significantly from our estimates.

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

Revenue Recognition. We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable, risk of loss has passed to the customer 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.

We follow the provisions of Emerging Issues Task Force (EITF) 00-21, Revenue Arrangements with Multiple Deliverables for all multiple element arrangements. Under EITF 00-21, we assess whether the deliverables specified in a multiple element arrangement should be treated as separate units of accounting for revenue recognition purposes and whether objective and reliable evidence of fair value exists for these separate units of accounting. We apply the residual method when objective and reliable evidence of fair value exists for all of the undelivered elements in a multiple element arrangement. When objective and reliable evidence of fair value does not exist for all of the undelivered elements in a multiple element arrangement, we recognize revenue under the multiple units shipped methodology, whereby revenue is recognized in each period based upon the lowest common percentage of the products shipped in the period. This approximates a proportional performance model of revenue recognition. This generally results in a partial deferral of revenue to a later reporting period. No revenue is recognized unless one unit of each product has been delivered.

Although certain of our products contain operating and application software, we have determined the software element is incidental in accordance with the AICPA s Statement of Position (SOP 97-2) and EITF 03-05, Applicability of AICPA Statement of Position 97-2 to Non-Software Deliverables in an Arrangement Containing More-Than-Incidental Software.

We determine the unit of accounting for certain transactions based on the guidance in TPA 5100.39. In particular, multiple purchase orders may be deemed to be interrelated and considered to constitute a multiple element arrangement for accounting purposes.

Semiconductor Systems transactions are generally multiple element arrangements which may include hardware, software, installation, training, an initial standard warranty, and optional extended warranty arrangements. We generally design, market and sell these products as standard configurations. For those standard configurations where acceptance criteria, if any, exist and are demonstrated prior to shipment, revenue is recorded at the time of shipment. For those cases where acceptance criteria cannot be demonstrated prior to shipment of a product or if a significant amount of fees are due upon acceptance, we recognize revenue upon customer acceptance. Acceptance is generally required for sales of Semiconductor Systems Segment products to Japanese customers, sales of New Products , which are considered by us, for purposes of revenue recognition determination, to be either (a) a product that is newly released to all customers, including a product which may have been existing previously, but which has been substantially upgraded with respect to its features or functionality; or, (b) the sale of an existing product to a customer who has not previously purchased that product. We follow a set of predetermined criteria when changing the classification of a New Product to a standard configuration whereby acceptance criteria are considered to be demonstrated at the time of shipment.

Precision Technology Segment and Excel Segment transactions include both single element and multiple element transactions. Multiple element transactions may include two or more products and occasionally also contain installation, training or preventative maintenance plans. Revenue is generally recognized under the multiple units shipped methodology described above.

Our Semiconductor Systems Segment also sells spare parts and consumable items, which are not subject to acceptance criteria. Revenue for these spare parts and consumable items is generally recognized under the multiple units shipped methodology described above.

Installation is generally a routine process that occurs within a short period of time from delivery and we have concluded that this obligation is inconsequential and perfunctory. As such, for transactions that include installation, and for which customer acceptance has not been deemed necessary in order to record the revenue, the cost of installation is accrued at the time product revenue is recorded and no related revenue is deferred. Historically, the costs of installation have not been significant.

The initial standard warranty for product sales is accounted for under the provisions of SFAS 5, Accounting for Contingencies, as we have the ability to ascertain the probable likelihood of the liability, and can 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. Our estimate of costs to service the warranty obligations are based on historical experience and expectations of future conditions. To the extent we experience increased warranty claims or increased costs associated with servicing those claims, revisions to the estimated warranty liability are recorded as increases or decreases to the accrual at that time, with an offsetting entry recorded to cost of goods sold.

We also sell optional extended warranty services, and preventative maintenance contracts, at the time of their product purchase. We account for these agreements in accordance with provisions of FASB Technical Bulletin (FTB) 90-1 Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts under which we recognize the separately priced extended warranty and preventative maintenance fees over the associated period.

We, at the request of our customers, may at times perform professional services for our customers, 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 their duration. Revenue for time and material services is recorded at the completion of services requested under a customer s purchase order. Customers may, at times subsequent to the initial product sale, purchase a service contract whereby services, including preventative maintenance plans, are provided over a defined period, generally one year. Revenue for such service contracts are recorded ratably over the period of the contract.

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.

We have significant deferred revenue included in our accompanying consolidated balance sheets, with balances (including both current and long-term amounts) of $108.6 million and $101.6 million as of September 26, 2008 and December 31, 2007, respectively. A significant majority of these amounts relate to arrangements whereby the entire arrangement has been accounted for as deferred revenue, as there is no fair value for the undelivered elements. Upon the final delivery of the undelivered element(s) of the arrangement, the revenue will be recorded for that arrangement. To a lesser extent, the deferred revenue balances relate to either: (a) the unrecognized portion of a multiple element arrangements that is being recognized into revenue over a ratable basis as associated services are performed; (b) arrangements not currently recognizable due to the arrangement not being fixed and determinable at its inception; (c) the future amortization to revenue

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of extended warranty contracts and preventative maintenance plans; (d) revenue deferrals for product shipments with FOB destination shipping terms; and (e) deposits from customers against future orders. The classification of deferred revenue, and deferred cost of goods sold, is based on our expectations relative to when the revenue will be recognized, based on facts known to us as of the date our financial statements are released.

Fair Value Measurements. On January 1, 2008, we adopted SFAS 157, Fair Value Measurements, with no impact on our consolidated results and financial position. SFAS 157 defines fair value, establishes a framework for measuring fair value, and enhances disclosures about fair value measurements. Fair value is defined as the price that would be received for an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Valuation techniques must maximize the use of observable inputs and minimize the use of unobservable inputs. SFAS 157 establishes a value hierarchy based on three levels of inputs, of which the first two are considered observable and the third is considered unobservable.

Included in our financial assets with fair value measurements are $32.3 million in par value auction rate securities that we acquired in connection with our purchase of Excel. These auction rate securities are level 3 assets for which no observable market value exists, and for which we have valued based on assumptions the market participants might use in their estimates of fair value. As of September 26, 2008, the auction rate securities have a fair value of $25.9 million.

Included in our financial liabilities with fair value measurements are $210.0 million of Senior Notes. As of September 26, 2008, these senior notes have a fair value of $204.0 million, based on quoted prices for similar liabilities, or similar liabilities traded as assets

Allowances for Doubtful Accounts. We are required to estimate the collectibility of our trade receivables. A considerable amount of judgment is required in assessing the ultimate realization of receivables, including the current credit-worthiness of each customer. We maintain an allowance for doubtful accounts for estimated losses resulting from the inability of our customers to make required payments. If the financial condition of our customers were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. The collectibility of accounts receivable is evaluated based on a combination of factors. In circumstances where we are aware of a specific customer s inability to meet its financial obligations (e.g., bankruptcy filings), a specific reserve for bad debts is recorded against amounts due, to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we estimate an allowance for bad debts based upon the total accounts receivable balance and the percentage expected to be realized through subsequent cash collections. If circumstances change (i.e., higher than expected defaults or an unexpected material adverse change in a major customer s ability to meet its financial obligations to us), our estimates of the recoverability of amounts due to us could be reduced by a material amount.

Inventories. Inventories are stated at the lower of cost or market, after provisions for excess and obsolete inventory salable at prices below cost. Costs are determined using first-in, first-out method.

We write down inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demand and market conditions. If actual market conditions are less favorable than those projected by us, additional inventory write-downs may be required.

Business Combinations. In accordance with SFAS 141, Business Combinations, we allocate the purchase price of acquired companies to the tangible and intangible assets acquired and liabilities assumed as well as to in-process research and development based upon their estimated fair values at the acquisition date. The purchase price allocation process requires management to make significant estimates and assumptions, especially at acquisition date with respect to intangible assets, support obligations assumed, estimated restructuring liabilities and pre-acquisition contingencies.

Although we believe the assumptions and estimates we have made in the past have been reasonable and appropriate, they are based in part on historical experience and information obtained from the management of the acquired companies and are inherently uncertain. Examples of critical estimates in valuing certain of the intangible assets we have acquired or may acquire in the future include but are not limited to:

- future expected cash flows from sales of acquired product lines, developed technologies and patents;

- expected costs to develop in-process research and development projects into commercially viable products and the estimated cash flows from the projects when completed;

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the acquired company s brand and competitive position, as well as assumptions about the period of time the acquired brand will continue to be used in the combined company s product portfolio; and

discount rates.

Unanticipated events and circumstances may occur which may affect the accuracy or validity of such assumptions, estimates or actual results.

Effective January 1, 2009, we adopted SFAS 141 (revised 2007), Business Combinations. Refer to Recent Accounting Pronouncements below for additional information.

Goodwill, Intangible Assets and Impairments. As discussed above, in Business Combinations , our goodwill and intangible assets generally arise from business combinations. Our most significant intangible assets are acquired technology, customer relationships, and trademarks and trade names. The purchase price we pay for acquired companies is allocated first to the acquired tangible assets and liabilities at their fair value. Any excess purchase price is then allocated to identifiable intangible assets and the remainder, if any, is assigned 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 our business plans and related cash flow forecasts, as well as discount rates and terminal values, 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 intangible assets are acquired technology, customer relationships, and 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.

We test our goodwill for impairment on an annual basis in accordance with SFAS 142 Goodwill and Other Intangible Assets, which first requires a comparison of the carrying value of each of our reporting units net assets to their fair value. 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 goodwill s carrying value. If the carrying value of goodwill exceeds its implied fair value, an impairment charge is recorded for the difference. The implied fair value of goodwill is calculated by performing a fair value assessment of the assets and liabilities of the reporting unit, in a manner consistent with the discussion above with respect to the initial fair value allocation performed in a business combination. The carrying value of each reporting unit s assets and liabilities are predominantly specifically identifiable. Additionally, reporting units that benefit from corporate assets or liabilities are allocated a portion of those corporate assets and liabilities on a systematic, proportional basis.

Our indefinite-lived intangible assets represent trade names that were acquired in the August 2008 Excel acquisition. The Company will assess these indefinite-lived intangible assets for impairment on an annual basis and periodically reassess their continuing classification as indefinite-lived. Discounted cash flow forecasts for each indefinite-lived intangible asset are used to fair value them. 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 SFAS 144 Accounting for the Impairment or Disposal of Long-lived Assets, whenever changes in events or circumstances indicate carrying values may exceed their undiscounted cash flow forecasts. If undiscounted cash flow forecasts indicate the carrying value of a definite-lived intangible asset may not be recoverable, a fair value assessment is performed. Fair value estimates are derived from discounted cash flow forecasts for the intangible asset. If fair value is less than carrying value, an impairment charge equal to the difference is recorded, thereby reducing the intangible asset s carrying value to its fair value. We also review the useful life assumptions for definite-lived intangible assets 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.

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 the manner of our use of 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;

declines in our stock price for a sustained period; and

the decline of our market capitalization below net book value.

The occurrence of any of these events or any other unforeseeable event or circumstance that materially affects future 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.

During the fourth quarter of 2008, the global economy experienced a significant downturn which negatively impacted our estimated future revenues and cash flows, as compared to our prior estimates, including those estimates made at the time we acquired Excel. The Company had performed its annual goodwill impairment test at the beginning of the second quarter of 2008 noting no impairment. However, the downturn in the global economy and its effect on the Company s business, including its revenues, suggested that an impairment might exist as of December 31, 2008. Consequently, the Company undertook an impairment review of its goodwill, intangible assets and other long-lived assets (property, plant and equipment) at the end of 2008. This review led the Company to record an impairment charge of $215.1 million at December 31, 2008 to reduce the carrying values of these assets to their fair value.

Restructuring. In accounting for our restructuring activities, we follow the provisions of SFAS 146, Accounting for Costs Associated with Exit or Disposal Activities. In accounting for these obligations, we make assumptions related to the amounts of employee severance, benefits, and related costs and to the time period over which facilities will remain vacant, sublease terms, sublease rates and discount rates. 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.

Pension Plans. Two of our subsidiaries, located in the United Kingdom and Japan, maintain retirement plans that are accounted for as defined benefit plans. In 2006, the Company implemented accounting statement SFAS 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans. The impact of the adoption of the measurement date provision of SFAS 158 was not material.

Our United Kingdom pension plan was closed to new membership in 1997 and in 2003 the Company was allowed to stop accruing additional benefits to the participants. Benefits under this plan were based on the employees years of service and compensation. Most of the beneficiaries of this plan are no longer employed by the Company. The Company follows a pension funding policy based on widely used actuarial methods as permitted by regulatory authorities. The accounting rules applicable to our United Kingdom pension plan require amounts recognized in financial statements be determined on an actuarial basis, rather than as contributions are made to the plan. Pension and other benefit costs reflected in the accompanying consolidated statements of operations are based on the projected benefit method of valuation. Within the accompanying consolidated balance sheets, pension plan benefit liabilities are included in accrued compensation and benefits.

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 sufficient to meet current benefits as well as fund a certain portion of future benefits as permitted in accordance with regulatory authorities. 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 deposit funds under various fiduciary-type arrangements and/or purchase annuities under group insurance contracts.

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Both pension plans are currently under-funded. Consequently, changes in economic and market conditions may require us to increase cash contributions in future years.

Accounting for Income Taxes. As part of the process of preparing its consolidated financial statements, the Company is required to estimate its income tax provision (benefit) in each of the jurisdictions in which the Company operates. This process involves estimating its 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 included within its consolidated balance sheet.

The Company records a valuation allowance to reduce its deferred tax assets to an amount that more likely than not will be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company determines that it will be able to realize its deferred tax assets in the future in excess of its net recorded amount, a reduction to the valuation allowance for the deferred tax assets would increase income in the period such determination was made. Likewise, should the Company determine that it would not be able to realize all or part of its net deferred tax assets in the future, an adjustment to the valuation allowance for the deferred tax assets would decrease income in the period such determination was made.

The amount of income taxes the Company pays is subject to ongoing audits by federal, state and foreign tax authorities, which often results in proposed assessments. Its estimate for the potential outcome for any uncertain tax issue is highly judgmental. The Company believes that it has adequately provided for any reasonably foreseeable outcome related to these matters. However, its future results may include favorable or unfavorable adjustments to its estimated tax liabilities in the period that the assessments are made or resolved, or when the statute of limitations for certain periods expires. As a result, its effective tax rate may fluctuate significantly on a quarterly basis.

Undistributed earnings of the Company s non Canadian subsidiaries amounted to approximately $4.3 million as of September 26, 2008. The Company has not provided any additional federal or state income taxes or foreign withholding taxes on the undistributed earnings as such earnings have been indefinitely reinvested in the business as defined in the provisions of SFAS 109 as well as Accounting Principles Board (APB) 23. The determination of the amount of the unrecognized deferred tax liability related to the undistributed earnings is not practicable because of the complexities associated with its hypothetical calculation.

Effective January 1, 2007, the Company adopted FASB Interpretation (FIN) 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. FIN 48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities.

The Company assessed all material positions taken in any income tax return, including all significant uncertain positions, in all tax years that are still subject to assessment or challenge by relevant taxing authorities. Assessing an uncertain tax position begins with the initial determination of the position s sustainability and is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. As of each balance sheet date, unresolved uncertain tax positions must be reassessed, and the Company will determine whether (i) the factors underlying the sustainability assertion have changed and (ii) the amount of recognized tax benefit is still appropriate. The recognition and measurement of tax benefits requires significant judgment. Judgments concerning the recognition and measurement of a tax benefit might change as new information becomes available.

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.

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Recent Accounting Pronouncements

See Note 3 of Notes to Consolidated Financial Statements for recent accounting pronouncements that could have an effect on us.

Item 3. 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 operating results, financial position and cash flows. We manage our exposure to these market risks through our regular operating and financing activities and, when appropriate, through the use of derivative financial instruments.

Foreign Currency Exchange Rate Risk and Sensitivity

We are exposed to changes in foreign currency exchange rates. Any foreign currency transaction, defined as a transaction denominated in a currency other than the U.S. dollar, will be reported in U.S. dollars at the applicable exchange rate. Assets and liabilities are translated into U.S. dollars at exchange rates in effect at the balance sheet date and income and expense items are translated at average rates for the period. 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 Japanese yen, European Union euros, British pounds and Canadian dollars.

A hypothetical change of 10% in appreciation or depreciation in foreign currency exchange rates from the quoted foreign currency exchange rates at September 26, 2008 would not have a material impact on our revenue, operating results or cash flows.

Periodically, the Company has entered into forward exchange contracts to hedge against foreign currency fluctuations. The Company s primary objective for holding derivative financial instruments is to manage currency risk. In accordance with SFAS 133, Accounting for Derivative Instruments and Hedging Activities, the Company s accounting policies for these instruments are based on whether they meet the criteria for designation as hedging transactions, including cash flow, or net investment hedges.

The Company did not have any derivative instruments that qualify for hedge accounting under SFAS 133, Accounting for Derivative Instruments and Hedging Activities at September 26, 2008 or December 31, 2007. The Company records all derivatives at fair value as assets or liabilities in the consolidated balance sheet and any changes are recognized in other income and expense.

When the Company has entered into foreign currency derivative contracts, the contracts have generally been for less than six months duration with the purpose of hedging foreign currency risk on sales transactions. At December 31, 2007, the Company held forward contracts to: sell Japanese yen for the equivalent of $7.9 million; settle U.S. dollar / Japanese yen average strike option with an underlying currency amount of 400 million Japanese yen (equivalent $3.5 million); and buy British pound for the equivalent of $4.2 million. At September 26, 2008, the Company held derivative contracts to sell Japanese yen for the equivalent of $3.7 million and forward contracts to buy British pounds and European Union euros for the equivalent of $7.4 million and $1.2 million, respectively. The foreign currency amounts have been translated into a U.S. dollar equivalent value using the exchange rate at the reporting date. At September 26, 2008, the Company had an unrealized gain on outstanding derivative instruments of $4,000.

Interest Rate Risk and Sensitivity

The Company s exposure to market risk associated with changes in interest rates relates primarily to its cash and cash equivalents, short-term investments, long-term investments and debt obligations. At September 26, 2008, the Company had $52.1 million invested in cash and cash equivalents, and at December 31, 2007, the Company had $172.4 million invested in cash and cash equivalents. Due to the average maturities and nature of our cash portfolio at September 26, 2008, a one percent change in interest rates could have a $0.5 million impact on interest income on an annual basis. The Company does not actively trade derivative financial instruments but may use them to manage interest rate positions associated with its debt instruments. The Company did not hold interest rate derivative contracts as of September 26, 2008.

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Item 4. Controls and Procedures
Evaluation of Controls and Procedures

Our principal executive officer and principal financial officer evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act) as of September 26, 2008. The term disclosure controls and procedures means controls and other procedures that are designed to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Because of the material weaknesses in our internal control over financial reporting, as described below, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures were not effective as of September 26, 2008.

As of September 26, 2008, our principal officers identified three material weaknesses in our internal control over financial reporting. A material weakness is a significant deficiency (within the meaning of Public Company Accounting Oversight Board Auditing Standard No. 5), or combination of significant deficiencies, that results in there being more than a remote likelihood that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis by employees in the normal course of their assigned functions. Each material weakness is discussed below.

1. Inadequate and ineffective controls over the corporate financial statement close process

As a result of ineffective procedures and controls, our September 26, 2008 quarter-end financial statement close process was not completed in an accurate and timely manner and resulted in material post-closing adjustments which have been reflected in our consolidated financial statements for the three- and nine-month periods ended September 26, 2008. The ineffective procedures and controls occurred within our corporate accounting and finance group and involved account reconciliations and manual journal entries that were not properly prepared and/or reviewed and approved. The corporate accounting and finance group has relied on a set of complex systems and procedures that required significant knowledge and experience. The weaknesses in our procedures and controls were compounded by a significant loss of personnel from the corporate accounting and finance department starting in the fourth quarter of 2008 and through the second quarter of 2009. During that period, the Chief Financial Officer, Corporate Controller, Senior Director of Financial Planning, Director of Taxes, three accounting managers, and five additional employees in that department left the Company. Many of the employees who left had substantial historical knowledge of our particular accounting systems and procedures. The Company intends to continue to rely on consulting professionals as needed until a permanent finance team is appointed. These weaknesses resulted in the material post-closing adjustments identified by the current accounting staff and/or our independent registered public accounting firm.

2. Inadequate and ineffective controls over the recognition of revenue

We did not have adequate controls to ensure that revenue was recorded in accordance with generally accepted accounting principles. Specifically, we noted the following with respect to our accounting for revenue transactions:

- our sales and operations teams did not communicate to our accounting staff all of the information necessary to make accurate revenue recognition determinations;

- we did not have adequate procedures in place to validate the completeness and accuracy of the information that was provided to our accounting team by our sales and operations teams;

- we did not have a sufficient number of qualified personnel in our corporate accounting organization with the expertise necessary to make accurate revenue recognition determinations; and

- the procedures performed relative to the evaluation of accounting criteria of arrangements with our customers were not adequate. The inadequate procedures include:

improper classification of elements of arrangements, resulting from incorrect identification of elements within an individual contract, and from erroneous or missing identification of contracts that should have been viewed as one arrangement;

- inadequate or insufficient determination of fair value of undelivered element(s) of multiple-element arrangements;

- inconsistent classification of sales of products with standard configurations, where acceptance criteria are met at the time of shipment, as compared to those sales where acceptance criteria could not be demonstrated prior to shipment;

- improper identification of contracts with extended payment terms, such that arrangements that should have been deemed to not be fixed and determinable were not identified;

- incomplete assessment of revenue transactions, and incomplete documentation necessary to support the Company s accounting conclusions.

These weaknesses led to our review of the historic accounting for revenue transactions, and the restatement of our financial results for previously announced interim periods from 2008, and to the financial statements of all periods prior to 2008 that are included in this Quarterly Report on Form 10-Q.

3. Inadequate and ineffective controls over the accounting for income taxes

We did not have an adequate system of controls to provide reasonable assurance that the accounting for income taxes and related disclosures were prepared in accordance with generally accepted accounting principles. Specifically, we did not have sufficient qualified staffing and technical expertise in the tax function to perform an adequate review of and exercise appropriate control over the calculation of our income tax provision and deferred income tax accounts. This material weakness contributed to material post-closing adjustments to our financial statements for the quarter ended September 26, 2008. These adjustments were identified by our independent registered public accounting firm during their review of the accounting records for this quarter, and we have evaluated and recorded adjustments in our consolidated 2008 financial statements to correct for these errors.

As of December 31, 2008, our principal officers identified the following additional material weakness in our internal control over financial reporting:

Inadequate and ineffective controls over the impairment assessment for goodwill, intangible assets and other long-lived assets.

During the fourth quarter of 2008, we identified certain impairment indicators that led us to perform procedures to assess the possible impairment of our goodwill, intangible assets and other long-lived assets. These procedures were incremental to the goodwill impairment test we perform annually as of the first day of our second quarter. While we correctly identified these impairment indicators, we did not have adequate procedures and controls in place, or sufficiently qualified staff with the technical expertise to ensure that the requisite analysis to determine the amount of impairment could be conducted in a timely, accurate and complete manner, and as a result further post-closing analysis and adjustments were required.

Remediation Plans

Management plans to put in place the following measures to strengthen internal controls over financial reporting and address the material weaknesses described above. Our remediation efforts involve numerous business and accounting process improvements. The improvements are generally designed to: (1) enhance the number of persons within the corporate accounting group with the technical experience to properly evaluate and account for complex accounting transactions, as well as to provide appropriate managerial oversight to our accounting staff, (2) standardize business practices, including a broad-based understanding and adherence to general corporate governance, ethics and public company matters, and (3) improve the timeliness and access to information that is required by the accounting team in order to make appropriate assessments of transactions in accordance with generally accepted accounting principles. We began implementing certain of these measures prior to the filing of this Quarterly Report on Form 10-Q. For example, during 2009, we implemented enhanced revenue recognition procedures and controls. Additionally, our principal financial officer joined the Company in the first quarter of 2009, and led the staffing of a team of temporary and consulting professionals with requisite finance and revenue recognition skills. We expect the implementation of additional remedial actions to be substantially completed in 2010. Until we are able to remediate the weaknesses, we intend to rely on the continued use of outside professionals in order to perform procedures and reviews deemed appropriate and necessary for us to perform accounting procedures and report timely and accurate financial results.

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The remediation plans that we have undertaken, or plan to undertake, include the following measures:

Plans with respect to accounting personnel

Appoint a permanent Chief Financial Officer and enhance the number and quality of the composition of our corporate finance team. This will include the Company conducting an assessment of the current skill set to support the staffing of a finance group with the requisite expertise. We will review the composition of our team of salaried accounting professionals, in terms of skills, technical expertise and overall experience level.

To this end, and subject to the constraints of the Bankruptcy process, we will endeavor to recruit and retain qualified accounting professionals necessary to help ensure the accountability and effective implementation of key controls and remedial actions designed in the areas that material weaknesses have been identified.

Until such time as the review and hiring of salaried accounting professionals is finalized, we have engaged outside professionals to assist us in finalizing our accounting and related SEC reporting for the periods included in this Quarterly Report on Form 10-Q. We have also utilized outside professionals to assist with similar activities in connection with our activities in closing the accounting records for periods in 2009 and 2010. The Company plans to continue to rely on outside professionals as needed until a permanent staff is deployed.

Increase the amount and frequency of the training of our accounting staff. This training is focused on the following matters:

Technical accounting matters that are to be performed by certain staff, and upon whose expertise we will rely to ensure timely, complete and accurate accounting procedures have been performed and documented.

Reviews of current, and yet to be updated, processes and controls will be conducted to ensure that our accounting staff understand requirements and procedures. Additionally, this training will be conducted to ensure that our accounting personnel with managerial responsibilities are capable of supervising the required accounting work, including all necessary reviews, to ensure complete, timely and accurate financial information.

Education with respect to our product offerings, including related services, will be provided by our sales and operational groups in order to ensure that our accounting personnel are aware of current product and service offerings.

Review and redesign of our tax accounting function, including processes and related controls to ensure that our tax provisions, and related balance sheet accounts can be completed accurately and in a timely manner, including ensuring that qualified managerial personnel are able to oversee, review and approve the work performed by tax team s staff.

Plans with respect to organization-wide personnel

Reinforce the message from the top with respect to the Company s policies, and corporate responsibilities. Provide continued reinforcement of these standards and expectations from the executive level officers.

Provide training to our sales, operations and accounting teams with respect to certain corporate governance and public company matters. The training will include guidelines and procedures to ensure that relevant information is promptly and completely communicated to the accounting team, or other senior management representatives, as appropriate. The training will also educate our sales, operations and accounting teams with respect to revenue recognition implications of certain activities, including discussions or other communications between our personnel and customers.

Develop procedures whereby the consistent application of our policies for revenue recognition are understood and are able to be applied. In particular, the procedures will include guidance as to what constitutes a multiple element arrangement, and how fair value is determined for each element of an arrangement. Additionally, training will be given to ensure that all involved personnel understand and can universally apply the evaluation as to what is a standard product (as defined in our policies), as compared to a product that is not standard.

Enhance the cross-functional reviews and approvals of transactions, including policies with respect to electronic approvals, and with respect to the downstream performance of activities that mandate prior approvals or actions.

Develop enhanced procedures with respect to the review of facts, assumptions and other related information that has been reviewed or considered when reaching accounting conclusions. These procedures will be further enhanced by improved documentation, review and approvals of material facts and assumptions by management within the accounting function, and outside of the accounting function when deemed appropriate or necessary.

Plans with respect to organization-wide processes and information systems

Review our information systems to assess which processes can be further automated including, as appropriate, the configuration of our information systems to allow for tracking of certain information that is not routinely captured currently. The accounting processes will be reviewed, and expanded as deemed necessary, to review and assess non-accounting information that is captured in our enterprise wide information systems, as certain of this information can assist the evaluation and documentation of accounting conclusions.

Redesign our key accounting processes with respect to our accounting team management s oversight and review of accounting records, source documentation and related assumptions that form the basis for conclusions.

If the remedial measures described above are insufficient to address any of the identified material weaknesses or are not implemented effectively, or additional deficiencies arise in the future, material misstatements in our interim or annual financial statements may occur in the future and we may continue to be delinquent in our filings. We are currently working to improve and simplify our internal processes and implement enhanced controls, as discussed above, to address the material weaknesses in our internal control over financial reporting and to remedy the ineffectiveness of our disclosure controls and procedures. While this implementation phase is underway, we are relying on extensive manual procedures including the use of qualified external consultants and incremental management oversight and reviews, to assist us with meeting the objectives otherwise fulfilled by an effective internal control. A key element of our remediation effort is the ability to recruit and retain qualified individuals to support our remediation efforts as well as to complete the significant backlog of work required for us to become current with our SEC filings. Despite our efforts to continually improve our control procedures and environment, we cannot provide assurance that our remediation measures will be completed or become effective by any given date after 2008. Among other things, any unremediated material weaknesses could result in material post-closing adjustments in future financial statements and in the Company s inability to file future financial statements with the SEC in a timely manner. Furthermore, any such unremediated material weaknesses could have the effects described in Item 1A. Risk Factors - Our Audit Committee, management and independent auditors have identified material weaknesses in our internal procedures and controls, and we may be unable to develop, implement and maintain appropriate procedures and controls in future periods in Part II of this Quarterly Report on Form 10-Q.

Changes in Internal Control Over Financial Reporting

The Company completed the acquisition of Excel Technology, Inc. (Excel) on August 29, 2008 at which time Excel became a subsidiary of the Company. The transaction is material to the results of the Company s operations, cash flows and financial position from the date of the acquisition through September 26, 2008 and the Company believes that the internal controls and procedures of Excel have a material effect on the Company s internal control over financial reporting. Refer to Note 4 - Business Combinations to the Company s unaudited consolidated financial statements contained in this Quarterly Report for further details on the transaction.

The Company is currently in the process of evaluating the internal controls and procedures of Excel.

Except for the acquisition of Excel, there were no changes in the Company s internal controls over financial reporting during the quarter ended September 26, 2008. However, information came to light during the closing process for the quarter ended September 26, 2008 that led the Company to conclude that some of its internal controls over financial reporting were not operating effectively. The ineffective controls resulted in the material weaknesses described above.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

The Company s French subsidiary, GSI Lumonics SARL (Lumonics), is subject to a claim by a customer, SCGI, that a Laserdyne 890 system delivered in 1999 had unresolved technical problems. During the third quarter of 2005, GSI France, parent of Lumonics, filed for bankruptcy protection, which was granted by the French court on July 7, 2005. On April 18, 2006, the court fixed SCGI s claim against Lumonics at 598,079 Euros, plus court costs and expert fees of 85,945 Euros. SCGI accepted the court s determination. SCGI is now demanding that the Liquidator bring an action in the United Kingdom against GSI Group Ltd., the parent corporation of GSI France. The Company is not aware of any facts to support a claim. The Company s French counsel is addressing these points directly with the Liquidator. At this time, the Company does not believe it will be required to make any payments regarding this action. Accordingly, nothing has been accrued in the Company s accompanying consolidated financial statements.

On August 6, 2008, a purported stockholder of Excel Technology, Inc., a subsidiary of the Company, filed a complaint seeking certification of a class action lawsuit in the Supreme Court of the State of New York, County of New York, docketed as Joseph Choquette, v. Antoine Dominic, Steven Georgiev, Donald E. Weeden, Ira J. Lamel, J. Donald Hill and Excel Technology, Inc., Index No. 08/602294 (the Choquette Action) against Excel and each of its directors. The Choquette Action purports to be brought individually and on behalf of all public stockholders of Excel. The Choquette Action alleges that Excel s director defendants breached their fiduciary duties to Excel s stockholders in connection with the proposed tender offer by the Company and that each of the defendants aided and abetted such alleged breach of Excel s director defendants fiduciary duties. Based on these allegations, the Choquette Action seeks, among other relief, an order declaring the action to be a class action, enjoining preliminarily and permanently the tender offer and the merger with the Company, rescinding, to the extent already implemented, the tender offer and the merger with the Company or any of the terms thereof or awarding rescissory damages, directing that the defendants account to plaintiff and other members of the class for all damages caused by them and account for all profits and any special benefits obtained as a result of a breach of their fiduciary duties to the purported stockholder and other members of the class, awarding plaintiff the costs of the Choquette Action including a reasonable allowance for the expenses of plaintiff s attorneys and experts and granting plaintiff and other members of the class such further relief as the court deems just and proper. On August 14, 2008, Excel and the individual defendants in the Choquette Action filed a motion to dismiss the lawsuit. On August 18, 2008, the plaintiff in the Choquette Action filed a motion seeking a preliminary injunction to enjoin consummation of the tender offer and to require Excel to issue additional and supplementary disclosures in Excel s Schedule 14D-9 filing. On August 19, 2008, the court denied plaintiff s motion for a preliminary injunction. On April 15, 2009, the court granted defendants motion to dismiss and entered judgment dismissing the complaint with prejudice.

On December 12, 2008, in connection with the delayed filing of its results for the quarter ended September 26, 2008, and the announcement of a review of revenue transactions, a putative shareholder class action alleging federal securities violations was filed in the United States District Court for the District of Massachusetts against us, a former officer and a current officer and director. Specifically, the complaint alleges that the Company and the individual defendants violated Sections 10(b) and 20(a) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder, and seeks recovery of damages in an unspecified amount. The action was brought on behalf of a putative class of shareholders who purchased the Company s stock between April 30, 2008 and December 3, 2008. A lead plaintiff, Mason Tenders District Council Trust Funds, was appointed on May 8, 2009. On July 1, 2009, the Court ordered lead plaintiff to file a consolidated or amended complaint within 30 days of the Company s filing of restatements for certain of its historical financial results with the SEC. During the last several months, the parties have been in settlement discussions and the parties have reached an agreement in principle to settle this lawsuit. The settlement would, in general, cover purchasers of the common stock of the Company between February 27, 2007 and June 30, 2009. The agreement in principle is subject to a number of contingencies including confirmatory discovery by the Lead Plaintiff, after which Lead Plaintiff may affirm or void the agreement in principle, preliminary and final approval by the District Court, and to the extent required by law, approval by the Bankruptcy Court. Although the agreement in principle is not final, the total settlement amount is well within the Company s insurance policy limits; the Company s contribution to the settlement amount would be limited to the balance of the company s self-insured retention.

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 the Company s financial conditions 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 the Company s financial condition or results of operations.

Chapter 11 Cases

On November 20, 2009, the Debtors filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code in the United States Bankruptcy Court for Delaware. Under the Bankruptcy Code, the filing of a petition automatically stays most actions against the Company, including most actions to collect pre-petition indebtedness or to exercise control over the property of our bankruptcy estates. Absent further order of the Bankruptcy Court, no party, subject to certain exceptions, may take any action, also subject to certain exceptions, to recover on pre-petition claims against the Debtors. We expect substantially all of our pre-petition liabilities will be resolved under our plan of reorganization if not otherwise satisfied pursuant to orders of the Bankruptcy Court.

SEC Investigation

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

Item 1A. Risk Factors

The following information highlights some of the factors that could cause actual results to differ materially from the results expressed or implied by our forward-looking statements. Forward-looking statements should be considered in light of these factors. Factors that may result in such variances include, but are not limited to the following:

Risks that Relate to our Review of Historic Revenue Transactions, Restatement of Historic Consolidated Financial Statements and Control Procedures

The matters relating to the review of our accounting practices and the recent restatement of our historical consolidated financial statements, including pending litigation, could have a material adverse effect on us.

In connection with the closing of our financial statements for the quarter ended September 26, 2008, we discovered errors in the timing of revenue recognition of certain sales transactions in our Semiconductor Systems Segment. As a result of discovering these revenue recognition errors, we undertook a review of sales transactions in our Semiconductor Systems Segment and Precision Technology Segment for fiscal years 2006, 2007 and 2008. As a result of this review, we announced that the previously issued financial statements contained in the Company s Quarterly Reports on Form 10-Q for the periods ended March 28, 2008 and June 27, 2008 and Annual Reports on Form 10-K for the fiscal years ended December 31, 2007 and December 31, 2006 should no longer be relied upon. Additionally, we undertook a review of sales transactions in our Semiconductors Systems Segment and Precision Technology Segment during years 2004 and 2005, which we subsequently restated. These efforts resulted in the delay of the filing of this Quarterly Report on Form 10-Q, as well as our Quarterly Reports on Form 10-Q for the quarterly periods ended April 3, 2009, July 3, 2009 and October 2, 2009 and our Annual Reports on Form 10-K for the years ended December 31, 2008 and 2009 to correct the errors and prepare restated historical consolidated financial statements. The Revenue Review and the resulting restatements have required us to incur substantial expenses for legal, accounting, tax and other professional services and have diverted our management s attention from our business and could in the future adversely affect our business, financial condition, results of operations and cash flows.

The restatement of our prior financial statements has also exposed us to litigation. For example, in December 2008, a shareholder class action complaint was filed in the United States District Court for the District of Massachusetts against us, a former officer and a current officer and director. That complaint asserts claims under the federal securities laws, specifically Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, relating to the restatement of our financial results for 2006, 2007, and the first two quarters of 2008. The complaint alleges that we issued a series of false or misleading statements to the market concerning our revenues, earnings, and financial condition. The plaintiffs contend that such statements caused our stock price to be artificially inflated and seek unspecified damages. Additionally, on May 14, 2009, we received a notice from the SEC indicating that the SEC is conducting a formal investigation relating to our historical accounting practices and the restatement of our historical consolidated financial statements. We could also become subject to litigation brought on behalf of purchasers of our outstanding Senior Notes because of our restatement of the consolidated financial statements. The conduct and resolution of these and future related matters will be time consuming, expensive and distracting from the conduct of our business. Furthermore, if we are subject to adverse findings in any of these matters, we could be required to pay damages or penalties or have other remedies imposed upon us which could have a material adverse effect on our business, financial condition, results of operations and cash flows.

The SEC has initiated a formal investigation relating to the review of our accounting practices and the restatement of our historical consolidated financial statements which could have a material adverse impact on us.

In addition to the litigation prompted by our restatement, we received a notice from the SEC indicating that the SEC is conducting a formal investigation relating to our historical accounting practices and the restatement of our historical consolidated financial statements. We are cooperating fully with the SEC investigation. The conduct and resolution of the SEC investigation and related matters could be time-consuming, expensive and distracting to the conduct of our business. In the event that the investigation results in an adversarial action or proceeding being brought against us, or any of our current or former officers or directors, our business (including our ability to complete financing transactions), and the trading price of our securities, may be adversely impacted. Additionally, if the SEC investigation continues for a prolonged period of time, it may have the same impact regardless of the ultimate outcome of the investigation. In the event of an adverse judgment in any action or proceeding, we may be required to pay damages or penalties, or other remedies may be imposed upon us, which could have a material adverse impact on our business, financial condition, results of operations and cash flows.

Additionally, while we believe we have made appropriate judgments in determining the correct reporting periods for restated revenues, the SEC may disagree with the manner in which we have accounted for and reported, or not reported, the financial impact. Accordingly, there is a risk we may have to further restate our historical financial statements, amend prior filings with the SEC, or take other actions not currently contemplated.

Our Audit Committee, management and independent auditors have identified material weaknesses in our internal controls, and we may be unable to develop, implement and maintain appropriate controls in future periods.

In connection with the review and restatement of our financial statements, our Audit Committee, management team and independent registered public accounting firm identified certain weaknesses in our internal controls that have been considered to be material weaknesses and significant deficiencies. Specifically, our material weaknesses include: inadequate and ineffective controls over the financial statement close process; inadequate and ineffective controls over the accounting for revenue recognition; inadequate and ineffective controls over the accounting for income taxes; and, inadequate and ineffective controls over the evaluation process for the impairment assessment for goodwill, intangible assets and other long-lived assets. Prior to the remediation of these material weaknesses, there remains risk that the transitional controls on which we currently rely will fail to be sufficiently effective, which could result in a material misstatement of our financial position or results of operations and require a restatement.

We are currently designing and implementing a new environment of procedures and controls intended to address the material weaknesses described above. While this design and implementation phase is underway, we are relying on extensive manual procedures, including the significant utilization of outside accounting professionals, to assist us with meeting the objectives otherwise fulfilled by an effective controls environment. We note that a system of procedures and controls, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the inherent limitations in all systems of procedures and controls, no evaluation can provide absolute assurance that all control issues including instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and breakdowns can occur because of simple error or mistake. Additionally, procedures and controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override. The design of any system of procedures and controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, our systems of procedures and controls, as we further develop and enhance them, may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective system of procedures and controls, misstatements due to error or fraud may occur and not be detected and could be material and require a restatement of our financial statements.

If we are unable to maintain appropriate internal controls, we may not have adequate, accurate or timely financial information, and we may be unable to meet our reporting obligations or comply with the requirements of the SEC or the Sarbanes-Oxley Act of 2002, which could result in 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. Further and continued determinations that there are significant deficiencies or material weaknesses in the effectiveness of our internal controls could also reduce our ability to obtain financing or could increase the cost of any financing we obtain and require additional expenditures to comply with applicable requirements.

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Risks Relating to Bankruptcy

We are subject to the risks and uncertainties associated with bankruptcy proceedings as a result of our filing for reorganization under Chapter 11 of the Bankruptcy Code on November 20, 2009.

On November 20, 2009, we filed voluntary petitions with the Court to reorganize certain of our corporate entities under the Bankruptcy Code. This filing was made by our parent organization and two subsidiaries. We plan to continue to operate our business as a debtor-in-possession under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code. There can be no assurance that the Plan will be approved by the Bankruptcy Court or that any conditions precedent to its implementation will be satisfied or when, if ever, such confirmation and satisfaction will occur. Failure to obtain such confirmation or to satisfy such conditions to implementation may result in lengthier Chapter 11 proceedings as we attempt to negotiate and implement an alternative plan of reorganization.

For the duration of the Chapter 11 Cases, our operations will be subject to the risks and uncertainties associated with bankruptcy which include, among other things:

- the relationships between us and our customers, employees, vendors, strategic partners and others may be negatively affected by the Chapter 11 Cases, including risks that our customers will be less likely to purchase our services, that our employees will seek out other opportunities or lack proper motivation to fulfill their commitments and that vendors and strategic partners could terminate their relationships with us or require financial assurances or enhanced performance to continue their business relationships with us, which may be unduly burdensome on our business and operations;
- the actions and decisions of our creditors and other third parties with interests in our Chapter 11 Cases may be inconsistent with our plans;
- objections to or limitations on our ability to obtain Court approval with respect to motions in the Chapter 11 Cases that we may seek from time to time or potential adverse decisions by the Court with respect to such motions;
- our ability to obtain and maintain commercially reasonable terms with vendors, strategic partners and service providers;
- our ability to obtain and maintain contracts that are critical to our operations;
- our ability to retain customers; and
- our ability to retain and motivate our management team and other key employees.

These risks and uncertainties could disrupt our business, adversely affect our relationships with customers, vendors, strategic partners or employees, or otherwise adversely affect our results of operations and financial condition. However, the ultimate impact of events that occur during these proceedings will have on our business, financial condition and results of operations, if any, cannot be accurately predicted or quantified. Our current Plan filed with the Court provides, among other things, that all existing equity in the Company will be heavily diluted. We can make no assurance that the price of our securities will not fluctuate or decrease substantially in the future. Accordingly, trading in our securities is highly speculative and poses substantial risks to purchasers of such securities, as holders may not be able to resell such securities or, in connection with our reorganization, may receive payment or other consideration that is less than the par value or the purchase price of such securities.

Operating under the Bankruptcy Code may restrict our ability to pursue our business strategies.

Under the Bankruptcy Code, we must obtain Court approval to, among other things:

sell assets outside the ordinary course of business;

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- consolidate, merge, sell or otherwise dispose of all or substantially all of our assets; and
- engage in other activities that are outside the ordinary course of business.

Our ability to continue as a going concern imposes significant risks to our operations.

As set forth in the explanatory paragraph contained in the audit report on our 2008 Financial Statements for the year-ended December 31, 2008 of our independent registered public accounting firm, and due to the uncertainties inherent in the Chapter 11 process, there is substantial doubt as to our ability to continue as a going concern and our customers may become more reluctant to enter into arrangements with us.

We have a significant amount of debt which has been accelerated as a result of the Chapter 11 proceedings, which debt may not be restructured satisfactorily in the bankruptcy proceeding and could adversely affect our business, financial condition, results of operations and our ability to meet our payment obligations under our outstanding liabilities.

We currently have $210.0 million principal balance of debt related to our Senior Notes, the payment of which has been accelerated as a result of the Chapter 11 proceedings. Although the Company s obligation to repay the Senior Notes has been temporarily stayed as a result of the bankruptcy proceedings, and our proposed Plan, as submitted to the Bankruptcy Court, proposes, among other things, reducing the amount of our Senior Notes and certain other Company indebtedness, there can be no assurance that the Plan will be approved by the Bankruptcy Court or that our debt will be restructured satisfactorily. Even if the Plan is approved, we would still emerge from the Chapter 11 proceedings with substantial indebtedness that could adversely affect our business, financial condition and results of operations and our ability to meet our payment obligations under our outstanding liabilities. This level of debt could have significant consequences on our future operations, including:

- Making it more difficult for us to meet our payment and other obligations under our outstanding debt;
- Possibly resulting in an event of default if we fail to comply with the financial and other covenants contained in the indenture governing the restructured Senior Notes, which event of default could result in all amounts thereunder becoming immediately due and payable;
- Reducing the availability of our cash flow to fund working capital, capital expenditures, 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, the industry 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 and our ability to meet our payment obligations under our outstanding liabilities.

The pursuit of the Chapter 11 has consumed and will continue to consume a substantial portion of the time and attention of our management.

The requirements of the Chapter 11 Cases has consumed, and will continue to consume, a substantial portion of our management s time and attention and leave them with less time to devote to the operations of our business. This diversion of management s attention may have a material adverse effect on the conduct of our business, and, as a result, on our financial condition and results of operations, particularly if the Chapter 11 Cases are protracted.

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We may experience increased levels of employee attrition due to the Chapter 11 Cases.

Because of the Chapter 11 Cases, our employees are facing considerable distractions and uncertainty. In addition, due to the global economic environment, we have conducted reductions of our workforce during 2008 and 2009. A loss of key personnel or a substantial reduction in our workforce or material erosion of employee morale could have a material adverse effect on our business, particularly if the Chapter 11 Cases are protracted. Our ability to motivate and retain key employees is restricted by provisions of the Bankruptcy Code, which limit or prevent our ability to implement a retention program or take other measures intended to motivate key employees to remain with us throughout the pendency of the Chapter 11 Cases without Court approval. The loss of the services of any members of our senior management could impair our ability to execute our strategy and, as a result, could have a material adverse effect on our results of operations and financial condition.

We could be subject to claims made after the date that we filed for bankruptcy and other claims that are not discharged in the Chapter 11 Cases, which could have a material adverse effect on our results of operations and financial condition.

We are currently subject to claims in various legal proceedings and may become subject to other legal proceedings in the future. Although we will seek to satisfy and discharge all claims made against us prior to the date of the bankruptcy filing (which claims are generally stayed during the Chapter 11 Cases), we may not be successful in doing so. Any claims arising after the date of our bankruptcy filing, and possibly certain other claims that arose prior to the filing, may not be subject to discharge in the Chapter 11 Cases. The outcome of each of these claims, including our ability to have such claims satisfied and discharged in the Chapter 11 Cases, cannot, at this time, be determined, nor can the liability that may potentially result from a negative outcome be reasonably estimated presently for every case. The liability that we may ultimately incur with respect to any of these claims (in the event of a negative outcome) may be in excess of amounts that have currently been accrued with respect to such claims and, as a result, may have a material adverse effect on our results of operations and financial condition.

Risks Relating to Noncompliance with NASDAQ and SEC Requirements

NASDAQ has made a delisting determination with respect to our common shares, we are not presently in compliance with all applicable continued listing requirements or standards of the NASDAQ Global Select Market, and we are not listed on any other national securities exchange. It will likely be more difficult for stockholders and investors to sell our common shares or to obtain accurate quotations of the share price of our common shares.

As a result of our failure to timely file certain of our periodic reports with the SEC, on November 3, 2009, we received a delisting determination from NASDAQ and were also notified that trading in our common shares would be suspended effective on November 5, 2009. Although we timely appealed the Panel s determination to the Listing Council, on January 15, 2010, the Listing Council notified the Company that it affirmed the Panel s decision to delist the Company s securities. On March 15, 2010, the Company received notification from the NASDAQ Board that it has declined to call for review the January 15, 2010 decision of the Listing Council. Accordingly, pursuant to Listing Rule 5825, the Listing Council s decision represents the final decision of NASDAQ. In accordance with Listing Rule 5830 and Rule 12d2-2 under the Securities Exchange Act of 1934, NASDAQ filed an application on Form 25 with the SEC on April 5, 2010, to delist the Company s securities from NASDAQ. The application will become effective ten days after filing.

In addition to our failure to timely file required periodic reports, we are not in compliance with certain other continued listing requirements of NASDAQ. For example, the NASDAQ rules require that, among other things, we maintain a minimum bid price of at least $1 per share. On September 16, 2009, we were notified by NASDAQ that the closing bid price per share of our common shares had been below $1 per share for thirty consecutive business days and, in accordance with applicable NASDAQ rules, we were given an exception until March 15, 2010 to regain compliance with the minimum bid price standard. The NASDAQ rules also require that we hold an annual shareholders meeting within twelve months of our fiscal year end. In connection with our previously mentioned appeal to the Listing Council, we notified NASDAQ that we were unable to hold an annual shareholders meeting in fiscal year 2009, as required, although we recently announced that a meeting date of April 30, 2010 has been set for the Company s next annual shareholders meeting. In addition, the NASDAQ rules provide that NASDAQ has discretion to suspend or terminate the listing of a company that files for protection under the Bankruptcy Code. Each of the foregoing may have contributed to the Listing Council s decision to affirm the Panel s decision to delist our common shares. As a result of the NASDAQ delisting determination, the Company s common shares are currently quoted on the Pink OTC Markets Inc., continuing under the trading symbol GSIGQ. Stocks trading on the over-the-counter market are typically less liquid than stocks that trade on a national securities exchange. Trading on the over-the-counter market may also negatively impact the trading price of our common shares. In addition, the liquidity of our common shares may be impaired, not only in the number of shares that are bought and sold, but also through

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delays in the timing of transactions, and coverage by security analysts and the news media, if any, of our Company. Stockholders may find it difficult to resell their shares of our common shares, due to the delisting proceedings and the likely effect of the Chapter 11 Cases on our common shares. The delisting of our common shares from NASDAQ may also result in other negative implications, including the potential loss of confidence by customers, strategic partners and employees, and loss of institutional investor interest in our common shares.

We recently discovered that we have inadvertently failed to file with the SEC a registration statement relating to securities issued under our 2006 Plan. As a result, we may have engaged in multiple issuances of duly authorized but unregistered securities and we may be subject to civil litigation, enforcement proceedings, fines, sanctions and/or penalties.

It has come to our attention that between March 2007 and March 2010, we inadvertently issued unregistered shares to fifty-two employees and directors under our 2006 Plan in an amount of approximately 773,037 common shares with a total fair market value at the date of issuance of approximately $3.9 million. These securities were also issued without an appropriate restrictive legend. Although we believed that we and our counsel at the time had filed the appropriate registration statement on Form S-8, it came to our attention during the preparation of our Annual Report on Form 10-K for the year-ended December 31, 2008 that a registration statement on Form S-8 or other appropriate form had not been filed and the issuances were not made pursuant to a valid exemption from the applicable federal and state securities laws. Accordingly, it may be determined that such issuances were not exempt from registration or qualification under federal and state securities laws, and we did not obtain the required registrations or qualifications. As a result, we may be subject to civil litigation, enforcement proceedings, fines, sanctions and/or penalties.

We may also be subject to claims by participants in the 2006 Plan for rescission of their acquisitions of common shares under the 2006 Plan under federal securities laws until the expiration of the applicable statute of limitations period, which is one year under federal law from the date of transaction. If applicable, such participants may have the right to rescind their purchases for an amount equal to the purchase price for the shares (or if the shares have been disposed of, claims for any damages with respect to any loss on such disposition) plus interest from the date of purchase. However, under applicable provisions of federal law (including section 510(b) of the Bankruptcy Code (11 U.S.C. § 510(b)), and in connection with our Chapter 11 Cases, if the proposed Plan is confirmed, the holders of any such damage claims and related rescission or other rights would, we believe, be entitled to receive a distribution under the Plan of common shares of the reorganized Company only. We believe that the most likely result is that any such claims, if allowed, would result in the holder receiving that quantity of common shares in the reorganized Company that are determined by a court to result in equal treatment of such claim holders and existing equity holders. Furthermore, rescission or damages claims of a shareholder who holds the above described unregistered shares, but receives new shares, as contemplated by the Plan, would be discharged upon the Company s emergence from the bankruptcy proceedings. Such new shares would be issued pursuant to an exemption from registration under §1145 of the Bankruptcy Code and be freely tradable by holders who are not deemed to be underwriters.

We may be unable to timely file certain periodic reports with the SEC.

We did not timely file with the SEC this Quarterly Report or our Annual Report on Form 10-K for the year ended December 31, 2008; our Annual Report on Form 10-K for the year ended December 31, 2009; nor our Quarterly Reports on Form 10-Q for each of the quarters ended April 3, 2009, July 3, 2009 and October 2, 2009. We may continue to be unable to timely file our annual and quarterly periodic reports with the SEC in the future. Following the commencement of the Chapter 11 Cases, our management has been particularly strained by the considerable attention required for administering the Chapter 11 Cases. In addition, due to the continuing demands on management s time and attention in connection with the Chapter 11 Cases, as well as any attrition that we may experience in the future, we cannot make any assurances as to whether or when we will be able to complete and file our periodic reports in the future.

Also as a result of our delayed filings with the SEC, we will be ineligible to register our securities on Form S-3 for sale by us or resale by others until one year from the date the last delinquent filing is made. We may use Form S-1 to raise capital or complete acquisitions, but doing so could increase transaction costs and adversely impact our ability to raise capital or complete acquisitions of other companies in a timely manner.

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Risks that are Derived from our Operations

The results of our operations could be adversely affected by economic and political conditions and the effects of these conditions on our customers businesses and level of business activity.

A large portion of our sales are dependent on the need for increased capacity or replacement of inefficient manufacturing processes, because of the capital-intensive nature of our customers businesses. These sales also tend to lag behind in an economic recovery longer than other businesses. There was a rapid softening of the economy and tightening of the financial markets in the second half of 2008 that continued into the first half of 2009. This slowing of the economy has reduced the financial capacity of our customers and possibly our potential customers, thereby slowing spending on the products and services we provide. If the current down turn lasts longer than expected, and if a recovery does not begin or if a new general economic slowdown commences, we may not be able to meet anticipated revenue levels on a quarterly or annual basis. 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. 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 capital expenditures which are subject to cyclical market fluctuations.

The semiconductor and electronics materials processing industries are cyclical and have historically experienced periods of oversupply, resulting in downturns in demand for capital equipment, including the products that we manufacture. 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. We cannot assure investors that demand for our products will increase or that demand will not decrease. 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.

Cyclical variations may have the most pronounced effect on our Semiconductor Systems Segment, which concentrates in the semiconductor and electronics industries.

There is no assurance that we will not be impacted from continuation of the current economic slowdown or face future slowdowns as we have experienced in previous cyclical fluctuations or that the impact will be more or less significant compared to historical fluctuations.

Our business success depends upon our ability to respond to fluctuations in product demand.

If business declines, we may be required to reduce costs while at the same time maintaining the ability to motivate and retain key employees. We must also continually invest in research and development which may inhibit our ability to reduce costs in a down cycle. Additionally, long product lead-times create a risk that we may purchase or manufacture inventories of products that we are unable to sell. While we practice inventory management, we can offer no assurances that our efforts to mitigate this risk will be successful.

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 consistently 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. Failed market acceptance of new products or problems associated with new product transitions could harm our business.

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Delays in delivery of new products could have a negative impact on our business.

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;
- the inability to manufacture 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, have fewer features than originally considered desirable and achieve higher cost targets than initially estimated. There may be delays in starting volume production of new products and/or new products may not be commercially successful.

Our quarterly results of operations may fluctuate in the future. As a result, we may fail to meet or exceed the expectations of securities analysts or investors, which could cause our stock price to decline.

We sell a relatively small number of high revenue semiconductor systems within any period. These systems are complex and may have multiple elements for customer delivery including overall systems, spare parts, extended warranties, installation and training and may be subject to customer acceptance criteria. In certain transactions, we recognize all or a portion of revenue upon shipment provided title and risk of loss has passed to the customer, evidence of an arrangement exists, fees are contractually fixed or determinable, collectability is reasonably assured through historical collection results and regular credit evaluations, and there are no uncertainties regarding the receipt or timing of customer acceptance. As a result, it is often difficult to project the timing of product revenue recognition. Consequently, our revenue and financial results could vary significantly from expectations in a particular quarter if anticipated orders from even a few customers are not received and fulfilled in time to satisfy customer obligations to the extent necessary to permit revenue to be recognized under generally accepted accounting principles. In addition, our product order backlog at the beginning of each quarter may not include all systems needed to achieve expected revenues for that quarter. Because we may build systems according to forecast, the absence of a significant backlog for an extended period of time could adversely affect financial results.

Customer order timing and other factors beyond our control may lead to an inability to meet our financial forecasts.

Changes in customer order timing and the existence of certain other factors beyond our control may lead to our inability to meet financial forecasts. 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;

timing and level of expenditures for sales, marketing and product development;

changes in the prices of our products or of our competitors products; and

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fluctuations in exchange rates for foreign currency.

A large percentage 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.

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 fall significantly below expectations and may have materially adverse effects on our operations for that period. Our inability to adjust quickly enough could magnify the adverse effects of that revenue shortfall on our results of operations.

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. We believe that fluctuations in quarterly results may cause the market prices of our common shares to fluctuate, perhaps substantially.

Our director and officer liability insurance may not cover the Company s exposure in the securities class action litigation.

During the last several months, the parties have been in settlement discussions and the parties have reached an agreement in principle to settle the securities class action lawsuit. The agreement in principle contemplates that the Company s insurance carrier will contribute to the settlement. The total settlement amount is well within the Company s insurance policy limits; the Company s contribution to the settlement amount would be minimal and reflects the balance of the company s self-insured retention. The agreement in principle is subject to a number of contingencies including confirmatory discovery by the Lead Plaintiff, after which Lead Plaintiff may affirm or void the agreement in principle, preliminary and final approval by the District Court, and to the extent required by law, approval by the Bankruptcy Court. If the agreement in principle is not finalized, there are no assurances that any future settlement or judgment will either be covered by the Company s liability insurance policies or fall within their limits.

Our effective tax rates are subject to fluctuation, which could impact our financial position, and our estimates of tax liabilities may be subject to audit, which could result in additional tax assessments.

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

We maintain significant cash balances, and in the past we have maintained and may in the future maintain foreign exchange contracts, where significant changes in interest rates, credit ratings or foreign currency rates could result in materially adverse effects to income.

These balances create financial exposure to changing interest and currency rates. We have attempted to mitigate these risks by, in the past and possibly in the future, purchasing foreign exchange contracts, and by investing in United States government issued treasury bills. However, if long term interest rates or foreign currency rates were to change rapidly, we could incur material losses. Further, if management chooses to invest in less risk adverse investment vehicles, the risk of losing principal and/or interest could increase.

Our investments in auction rate securities are subject to risks which may cause losses and affect the liquidity of these investments.

As of September 26, 2008, we held auction rate securities, recorded at a fair value of $25.9 million, and with a par value of $32.3 million. These securities were acquired as part of our purchase of Excel in 2008. Auctions for some of these auction rate securities have failed, and there is no assurance that auctions on the remaining auction rate securities in our investment portfolio will succeed in the future. An auction failure means that the parties wishing to sell their securities could not do so. As a result, our ability to liquidate and fully recover the carrying value of our auction rate securities in the near term may be limited or not exist. The uncertainties in the credit markets have prevented us and other investors from liquidating holdings of auction rate securities at times when we, or other investors, would have chosen to do so.

We have had some success in liquidating these holdings during 2009. Of the $32.3 million in par value securities that we held as of September 26, 2008, we sold $19.3 million of the securities, and recorded net realized gains on our sales of these securities. As of December 31, 2009, we continue to hold remaining securities with a par value of $13.0 million. If the credit ratings of the issuer, the bond insurers or the collateral deteriorate further, or if the issuers of these auction rate securities are unable to successfully close future auctions, we may further reduce the carrying value of these investments and may in the future be required to record impairment charges against these investments, some of which may be considered other-than-temporary impairment charges. We may be required to wait until market stability is restored for these instruments or until the final maturity of the underlying notes (up to 30 years) to recover our investment.

International operations are an expanding part of our business and our operations in foreign countries subject us to risks not faced by companies operating exclusively in the United States.

During the nine months ended September 26, 2008, a significant portion of our revenue was derived from operations 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;
- social unrest in countries where we operate;
- climatic or other natural disasters in regions where we operate;
- increases in shipping costs or increases in fuel costs;
- longer payment cycles;
- acts of terrorism;
- greater difficulty in collecting accounts receivable;
- use of incompatible systems and equipment;
- problems staffing and managing foreign operations in diverse cultures;
- protective tariffs;
- trade barriers and export/import controls;
- transportation delays and interruptions;

- reduced protection for intellectual property rights in some countries; and
- the impact of recessionary foreign economies.

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

There are inherent risks as we increase our focus on overseas operations.

We manufacture certain products in plants in the United Kingdom and China. Manufacturing in overseas locations creates risks, including the possibility that as operations are transferred or expanded in foreign locations we may not be able to produce products to the quality standards or deliver products on time as our customers have come to expect. This possibility may come about due to an inability to find qualified personnel overseas. It is also possible that after an overseas transition, we may find that we have been producing products with latent defects that come to light only after a long period of operation. Transitioning a business to an overseas location has many additional risks such as developing solid financial, enterprise resource planning (ERP) and customer relationship management (CRM) systems.

Economic, political or trade problems with foreign countries could negatively impact our business.

We are increasingly outsourcing the manufacture of sub assemblies to suppliers based in China and elsewhere overseas. 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.

Customs rules are complex and vary within legal jurisdictions in which we operate. Failure to comply with local customs regulations could be discovered during a foreign government customs audit that may produce a substantial penalty.

Customs rules are complex and vary within legal jurisdictions in which we operate and there can be no assurance that there will be no control failure around customs enforcement despite the precautions we take. A failure with local customs regulations could be discovered during a foreign government customs audit and could result in a substantial penalty and a material impact on our financial results. We seek to mitigate this risk by maintaining export control systems and an internal customs staff charged with the responsibility of strictly complying with all applicable import/export laws. Further, we attempt to maintain arms length transactions with our foreign subsidiaries and their customers.

We have a history of operating losses and we may not be able to sustain or grow the current level of profitability.

We incurred operating losses on an annual basis from 1998 through 2003 and again in 2008. No assurances can be given that we will sustain or increase the level of profitability in the future based on extrinsic market forces, and the market price of our common shares may decline as a result.

Our Ability to Utilize Our Net Operating Loss Carryforwards and Other Tax Attributes will be Limited as a Result of Our Plan of Reorganization and is Dependent on Our Ability to Generate Sufficient Future Taxable Income.

We have significant net operating loss carryforwards (NOLs) and other tax attributes. Section 382 of the Internal Revenue Code of 1986, as amended, limits a corporation s ability to utilize NOLs and other tax attributes following a Section 382 ownership change. We expect that we will undergo a Section 382 ownership change upon the implementation of our Plan of Reorganization and, consequently, our ability to utilize our NOLs and other tax attributes will be limited. In order to prevent an ownership change during our Chapter 11 proceedings, the Bankruptcy Court has entered an order that places certain restrictions on trading in our common shares. However, despite the order, we can provide no assurances that an ownership change has not or will not occur prior to emergence. Such a change prior to emergence could further limit our ability to utilize our NOL carryforwards. A significant limitation in our ability to utilize our NOL carryforwards could have a negative impact on our financial results.

In addition, our ability to use future tax deductions is dependent on our ability to generate sufficient future taxable income in the U.S. In determining our provision for income taxes, our tax attributes and liabilities and any valuation allowance recorded against our net tax attributes require subjective judgment and analysis. We consistently evaluate our tax attributes based on tax recoverable in the carryback period, existing deferred tax liabilities, tax planning strategies and future taxable income. Although we anticipate using certain of our tax attributes to generate tax refunds from prior years, our ability to recover all 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 the valuation allowance on our tax attributes by taking a charge to the statement of operations, which could have a material negative result on our financial results.

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

We sell products through resellers, distributors, original equipment manufacturers (OEMs) and system integrators. We sell certain lasers through a 50% owned Indian joint venture. The holder of the other 50% of the joint venture is not a related party. Selling products through third parties can subject us to credit and business risks. 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 impact upon our financial results. We can not 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.

We are exposed to the credit risk of some of our customers and to credit exposures in weakened markets, which could result in material losses.

Customers with liquidity issues may lead to additional bad debt expense. We monitor individual customer payment capability in granting open credit arrangements, and seek to limit such open credit to amounts we believe our customers can pay, and we maintain reserves we believe are adequate to cover exposure for doubtful accounts. However, 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. 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.

In addition, to the extent that the ongoing turmoil in the credit markets makes it more difficult for some customers to obtain financing, those customers ability to pay may be adversely impacted, which in turn could have a material adverse effect on our business, operating results and financial condition.

While we generally sell a portion of our sales directly to customers future sales may be derived through distributors. As distributors tend to have more limited financial resources than original equipment manufacturers (OEM) and end-user customers, they generally represent sources of increased credit risk. Additionally, in the event that the ongoing turmoil in the credit markets makes it more difficult for some customers to obtain financing, those customers ability to pay could be adversely impacted, which in turn could have a material adverse impact on our business, operating results and financial condition.

We are exposed to the risks that others may violate our intellectual property rights.

Our future success depends in part upon our intellectual property rights, including trade secrets, know-how and continuing technological innovation. There can be no assurance that the steps we take to protect our intellectual property rights will be adequate to prevent misappropriation, or that others will not develop competitive technologies or products outside of our patented property. There can be no assurance that other companies are not investigating or developing other technologies that are similar to ours, that any patents will issue from any application filed by us or that, if patents do issue, the claims allowed will be sufficiently broad to deter or prohibit others from marketing similar products. In addition, there can be no assurance that any patents issued to us will not be challenged, invalidated or circumvented in a legal or administrative proceeding, or that our patents and know how will provide a competitive advantage to us.

Our intellectual property rights may not be protected in foreign countries.

Our efforts to protect our intellectual property rights may not be effective in some foreign countries where we operate or sell. Many U.S. companies have encountered substantial problems in protecting their property rights against infringement in foreign countries. If we fail to adequately protect our intellectual property in these countries, it could be easier for our competitors to sell competing products in foreign countries.

Our success depends upon our ability to protect our intellectual property and 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, we 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.

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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, some of which 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. It is also possible that we may not be able to make the technological advances necessary to maintain our competitive position, or our products will not receive market acceptance. We may not be able to compete successfully in the future, and increased competition may 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 business strategy includes finding and making strategic acquisitions and divestitures. There can be no assurance that we will be able to continue to make acquisitions or divestitures that provide business benefit.

We acquired an optics business in the United Kingdom in 2007, we completed our acquisition of Excel in August 2008 and we sold our U.S. Optics Business in October 2008. We expect to continue to evaluate potential acquisitions and divestitures as part of our long-term strategic plan. Our identification of suitable acquisition candidates involves risks inherent in assessing the values, strengths, weaknesses, risks, synergy and profitability of acquisition candidates, including the effects of the possible acquisition on our business, diversion of management s attention from our core businesses and risks associated with unanticipated problems or liabilities. We cannot assure investors our efforts will be sufficient, or that acquisition candidates will be receptive to our advances or that any acquisition we may make would be accretive to earnings. We also cannot assure investors that we will find suitable purchasers in the event that we identify a potential divestiture candidate in the future. Further, given our significant debt and inability to use Form S-3, we may have difficulty obtaining financing for such strategic acquisitions.

We may fail to successfully complete the integration of Excel into our business and, as a result, may fail to realize the synergies, cost savings and other benefits expected from the acquisition. Further, Excel s performance has not been in accordance with our expectations, which has had, and could continue to have a material adverse effect on our financial condition.

We may fail to successfully complete the integration of Excel into our business and, as a result, may fail to realize the synergies, cost savings and other benefits expected from the acquisition. The revenue we expected from Excel did not materialize in 2008, which contributed significantly to the impairment charge we recorded in the fourth quarter of 2008. We may continue to fail to grow and build revenues and profits in Excel s business lines or achieve sufficient cost savings through the integration of customers or administrative and other operational activities. Furthermore, we must achieve these objectives without adversely affecting our revenues. If we are not able to successfully achieve these objectives, the anticipated benefits of the acquisition may not be realized fully or at all, or it may take longer to realize them than expected, and our results of operations could be materially adversely affected.

Further, our ability to maintain and increase profitability of Excel s business lines 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 Excel s profitability may not be realized, and such revenues and profitability may decline as we integrate Excel s operations into our business. If Excel s revenues grow more slowly than we anticipate, or if its operating expenses are higher than we expect, we may not be able to sustain or increase its profitability, in which case our financial condition will suffer and our stock price could decline. For example, as discussed in Note 17 of Notes to Consolidated Financial Statements, in 2008, we experienced decreased performance relative to our expectations for our acquisition of Excel. The decreased performance contributed to our having recorded a significant impairment charge against the value of assets that were initially attributed to the goodwill, intangible assets and other long-lived assets of Excel during the fourth quarter of 2008. Should there be continued deterioration in Excel s performance, future impairment changes may be required to be recorded.

We continue our leadership transition, which could have a material effect on our business.

We continuously review our management, business and organizational structures. There are risks associated with changes in strategy and management at the executive and/or director level, and changes in product or operational focus. During 2008, and in early 2009, we experienced significant turnover in our management team, including our Chief Financial

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Officer, our General Counsel and certain senior members of our various segments or operating groups. There can be no assurance that any of the anticipated or other prospective management changes will not have a negative material effect on the Company.

Our operations could be negatively affected if we lose key executives or employees or are unable to attract and retain skilled executives and employees as needed.

Our business and future operating results depend in part upon our ability to attract and retain qualified management, technical, sales and support personnel for our operations on a worldwide basis. The loss of key personnel could negatively impact our operations. Competition for qualified personnel is intense and we cannot guarantee that we will be able to continue to attract, train and retain qualified personnel.

The Company conducted an internal review of potential issues related to the Foreign Corrupt Practices Act and voluntarily shared information relating to that review with the SEC in the third quarter of 2009. These matters could have a material adverse effect on us. Further, our reputation and our ability to do business may be impaired by improper conduct by any of our employees, agents or business partners.

During the Revenue Review, the Audit Committee and its advisors identified certain potential issues related to the Foreign Corrupt Practices Act (FCPA), in particular in China, and referred those issues to the Company for review. With the assistance of outside legal counsel, the Company conducted and completed an internal review of those potential issues and voluntarily shared information relating to the internal review with the SEC in the third quarter of 2009. While we have not received any further requests from the SEC on this internal FCPA review, we cannot predict whether the SEC will request any further information from the Company regarding the internal FCPA review or whether the SEC will take any other action.

Additionally, we cannot provide assurance that our internal controls will always protect us from reckless or criminal acts committed by our employees, agents or business partners that would violate US and/or non-US laws, including the laws governing payments to government officials, competition, money laundering and data privacy. Any such improper actions could subject us to civil or criminal investigations in the US and in other jurisdictions, and could lead to substantial civil or criminal, monetary and non monetary penalties against us or our subsidiaries. Following the aforementioned internal review, we updated our FCPA compliance policies and enhanced our FCPA training program.

We have undertaken restructuring activities, and we will continue to assess our operating structure.

Our ability to reduce operating expenses is dependent upon the nature of the actions we take to reduce expense and subsequent ability to implement those actions and realize expected cost savings. For example, in the past years we shifted certain of our operations in the United States and United Kingdom to China to reduce expenses. We have undertaken actions to consolidate redundant or excess personnel that have arisen due to our acquisition of Excel in August 2008, and due to the contracting demand for certain of our products due to the global economic slowdown. We have also divested of other businesses. There can be no assurance that these actions will provide us economic benefit. Further, there is a risk that these actions may ultimately prove detrimental to operations and sales, or to our intellectual property protections.

We expect to be consolidating some of our operations for greater efficiency.

There is execution risk in these plans. We can not assure investors that economies of scale will or can be realized as a result of any historic or planned restructuring activities. These actions will take time and will include substantial operational risks, including the possible disruption of manufacturing lines. We can not assure investors that any moves would not disrupt business operations or have a material impact on results.

In addition, any decision to limit investment in, dispose of or otherwise exit business activities may result in the recording of special charges, such as technology write-offs, workforce reduction costs, charges relating to consolidation of excess facilities, or a loss on the sale of assets. Our estimates with respect to the useful life or ultimate recoverability of our carrying basis of assets, including intangible assets, could change as a result of such decisions. Further, our estimates related to the liabilities for excess facilities are affected by changes in real estate market conditions. Our December 2008 assessment of the carrying value of goodwill and intangible assets resulted in substantial write downs. Additionally, we are required to perform goodwill impairment tests on an annual basis and during the year in certain circumstances. There can be no assurance that future goodwill and intangible assets impairment tests will not result in a change to earnings.

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

Complex products that we produce can contain latent errors or performance problems. There have been instances where we have found errors immediately after launch of new products, and there have been instances where we have also found latent errors in our products. We cannot always resolve errors that we believe would be considered serious by our customers before implementation, thus our products are not error-free. These errors or performance problems could be detrimental to our business and reputation. In addition, customers frequently integrate our products with other vendor s 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 relations problems. These problems may also complicate our determination of the timing and amount of revenue recognition. To date, defects in our products or those of other vendors products with which our products are used by our customers have not had a material negative effect on our business relationships with our customers. However, we cannot be certain that a material negative impact will not occur in the future.

We depend on limited source suppliers that could cause substantial manufacturing delays if supply disruption occurs.

Many of our products are manufactured with components that are designed by an outside supplier. While we attempt to mitigate risks associated with our reliance on single suppliers by actively managing our supply chain, we still source some components from single vendors. We also rely on a limited number of independent contractors to manufacture subassemblies for some of our products, particularly in our Semiconductor Systems. There can be no assurance that our current or alternative sources will 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.

We also depend on suppliers that provide high precision parts.

Any such parts that have latent or known defects, may materially impact relations with our customers if they cause us to miss our scheduled shipment deadlines. If latent defects are incorporated into our products and discovered later, there could be a material impact on our revenues. We seek to reduce the risk of defects by selecting and qualifying alternative suppliers for key parts, and by monitoring the quality of products coming from key suppliers.

Production difficulties and product delivery delays could materially adversely affect our business.

We assemble our products at our facilities in the United States, the United Kingdom and China. If use of any of our manufacturing facilities were interrupted by a natural disaster or otherwise, our operations could be negatively impacted until we could establish alternative production and service operations. In addition, we may experience production difficulties and product delivery delays in the future as a result of:

- mistakes made while transferring manufacturing processes between locations;
- changing process technologies;
- ramping production;
- installing new equipment at our manufacturing facilities; and
- shortage of key components.

Increased governmental regulation of our business could materially adversely affect us.

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 United States Food and Drug

Administration, and certain health regulations related to the manufacture of products using beryllium, an element used in some of our structures and mirrors. Among other things, these regulations

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require us to file annual reports, to maintain quality control and sales records, to perform product testing, to distribute appropriate operating manuals, to incorporate design and operating features in products sold to end-users and to certify and label our products. Various warning labels must be affixed and certain protective devices installed depending on the class of product. We are subject to regulatory oversight, including comparable enforcement remedies, in the markets we serve.

Changes in governmental regulations may reduce demand for our products or increase our expenses.

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 regulations could reduce demand for our products, which in turn could materially adversely affect our business, operating results and financial condition.

We may require additional capital to support business growth, and this capital may not be available on acceptable terms or at all.

We may require additional funds to respond to business challenges, including the need to develop new products or enhance our existing products, enhance our operating infrastructure and acquire complementary businesses and technologies. Accordingly, we may need to engage in equity or debt financings to secure additional funds. If we raise additional funds through further issuances of equity or convertible debt securities, our existing stockholders could suffer significant dilution, and any new equity securities we issue could have rights, preferences and privileges superior to those of holders of our common shares. Further, our existing Senior Notes may restrict or impede our ability to obtain additional debt financing. Any debt financing secured by us in the future could include restrictive covenants relating to our capital raising activities and other financial and operational matters, which may make it more difficult for us to obtain additional capital and to pursue business opportunities, including potential acquisitions. In addition, we may not be able to obtain additional financing on terms favorable to us or at all. If we are unable to obtain adequate financing or 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.

Due to the prevailing global economic conditions that largely began in 2008, many businesses do not have access to the capital markets on acceptable terms. In addition, as a result of this global credit market crisis, conditions for acquisition activities have become very difficult as tight global credit conditions have adversely affected the ability of potential buyers to finance acquisitions. Although these conditions have not immediately affected our current plans, these adverse conditions are not likely to improve significantly in the near future and could have a negative impact on our ability to execute on future strategic activities.

Risks that Relate to Our Common Shares

Trading in our securities during the pendency of the Chapter 11 Cases is highly speculative and poses substantial risks. If our pre-arranged Plan of reorganization that we filed is confirmed by the Court, our common shares will be heavily diluted. If our Plan of reorganization is not confirmed by the Court, we may be unable to come to terms with the holders of our Senior Notes, and holders of such common shares likely will not receive any distribution with respect to, or be able to recover any portion of, such investment.

If our Plan of reorganization is confirmed by the Court, our common shares will be heavily diluted. If our Plan of reorganization is not confirmed by the Court, an alternative plan of reorganization could be approved by the Court, resulting in more or less dilution compared with the Company s proposed Plan or as a result of which our common shares could be cancelled upon the approval of the Court and if that were to occur the holders thereof would not be entitled to receive, and would not receive or retain, any property or interest in property on account of such common shares. Trading prices are very volatile and frequently bear no relationship to the expected recovery by the holders of such securities in Chapter 11 reorganization proceedings. Accordingly, we urge that extreme caution be exercised with respect to existing and future investments in our equity securities and any of our other securities.

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Holders of our common shares are subject to the risk of additional and substantial dilution to their interests as a result of future issuances of common shares.

In the future, we may issue additional equity securities to raise capital or restructure our existing debt and our stock option holders may exercise all or some of the options that are outstanding or may be outstanding. These additional issuances would dilute existing share ownership.

Future sales of a substantial number of our common shares in the public market could adversely affect the trading price of our shares and impair our ability to raise funds in future stock offerings.

Future sales of a substantial number of our common shares in the public market or the perception that such sales could occur, could adversely affect the prevailing market price of our common shares and could make it more difficult for us to raise additional capital through the sale of equity securities.

The market price of our common shares has been and may continue to be subject to wide fluctuations, and this may make it difficult for you to resell the common shares when you choose to or at prices you find attractive.

Our stock price historically has been, and may continue to be, volatile. Various factors contribute to the volatility of the stock price, including:

- the current general economic downturn and any future general economic downturns that impacts the purchasing decisions of our significant customers or the timing and size of their orders;
- fluctuation in demand for our products and the timing and size of customer orders;
- the cancellation or deferral of existing customer orders or the renegotiation of existing contractual commitments;
- the length and variability of the sales cycle for our products;
- changes in our pricing policies, the pricing policies of our competitors and the prices of the components of our products;
- our ability to develop, introduce and ship new products and product enhancements that meet customer requirements in a timely manner;
- the mix of product configurations sold;
- our ability to attain and maintain production volumes and quality levels for our products;
- costs related to acquisitions of complementary products, technologies or businesses;
- corporate restructurings, including layoffs;

the timing of revenue recognition and the application of complex revenue recognition accounting rules to our customer arrangements;

announcements of quarterly operating results and revenue and earnings forecasts by us, our competitors or our customers;

failure to achieve financial forecasts, either because expected sales do not occur or because they occur at lower prices or on terms that are less favorable to us;

rumors, announcements or press articles regarding changes in our management, organization, operations or prior financial statements;

changes in revenue and earnings estimates by securities analysts;

- announcements of planned acquisitions by us or by our competitors;
- announcements of new or planned products and enhancements by us, our competitors or our customers;
- gain or loss of a significant customer;
- our involvement in legal proceedings and the entry of judgments or decisions adverse to us;
- inquiries and/or proceedings by the SEC, NASDAQ, law enforcement or other regulatory bodies; and
- acts of terrorism and the threat of war.

While we cannot predict the individual effect that these factors may have on the market price of our common shares, these factors, either individually or in the aggregate, could result in significant volatility in our stock price during any given period of time. Additionally, the stock market has recently experienced extreme price volatility, which has adversely affected and may continue to adversely affect the market price of our common shares for reasons unrelated to our business or operating results.

Our directors, executive officers and each of our greater than 5% stockholders and their affiliates have substantial control over the outstanding shares of our common shares, which could limit your ability to influence the outcome of key transactions, including a change of control.

Our directors, executive officers and each of our greater than 5% stockholders and their affiliates, in the aggregate, together beneficially own a substantial amount of the outstanding shares of our common shares. As a result, these stockholders, if acting together, may be able to influence or control matters requiring approval by our stockholders, including the election of directors and the approval of mergers, acquisitions or other extraordinary transactions. They may have interests that differ from yours and may vote in a way with which you disagree and which may be adverse to your interests. This concentration of ownership may have the effect of delaying, preventing or deterring a change of control of our company, could deprive our stockholders of an opportunity to receive a premium for their common shares as part of a sale of our company and might affect the market price of our common shares.

Certain provisions of our articles of incorporation may delay or prevent a change in control of our 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 our company. These provisions include:

- limitations on persons authorized to call a special meeting of stockholders;
- advance notice procedures required for stockholders to nominate candidates for election as directors or to bring matters before an annual meeting of stockholders; and
- a shareholder rights plan.

These anti-takeover defenses could discourage, delay or prevent a transaction involving a change in control of our company. The transactions contemplated by our Plan in the Chapter 11 Cases will not trigger our existing shareholder rights plan. These provisions could also discourage proxy contests and make it more difficult for stockholders to elect directors of their choosing and cause us to take other corporate actions that stockholders desire.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds
1. 2006 Plan

The Company recently discovered that it inadvertently failed to file with the SEC a registration statement on Form S-8 relating to securities issued under its 2006 Plan. As a result, the Company inadvertently issued unregistered shares of common stock as described in further detail below. Since becoming aware of this issue, the Company has been unable to

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take corrective steps to register such securities since the Company has not been current in its SEC periodic reporting obligations and is therefore not eligible to rely on a registration statement on Form S-8 or any other registration statement until it becomes current in its periodic reporting requirements under the Securities Exchange Act of 1934, as amended. The Company has instituted a moratorium on the granting of all equity awards and share issuances until a registration statement on Form S-8 is on file.

The Company s 2006 Plan was approved by the Company s shareholders in May 2006 and issuances of equity awards thereunder were available to substantially all of its employees, consultants and directors worldwide. From March 2007 through March 2010, the Company issued approximately 773,037 duly authorized common shares with a total fair market value at the date of issuance of approximately $3,889,796 to fifty-two employees and directors under its 2006 Plan. However, the Company s management subsequently determined that these common shares issued pursuant to the 2006 Plan were inadvertently not registered under the Securities Act of 1933 or applicable state securities law requirements prior to issuance and were issued without an appropriate restrictive legend. As a result, the Company may be subject to civil litigation, enforcement proceedings, fines, sanctions and/or penalties.

The Company may also be subject to claims by participants in the 2006 Plan for rescission of their acquisitions of common shares under the 2006 Plan under federal securities laws until the expiration of the applicable statute of limitations period, which is one year under federal law from the date of transaction. If applicable, such participants may have the right to rescind their purchases for an amount equal to the purchase price for the shares (or if the shares have been disposed of, claims for any damages with respect to any loss on such disposition) plus interest from the date of purchase. However, under applicable provisions of federal law (including section 510(b) of the Bankruptcy Code (11 U.S.C. § 510(b)), and in connection with our Chapter 11 Cases, if the Company s proposed Plan is confirmed, the holders of any such damage claims and related rescission or other rights would, the Company believes, be entitled to receive a distribution under the Plan of common shares of the reorganized Company only. The Company believes that the most likely result is that any such claims, if allowed, would result in the holder receiving that quantity of common shares in the reorganized Company that are determined by a court to result in equal treatment of such claim holders and existing equity holders. Furthermore, rescission or damages claims of a shareholder who holds the above described unregistered shares, but receives new shares, as contemplated by the Plan, would be discharged upon the Company s emergence from the bankruptcy proceedings. Such new shares would be issued pursuant to an exemption from registration under §1145 of the Bankruptcy Code and be freely tradable by holders who are not deemed to be underwriters.

As noted above, the Company s failure to (i) register the common shares underlying the 2006 Plan and (ii) issue the common shares pursuant to a valid exemption from such registration requirements was inadvertent and the Company has always treated the common shares issued under the 2006 Plan as outstanding for financial reporting purposes. Consequently, these unregistered transactions do not represent any additional dilution.

2. Excel Technology, Inc.

In August 2008, in connection with our acquisition of Excel, the Company entered into a Warrant Agreement with certain holders of our Senior Notes, dated August 20, 2008 (the Warrant Agreement), pursuant to which the Company issued and sold to such noteholders warrants to purchase common shares of the Company (the Warrants). The Warrants were issued in a private transaction in reliance upon the exemption from registration contained in Section 4(2) of the Securities Act of 1933, as amended. The Warrants were subsequently net exercised in exchange for 5,858,495 common shares and such common shares were simultaneously registered pursuant to a Registration Statement on Form S-3 filed with the SEC in October 2008.

3. Purchases of Equity Securities

The following table provides information about purchases by the Company during the nine month period ended September 26, 2008 of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under Plans or Programs
January 2 January 17, 2008	248,700	$ 8.67	248,700	$ 1,227,837
March 7 March 20, 2008	116,000	$ 8.26	116,000	$ 25,269,803

March 31 May 2, 2008	293,000	$ 8.15	293,000	$ 22,886,157
May 5 May 19, 2008	114,767	$ 8.19	114,767	$ 21,943,633

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All of the purchases of shares noted above were made under the Company s Stock Repurchase Program on the open market at prevailing prices using the Company s available cash. The Stock Repurchase Program was announced on December 21, 2005. In February 2008, the Company s Board of Directors authorized an increase in the Stock Repurchase Program, initially approved in December 2005 at $15.0 million, to $40.0 million. The program was suspended in May 2008 as a result of the Company s decision to acquire Excel.

Item 3. Defaults Upon Senior Securities

As previously disclosed, the filing of the Chapter 11 Petitions constituted an event of default under the Indenture dated as of August 20, 2008, by and among GSI Group Corporation, as issuer, the Company, as guarantor, the other guarantors party thereto from time to time and The Bank of New York Mellon Trust Company, N.A., as trustee, relating to the Senior Notes. As of September 26, 2008, the Company has $210 million aggregate principal amount of Senior Notes outstanding. As a result of the filing of the Chapter 11 Petitions, all indebtedness outstanding under the Senior Notes was accelerated and became due and payable, subject to an automatic stay of any action to collect, assert or recover a claim against the Company and the application of the applicable bankruptcy law.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information

None.

Item 6. Exhibits

List of Exhibits

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

Exhibit Number	Exhibit Description	Incorporated by Reference Form	File No.	Exhibit	Filing Date	Filed Herewith
2.1	Definitive Agreement, by and between the Registrant and Gooch & Housego plc., dated July 3, 2008					*
3.1	Certificate and Articles of Continuance of the Registrant, dated March 22, 1999.	S-4/A	333-71449	Annex H	2/11/99	
3.2	By-Laws of the Registrant, as amended					*
4.2	Indenture, by and among GSI Group Corporation, as issuer, the Registrant and Eagle Acquisition Corporation, as Guarantors, and The Bank of New York Mellon Trust Company, N.A. as trustee, dated August 20, 2008.	8-K	000-25705	10.1	8/21/08	

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4.3	Warrant Agreement, by and among the Registrant and the initial holders set forth therein, dated August 20, 2008.	8-K	000-25705	10.2	8/21/08	
10.1	Registration Rights Agreement, by and among the Registrant and the signatories thereto, dated August 20, 2008.	8-K	000-25705	10.3	8/21/08	
10.2	Tender and Support Agreement, by and among the Registrant and the signatories thereto, dated July 9, 2008.	8-K	000-25705	99.1	7/11/08	
31.1	Chief Executive Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					*
31.2	Chief Financial Officer Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.					*
32.1	Chief Executive Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					*
32.2	Chief Financial Officer Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.					*

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant, GSI Group Inc., has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

GSI Group Inc. (Registrant)

Name	Title	Date
/s/ SERGIO EDELSTEIN **Sergio Edelstein**	President and Chief Executive Officer (Principal Executive Officer)	April 13, 2010
/s/ GLENN DAVIS **Glenn Davis**	Principal Financial Officer and Principal Accounting Officer	April 13, 2010

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