

10-K

Fiscal Year 2014



ROFIN-SINAR Technologies Inc.

October 1, 2013 - September 30, 2014

NASDAQ: RSTI  
Prime Standard: ISIN US7750431022

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended September 30, 2014

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-21377

**ROFIN-SINAR TECHNOLOGIES INC.**  
(Exact name of Registrant as specified in its charter)

Delaware

\_\_\_\_\_  
(State or other jurisdiction of  
incorporation or organization)

38-3306461

\_\_\_\_\_  
(I.R.S. Employer  
Identification No.)

40984 Concept Drive, Plymouth, MI

\_\_\_\_\_  
(Address of principal executive offices)

48170

\_\_\_\_\_  
(Zip Code)

Registrant's telephone number, including area code: (734) 455-5400

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 Rights Associated with common stock, par value \$0.01 per Share	The NASDAQ Global Select Market

Securities registered pursuant to Section 12(g) of the Act: NONE

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

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  No

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  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting Company. See definition of “accelerated filer”, “large accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant based upon the closing price of the common stock on March 31, 2014 (the last business day of the most recently completed second fiscal quarter) as reported by the NASDAQ Global Select Market was approximately \$663,209,350. For the purposes hereof, “affiliates” include all executive officers and directors of the registrant.

28,049,666 shares of the registrant’s common stock, par value \$0.01 per share, were outstanding as of November 26, 2014.

Certain sections of the Company’s Proxy Statement to be filed in connection with the Company’s 2015 Annual Meeting of Stockholders to be held in March 2015, are incorporated by reference herein at Part III, Items 10-14.

**ROFIN-SINAR TECHNOLOGIES INC.**

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## PART I

### Cautionary Note Regarding Forward-Looking Statements

Certain statements in this Annual Report on Form 10-K constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (the “Reform Act”). Forward-looking statements include all statements that do not relate solely to historical or current facts, and can be identified by the use of words such as “may”, “believe”, “will”, “expect”, “project”, “anticipate”, “estimate”, “plan” or “continue”. These forward-looking statements are based on the current plans and expectations of our management and are subject to a number of uncertainties and risks that could significantly affect our current plans and expectations, as well as future results of operations and financial condition.

These factors include (among others):

- downturns in the machine tool, automotive, semiconductor, electronics, photovoltaic, and medical device industries which may have, in the future, a material adverse effect on sales and profitability of the Company;
- the ability of the Company’s OEM customers to incorporate its laser products into their systems;
- the impact of exchange rate fluctuations, which may be significant because a substantial portion of the Company’s operations is located overseas;
- the level of competition and the ability of the Company to compete in the markets for its products;
- the Company’s ability to develop new and enhanced products to meet market demand or to adequately utilize its existing technology;
- third party infringement of the Company’s proprietary technology or third party claims against the Company for the infringement or misappropriation of proprietary rights;
- the scope of patent protection that the Company is able to obtain or maintain;
- competing technologies that are similar to or that serve the same uses as the Company’s technology;
- the Company’s ability to efficiently manage the risks associated with its international operations; and
- the other risks described under “ITEM 1A - Risk Factors”.

In making these forward-looking statements, we claim the protection of the safe-harbor for forward-looking statements contained in the Reform Act. We do not assume any obligation to update these forward-looking statements to reflect actual results, changes in assumptions, or changes in other factors affecting such forward-looking statements.

## ITEM 1. BUSINESS

### COMPANY OVERVIEW

ROFIN-SINAR Technologies Inc. was incorporated in 1996 under the laws of the State of Delaware. ROFIN-SINAR's shares trade on the NASDAQ Global Select Market under the symbol RSTI. In this report, the terms “Company”, “ROFIN”, “RSTI”, “we”, “us”, and “our” mean ROFIN-SINAR Technologies Inc., and all entities included in the Company's consolidated financial statements.

ROFIN-SINAR Technologies is a leader in the design, development, engineering, manufacturing and marketing of laser sources and laser-based system solutions for industrial material processing applications, which include primarily cutting, welding and marking a wide range of materials. The Company's product portfolio ranges from single laser-beam sources to highly complex systems, covering all of the key laser technologies such as CO<sub>2</sub> lasers, fiber, solid-state and diode lasers, and the entire power spectrum, from single-digit watts up to multi-kilowatts, as well as a comprehensive spectrum of wavelengths. An extensive range of laser components completes the product portfolio. Lasers are a non-contact technology for material processing, which have several advantages compared to conventional manufacturing tools that are desirable in industrial applications. The Company's lasers all deliver a high-quality beam at guaranteed power outputs and feature compact design,

high processing speed, flexibility, low operating and maintenance costs and easy integration into the customer's production process thus meeting a broad range of its customers' material processing requirements.

Through its global manufacturing, distribution and service network, the Company provides a comprehensive range of laser sources and laser-based system solutions to the following principal target markets: the machine tool, automotive, semiconductor, electronics, and photovoltaic industries. The Company sells directly to end users and to original equipment manufacturers ("OEMs") that integrate ROFIN's laser sources with other system components. Many of ROFIN's customers are among the largest global participants in their respective industries. During fiscal 2014, 2013, and 2012, 19%, 20%, and 22%, respectively, of the Company's sales were in North America, 49%, 45%, and 44%, respectively, were in Europe, and 32%, 35%, and 34%, respectively, were in Asia.

ROFIN's sales approach in the laser-related business reflects the many different requirements of its customers throughout a multitude of industries, and is divided into three areas of core competence: Macro, Micro, and Marking. The core of the Macro business section is high-powered laser sources, primarily used for cutting and welding as well as surface treatment applications. The Micro section concentrates on laser sources and laser-based system solutions that require less power output for micro-processing of materials. The Marking section specializes in innovative marking solutions on both organic and inorganic materials for many different industries. The activities in the components sector which comprises of diodes and diode laser components, power supplies, fibers and fiber beam deliveries as well as fiber laser components round out the Company's business activities in the industrial laser market. During fiscal 2014, 2013, and 2012, approximately 40%, 38%, and 38%, respectively, of the Company's revenues related to sales of laser products for macro applications, approximately 47%, 49%, and 50%, respectively, related to sales of laser products for marking and micro applications, and approximately 13%, 13%, and 12%, respectively, related to sales of components.

## **THE INDUSTRIAL LASER MARKET FOR MATERIAL PROCESSING**

Over the past decades, lasers have revolutionized industrial manufacturing and have been used increasingly to provide reliable, flexible, non-contact, compact, and high-speed alternatives to conventional technologies for processing various kinds of metal and non-metal materials in a broad range of advanced manufacturing applications. The industrial laser market is generally considered to be made up of laser sources sold for industrial applications including material processing, medical therapeutic, instrumentation, research, telecommunications, optical storage, entertainment, image recording, inspection, measurement and control, bar-code scanning, and other end-uses.

According to the Industrial Laser Solutions magazine's 2014 forecast for industry data published in January 2014, worldwide laser revenues for industrial applications (excluding lithography, inspection, measurement, research, medical, etc.) are expected to reach approximately \$2.5 billion. Based on this data, the Company estimates that it has currently a market share in the relevant industrial laser sector of approximately fourteen percent (based on laser-related sales volume). The Company has sold more than 71,000 laser sources since 1975 and currently has over 4,000 active customers (including multinational companies with multiple facilities purchasing from the Company).

## **BUSINESS STRATEGY**

The Company's business strategy is to maximize shareholder value by (i) strengthening its position as a leading supplier to the global market for macro (cutting and welding) applications; (ii) capitalizing on its leadership position in marking applications; (iii) extending its position in micro (fine cutting, fine welding, perforating, and structuring applications); (iv) cross-selling its various laser products to its existing large customer base; (v) enlarging its market coverage geographically and by developing new applications; (vi) strengthening its product portfolio and customer base through acquisitions; and (vii) broadening its component product portfolio.

The Company believes that the major sources of its future growth will be the following:

- **Developing New Laser Products through Technological Innovation:** Product innovation in response to evolving customer needs for increased output power, greater penetration and higher processing speeds is a key component of the Company's strategy. The Company is currently focusing its research and development activity on expanding the output power range of its CO<sub>2</sub>, diffusion cooled, wave-guide Slab lasers and enhancing the performance of its line of high power, fast-flow CO<sub>2</sub> lasers. The Company is also expanding its series of end and side pumped, solid-state lasers for marking and micro applications. In addition, the Company is actively engaged in the research and development of its low- and high-power fiber laser family to further expand its solid-state laser offering for marking, micro, and macro

applications. The Company is also enhancing its research and development efforts in order to broaden its portfolio of short and ultrashort pulse lasers. In addition, research and development is focused on expanding the Company's product range, especially in the field of passive and active fibers, laser diodes, power supplies, and fiber delivery systems.

- **Focusing on Cross-Selling to Existing Customers in Target Markets:** The Company intends to continue to focus its sales and marketing activities on its traditional target markets (the machine tool, automotive, semiconductor, electronics, photovoltaic, jewelry, flexible packaging and medical device industries). The Company has targeted and will continue to target these industries because they use advanced manufacturing processes that require continuing investments to improve production efficiency and because the Company has significant market presence in these sectors. In addition, building on the success of its laser marking of small integrated circuits, the Company intends to develop new applications, such as fine welding, cutting, and drilling for the semiconductor and electronics industry. In the packaging industry, the Company is seeking new opportunities for foil perforation based on its extensive knowledge of paper perforation with lasers. In the photovoltaic industry, the Company intends to further exploit structuring and annealing applications for its macro and micro laser products such as scribing of thin film solar cells as well as crystalline solar cells. In the consumer electronics and medical device industries, the Company is seeking new opportunities to cut brittle material for various applications such as, among others, displays and cover glasses for consumer electronic products, medical glass, and architecture glass.
- **Capitalizing on Global Presence to Attract New Customers:** The Company intends to capitalize on its customer base and the presence of its manufacturing, sales and service operations in the three principal geographic markets in which its customers operate (North America, Europe, and the Asia/Pacific region) to increase market share in its existing industrial and geographic markets. The Company believes its global manufacturing, distribution and service network allows it to be more responsive to customers' needs and positions it to expand into additional promising markets which offer high long-term potential for growth.
- **Offering Customized Solutions based on Standard Platforms:** While the Company offers a wide range of laser applications and develops customized solutions for its customers, these applications and solutions are built on a focused number of product families comprised of standardized laser sources. For example, for its OEM customers in the machine tool industry, the Company provides customized laser versions. For its marking customers, the Company combines its standard laser markers with customized parts handling and software. For its micro applications customers, the Company delivers its standard laser sources in different customized packages. The Company believes that this product strategy has contributed to increases in product sales and intends to continue offering focused customization services and pursuing its initiatives to standardize its core products so as to lower its production costs and continue to improve its profitability.
- **Acquiring Complementary Business Operations, Products, Applications or Technologies:** Besides growing organically, one of ROFIN's targets is to grow through strategic acquisitions. Since 1997 the Company has successfully acquired and integrated fifteen businesses, including its acquisitions of DILAS Diodenlaser GmbH ("DILAS") (1997), assets of Palomar Technologies UK Ltd. (1998), Rasant-Alcotec Beschichtungstechnik GmbH ("Rasant") (1999), Baasel Lasertech ("CBL") (2000), Z-Laser S.A. (2001), Optoskand AB ("Optoskand") (2004), PRC Laser Corporation ("PRC") and Lee Laser, Inc. ("Lee") (2004), H2B Photonics GmbH ("H2B") (2006), ES Technologies Ltd. (2007), Corelase Oy (2007), m2k-laser GmbH (2007), Nufern (2008), Nanjing Eastern Laser Co. Ltd. ("NELC") (2009), the coil winding business from Optelecom-NKF, Inc. (2010), LASAG AG ("LASAG") (2011) and assets of FiLaser USA LLC (2014). Management believes that, collectively, these acquisitions have advanced the Company's worldwide expansion, consolidated the Company's position in the industrial laser material processing market and contributed to the Company's financial performance during the last several years. The Company will continue to seek opportunities to make value-based acquisitions that complement its business operations, broaden its product offerings, or provide access to new geographical markets and applications.

## LASER TECHNOLOGY

The term “laser” is an acronym for “Light Amplification by Stimulated Emission of Radiation”. Lasers were first developed in the early 1960s in the United States. A laser consists of an active lasing medium that gives off its own light (radiation) when excited, an optical resonator with a partially-reflective output mirror at one end, a fully-reflective rear mirror at the other that permits the light to bounce back and forth between the mirrors through the lasing medium, and an external energy source used to excite the lasing medium. A laser works by causing the energy source to excite (pump) the lasing medium, which converts the energy from the source into an emission consisting of particles of light (photons). These photons stimulate the release of more photons, as they are reflected between the two mirrors, which form the resonator. The resulting build-up in the number of photons is emitted in the form of a laser beam through an output port or “window”. By changing the energy and the lasing medium, different wavelengths and types of laser light can be produced. The laser produces light from the lasing medium to achieve the desired intensity, uniformity, and wavelength through a series of reflective mirrors. The heat generated by the excitation of the lasing medium is dissipated through a cooling mechanism, which varies according to the type of laser technology.

Lasers are used for material processing because they have many advantages over other conventional production methods. In many areas of industrial manufacturing, lasers already allow for significantly greater precision, flexibility, and productivity and are often the only technology that enables efficient mass production of innovative products. The principal factors that distinguish different types of lasers and determine the particular laser suitable for a specific application, besides economic reasons, are wavelength, pulse duration, output power, and spatial coherence.

The principal types of laser technologies currently used for material processing are CO<sub>2</sub> lasers, solid-state lasers, fiber lasers, and diode lasers.

CO<sub>2</sub> lasers, which use CO<sub>2</sub> gas as the lasing medium, are divided into high-power (above 500 watts) and low-power (below 500 watts) applications. There are two methods for CO<sub>2</sub> excitation, radio frequency (“RF” or “HF”) and direct current (“DC”) excitation. Most high-power CO<sub>2</sub> lasers are based on gas flow, in which a continuous supply of fresh laser gas flows through the laser cavity to create the energy necessary for excitation. Due to their ability to generate comparatively high levels of continuous-wave (“CW”) power, CO<sub>2</sub> lasers are a particularly attractive laser medium for material processing applications. Material processing applications for CO<sub>2</sub> laser sources vary according to the power output and configuration of the laser system. The primary applications for high-power CO<sub>2</sub> lasers are cutting and welding of metal as well as surface treatment. Low-power CO<sub>2</sub> lasers are used principally for marking, cutting, and engraving of organic materials. While both low- and high- power CO<sub>2</sub> lasers are used for cutting, the materials they are used to process and their physical size can vary significantly.

Traditional solid-state lasers use flash lamps or laser diodes as source of excitation and are referred to as “flash-lamp-pumped” or “diode-pumped” lasers. The lasing medium is a solid-state crystal, generally in the form of a rod or a disc. Widely used crystal rod material is either neodymium yttrium aluminum garnet (Nd:YAG) or neodymium vanadate (Nd:YVO<sub>4</sub>). The rod is positioned in a cavity, which is either a gold or ceramic reflector, and pumped using flash lamps or laser diodes from the side, or alternatively the rod is pumped from its ends with laser diodes. Typical output powers vary from 3 to 1,000 watts from a single rod and output powers in the multiple kilowatt range can be achieved by combining several cavities within a resonator. In the “disc design” the lasing medium is a thin crystal (typically ytterbium:YAG) disc, which is excited by laser diodes in an optical multi-pass configuration. By using multiple thin disc laser heads within one resonator, several kilowatts of power can be generated.

Fiber lasers are solid-state lasers that have their origin in low-power information and communication applications, and since 2003 have undergone a rapid development towards higher output powers, which has also made this technology very attractive for higher-power material processing applications. The lasing medium, typically ytterbium, is contained in a waveguide (the active fiber itself) and surrounded by a cladding, which guides the pump light to the lasing medium. With in-fiber components like fiber bragg gratings, tapered fiber bundles (pump light couplers), power combiners, and delivery fibers, from the generation of the light to the delivery of the light to the work piece, can be realized in an “all-in-fiber” technology. Today multi kW output power can be generated from a single fiber, no bigger in diameter than a human hair. Higher power can be generated by bundling multiple fibers. Typical industrial applications for solid-state and fiber lasers vary according to the different output powers from marking and engraving, to micro processing such as fine cutting, fine welding, or micro-structuring right up to macro processing (cutting, welding, and surface treatment).

Solid-state and fiber lasers can be operated in cw, pulsed, q-switched or modelocked mode, covering the pulse width range from cw down to femtoseconds; lasers with pulse widths shorter than  $10^{-8}$ s are often referred to as ultrashort pulse lasers. Over the recent years ultrashort pulse laser technology has matured and today these lasers provide sufficient output power for industrial applications with typical pulse lengths in the range from some ten picoseconds to some 100 femtoseconds. These lasers provide pulses with high peak powers that are shorter than the time needed for most energy diffusion processes within the atomic lattice. Therefore heat transfer to surrounding material is dramatically reduced which eliminates almost all unwanted material change or thermal damage. This is the reason why this method is also referred to as “cold” or “a-thermal” material processing which is suitable for processing extremely sensitive materials. Ultrashort pulse lasers cut, drill and structure virtually any material with micron-scale precision and are perfect tools for applications in the electronics, semiconductor, micro technology, and medical device manufacturing industries.

Diode lasers are based on special semiconductor structures on a gallium arsenide (GaAs) die to generate laser light. A typical 10 mm long laser diode bar contains approximately 25 single laser emitters. When mounted on a specially designed, highly-efficient heat sink, a laser diode bar is able to produce up to 100 watts of laser output power. A single high-power laser diode module consists of: (1) a semiconductor laser diode bar; (2) a high-efficient heat sink, on which the laser bar is mounted; and optional (3) a micro-lens system, which is mounted in front of the laser bar to collimate or focus the light. Optical output power can be increased by combining the beamlets of several laser diode modules on top of each other. Through optical combination of such modules, output powers in the kilowatt range can be achieved. Diode lasers typically have larger spot diameters when focused, and are typically used for surface treatment such as cladding or hardening, soldering, and plastic welding.

## **THE COMPANY’S LASER PRODUCTS**

The Company distinguishes itself from the majority of its competitors who specialize in only one or two of the three principal laser technologies for material processing by offering its customers CO<sub>2</sub>, solid-state, fiber, and diode laser sources, and solutions in a variety of configurations and options. As a technological leader in CO<sub>2</sub>, solid-state, fiber, and diode lasers, the Company is able to meet a broad range of its customers' cutting, welding, and marking requirements. The Company's lasers all deliver a high-quality beam at guaranteed power outputs and feature compact design, high processing speed, flexibility, low operating and maintenance costs, and easy integration into the customer's production process. The Company's engineers and other technical experts work directly with the customer in the Company's applications centers to develop and customize the optimal solution for the customer's manufacturing requirements.

The Company currently offers a comprehensive range of laser products and related services for three principal material processing applications:

- cutting, welding and surface treatment (macro applications);
- marking and engraving; and
- fine cutting, spot and seam welding, micro drilling, scribing, perforating, and fine structuring/ablation (micro applications).

Besides offering standard solutions and laser systems for some specialized niche applications, the Company works directly with its customers to develop and customize optimal solutions for their unique manufacturing requirements. In developing its laser-based solutions, the Company offers customers its expertise in:

- product development and manufacturing services based on almost 40 years of laser technology experience and applications know-how;
- application and process development, which means developing new laser-based applications for manufacturing customers and assisting them in integrating lasers into their production processes;
- system engineering, which means advising customers on machine design, including tooling, automation, and controls for customers in need of “turn-key” solutions; and
- extensive after-sales support of its laser products, including technical support, field service, maintenance and training programs, and rapid spare parts delivery.

The following table sets forth the Company's net sales of laser products used for macro applications, laser products used for marking and micro applications, and components in fiscal 2014, 2013, and 2012:

Product Category*	September 30,		
	2014	2013	2012
	(in thousands)		
Laser macro products	\$ 209,632	\$ 214,623	\$ 205,394
Laser marking and micro products	250,228	272,632	272,195
Components	70,257	72,813	62,532
	<u>\$ 530,117</u>	<u>\$ 560,068</u>	<u>\$ 540,121</u>

\* For each laser product category, net sales include sales of service (including training, maintenance and repair) and spare parts.

The laser sources sold by the Company consist of a laser head (containing the lasing medium, resonator, source of excitation, resonator optics, and cooling mechanism), power supply, and microcontroller (for control and monitoring). The Company's products are offered in different configurations and utilize different design principles according to the desired application. A large variety of laser systems provided by our Company are equipped with the uniform operating concept "ROFIN Control Unit" (RCU). RCU is a real-time laser and handling control device, which allows control of any laser mode. The user interface allows full access from a terminal (for instance a touch screen) that is located directly on the machines, or via a preceding PC with an Ethernet connection. The standardized ROFIN Control Network allows the extended diagnosis of all laser components via the Intranet, the Internet, or WLAN. With the open PLC programming system customers can individually adapt the process sequence.

For a more detailed discussion of the components of a laser source, see "Laser Technology".

The following table sets forth the Company's product categories by principal markets and principal applications:

<b><u>PRODUCT CATEGORY</u></b>	<b><u>PRINCIPAL MARKETS</u></b>	<b><u>PRINCIPAL APPLICATIONS</u></b>
Laser macro products	Machine tool	Cutting and welding of metals
	Automotive	Cutting and welding of metals
Laser marking products	Semiconductor and electronics	Marking of integrated circuits, wafers, solar cells, electronic components, and smart cards
	Automotive	Marking of labels and car components
	Medical device	Marking of medical components
Laser micro products	Medical devices, semiconductor and electronics, photovoltaics, dental and jewelry	Fine welding, fine cutting, micro structuring/ablation, scribing, and drilling
	Automotive, consumer electronics, consumer goods	Scribing, plastic welding, and soldering
	Packaging and paper industry	Perforating and scribing of paper and foils
Components	Laser industry, printing, defense industry, medical	

### **LASER MACRO PRODUCTS**

The Company's business strategy for its macro laser business is to grow its revenues by:

- increasing its market share in its existing CO<sub>2</sub> laser market through increased sales of its low power, diffusion cooled, wave-guide Slab lasers and maintain its market share of Slab lasers and fast-axial flow CO<sub>2</sub> lasers;
- developing fiber lasers with higher output powers to achieve higher cutting speeds and deeper welding depths in order to broaden its addressable markets;

- further developing the Tube Welding, Profile Welding, and Scanner Welding System concepts; and
- continuing research and product engineering for its CO<sub>2</sub>, solid-state, fiber and diode laser series to further penetrate the market and to further increase the output power or vary the wavelengths for specific applications.

The Company's high-power laser macro product offering consists of laser products which are produced and marketed under the following brand names: ROFIN, PRC, NELC, Nufern, and DILAS.

The Company's family of CO<sub>2</sub> laser products for macro applications, and their principal markets and applications, are discussed below.

<b>LASER SERIES</b>	<b>POWER RANGE</b>	<b>MODE OF EXCITATION</b>	<b>PRINCIPAL MARKETS</b>	<b>PRINCIPAL APPLICATIONS</b>
DC Slab Series	1.0 kW - 8.0 kW	Radio frequency	Machine tool Automotive	Cutting and welding
SC Series	100 W - 600 W	Radio frequency	Machine tool Electronics Packaging	Cutting and structuring of textile, paper and plastics
XL Series	1.0 kW - 1.5 kW	Direct current	Machine tool	Cutting and welding
STS Series	2.0 kW - 5.0 kW	Direct current	Machine tool	Cutting and welding
FH Series	6.0 kW - 8.0 kW	Direct current	Machine tool	Cutting and welding
SM/FA Series	1.0 kW - 4.0 kW	Direct current	Machine tool Packaging	Cutting and welding
PLS	2.5 kW - 6.0 kW	Direct current	Machine tool	Cutting and welding

The Company believes that it is the only laser manufacturer of diffusion cooled, Slab-based lasers in the high-power range. In the DC Slab Series laser design, a radio-frequency excited gas discharge occurs between two water-cooled electrodes that have a large surface area that permits maximum heat dissipation. Principal markets for the Slab Series lasers are the machine tool and automotive industries.

The Company's SC Series diffusion cooled, wave-guide CO<sub>2</sub> lasers are developed and produced by ROFIN-SINAR UK Ltd. The SC Series are sealed-off lasers, which are also based on the Slab laser principle used for the DC Slab Series. These lasers are used mainly for cutting and structuring applications. Principal markets are the machine tool, electronics, and packaging industries.

The Company's XL, STS, FH, SM, FA, and PLS Series fast-axial flow CO<sub>2</sub> lasers are used for both cutting and welding applications and are marketed under the PRC and NELC brands. In the fast-axial flow principle, the gas discharge occurs in a tube in the same direction as the resonator, through which the laser gas mixture flows at a high speed. XL, STS, FH, SM, FA, and PLS Series products are used primarily by the machine tool industry. The SM Series are also frequently used in the packaging industry, for example for dieboard cutting.

The Company's family of solid-state and fiber laser products for macro applications, and their principal markets and applications, are discussed below.

<b>LASER SERIES</b>	<b>POWER RANGE</b>	<b>MODE OF EXCITATION</b>	<b>PRINCIPAL MARKETS</b>	<b>PRINCIPAL APPLICATIONS</b>
DQ Series	500 W - 1.0 kW	Laser diodes	Automotive, Photovoltaics	Surface treatment
FL Series	500 W - 6.0 kW	Laser diodes	Automotive, Machine tool	Cutting and welding
NukW Series	> 1.0 kW	Laser diodes	Defense industry	Advanced applications

The Company's DQ Series of Q switched, solid-state lasers are designed for applications such as removal, cleaning, and insulation of various materials in the automotive and photovoltaic markets. To meet the different demands of these target markets, DQ Series lasers offer alternative set-up options which differ in power, pulse energy, and number of laser sources per unit.

The Company's FL Series of high-brightness single or multi-mode fiber lasers use special fiber optics as the active medium. These fiber lasers are suitable for classic cutting and welding applications as well as for new applications such as remote cutting and scanner welding. In contrast to common laser concepts in which the created laser beam switches repeatedly between air and the active medium, this laser beam does not leave the fiber optic before entering the working process optic or the beam switch with subsequent launching into the working process. Due to this "all-in-fiber" technology, the risk of contamination can be eliminated. Beam switches and energy splitters are available options allowing up to four work cells to be operated with only one laser.

The Company's NukW Series products are stand-alone fiber laser amplifiers that are produced and marketed under the Nufern brand. Their principal market is the defense industry, where they are used for advanced applications.

The Company's family of high-power diode laser products for welding and surface treatment applications, and their principal market, are discussed below.

<b>LASER SERIES</b>	<b>POWER RANGE</b>	<b>MODE OF EXCITATION</b>	<b>PRINCIPAL MARKETS</b>	<b>PRINCIPAL APPLICATIONS</b>
Diode Lasers	1.0 kW - 3.0 kW	Direct current	Machine tool	Welding, cladding, hardening

The Company's high-power diode lasers are designed to meet the requirements of a wide range of welding and surface treatment applications like cladding and hardening. The Company's high-power diode lasers are produced and marketed under the DILAS brand.

### **LASER MARKING PRODUCTS**

The Company entered the laser-marking business in 1989 when it acquired Laser Optronic GmbH from Coherent General, Inc. and designed and introduced the "PowerLine" laser marker. Since then the Company has developed a broad line of market leading laser markers that deliver optimal results in terms of quality and speed on a wide range of materials. Based on its vast experience, ROFIN offers standardized and customized laser marking systems in different power ranges and wavelengths for use in various industrial segments. Strength and experience in research and development, application and software ensure innovative, standardized and tailored solutions which meet most exigent customer demands. The Company's laser marking products incorporate high value-added software - VisualLaserMarker - that provide the customer full control of the laser marking process.

The Company believes that the following factors have contributed to the growth that it has experienced in the laser marking business:

- the Company's ability to tailor its laser marking solutions to the customer's requirements;
- the Company's expertise in solid-state laser beam power in different wavelengths, mode structure and high-frequency switching capability, which provides optimal quality in terms of marking contrast and speed on a wide variety of materials;
- the Company's proprietary software - VisualLaserMarker - which provides an interface between the laser marking products and the customer's computers, and supports a broad range of network communication software; and
- the Company's focus on innovation, which is reflected in cutting-edge products that satisfy standard as well as complex market requirements.

The Company's business strategy for its laser marking business is four-fold:

- to expand its position in worldwide laser marking markets with a particular focus on the semiconductor, electronics, automotive, smart card, and medical device industries;
- to offer a balanced product portfolio covering different technologies (such as CO<sub>2</sub>, solid-state, and fiber lasers) in different wavelengths (i.e. infrared, green, and UV) and different pulsing capabilities (i.e. ns or ps lasers);

- to pursue application development for existing and new products; and
- to capitalize on its installed base of lasers by cross-selling the Company's products to its existing customers.

The Company's laser marking product offering consists of laser products, which are produced and marketed under the following brand names: ROFIN and Nufern.

The Company's family of laser products for marking applications, and their principal markets, are discussed below.

<b>LASER SERIES</b>	<b>POWER RANGE</b>	<b>MODE OF EXCITATION</b>	<b>PRINCIPAL MARKETS</b>	<b>PRINCIPAL APPLICATIONS</b>
PowerLine	2 W - 100 W	Laser diodes	Semiconductor, Electronics, Automotive, Medical device, General marking applications	Integrated circuit marking, marking of metals, plastics and organic materials, day and night design, smart card, annealing
PowerLine Pico	2 W - 10 W	Laser diode	Electronics	Marking of plastics and metals
MultiScan VS / HE	100 W - 120 W	Radio frequency	Packaging, Consumer products, Pharmaceutical	Consumer goods marking
LabelMarker Series	Stand-alone laser based system		Automotive	Label marking
EasyMark	Laser workstation		General marking applications, Medical components, Tool industry	Metal and plastics marking
EasyJewel	Laser workstation		Jewelry marking	Metal marking
CombiLine Series	Laser workstation for integration of a wide range of ROFIN laser markers		General marking applications	Metal and plastics marking
NuQ Fiber Series	10 W - 50 W	Laser diodes	OEM/Integrators	Marking, engraving

PowerLine - The Company's standard PowerLine laser marking products consist of a range of lasers with output power from 2 watts to 100 watts with a galvo-head, a personal computer with state-of-the-art processor and ROFIN's proprietary VisualLaserMarker software. The modular design of the PowerLine markers with 19" components enable the customers to order the most suitable configuration for their production processes or systems (e.g. OEM customers may order the laser head and 19" modules, for easy integration into the system specified by the end user). The PowerLine solid-state lasers incorporate diode modules which result in higher output power (and therefore higher marking speeds), high beam quality (and therefore constant and reliable marking quality), and longer service intervals. New-generation, completely air-cooled solutions provide further increases in efficiency in a compact size. PowerLine marking products are also available with fiber lasers with output powers of up to 100 watts (i.e. with PowerLine F 100), ensuring higher energy efficiency and therefore reduced operating costs. The availability of different wavelengths and pulse widths in the product portfolio enables to provide solutions for a wide range of applications. Especially the frequency multiplied lasers (green, UV) as well as shortpulse lasers open new areas for the industrial utilization. The Company's proprietary VisualLaserMarker software provides customers with a user-friendly software environment that allows them to select fonts, import graphics, preview marking and control all laser parameters and job programs. Special options and accessories include a double marking head allowing speeds of up to 1,600 characters per second in certain applications (most notably marking of integrated circuits), as well as beam-switching and -splitting options for marking of products in multiple production lines using a single laser. Their main application - among a wide variety of possible applications - is marking in the semiconductor and electronics industries.

PowerLine Pico - The Company's PowerLine Pico laser marker is an efficient tool for marking and engraving but is also suitable for thin film ablation and structuring. The exceptionally high pulse frequency of 200 to 800 KHz offers high throughput and allows for maximum pulse overlapping. The PowerLine Pico features a linear polarized and collimated output beam with 1064 nm and 532 nm wavelengths. Compared to nanosecond laser sources, the picosecond pulse length significantly reduces thermal damage in adjacent material. This results in better ablation quality, less surface roughness and enhanced precision of selective layer ablation. Furthermore, the shorter pulses significantly help reducing thermal penetration depth of

delicate ablation processes, like marking of silicon. The Company believes that the PowerLine Pico perfectly meets the requirements of various applications in wafer production, medical device manufacturing and other industries.

MultiScan VS - This vector scanning marker utilizes a 100 watts sealed-off CO<sub>2</sub> laser and features the ability to mark components that are moving at high speeds. The main application is the marking of consumer goods in the packaging industry (i.e. date coding). MultiScan HE - This vector scanning marker has been designed to operate in some of the harshest manufacturing environments and it utilizes a 120 watts sealed-off CO<sub>2</sub> laser source. The main applications are the marking of beverage labels and the application of tracking data on "hot" glass containers during the manufacturing process.

LabelMarker Advanced - This stand alone, laser-based system is ROFIN's state-of-the art solution to address the high demands concerning speed and reliability in the process of label marking. The LabelMarker Advanced system delivers high efficiency and short marking time due to an integrated, powerful laser. As a comprehensive all-in-one solution, the LabelMarker Advanced is a compact laser system with a class 1 safety rating which can be used in any production area without additional safety requirements.

EasyMark - The EasyMark is a class 1 safety rating transportable desktop device. The 110 V to 230 V connection and integrated cooling based on thermo-electrical technology guarantees quick and easy initial operation. Besides a program-controlled z-axis and a rotary axis, the EasyMark offers various modules which can optionally be integrated. An aluminum T-slot plate facilitates mounting of customer-specific work piece carriers, thereby allowing the processing of work pieces of different sizes and shapes.

EasyJewel - The EasyJewel is a transportable desktop device with a class 1 safety rating specially developed to mark jewelry. The laser system offers the benefits of non-contact, abrasion-resistant, permanent marking onto almost any type of precious material with high speed and precision. Special machine features include quick and exact loading of regular and special shapes, jogging function to reach the optimum marking position, and various software capabilities.

CombiLine Basic/CombiLine Advanced - These compact laser workstations have been designed for small and medium-size batches. They integrate a wide range of ROFIN laser markers depending on the customer's specific application. Supply units are incorporated in the housing to provide efficient use of the customer's floor space. Different versions (either with rotary or work table with various axes) enable exact adaptation to the required tasks.

NuQ - These pulsed fiber laser sources are produced and marketed under the Nufern brand and are designed for OEM customers and integrators. Their compact industry standard footprint allows easy integration into marking systems in a variety of industries.

### **LASER MICRO PRODUCTS**

After the acquisition of Baasel Lasertech in 2000, the Company formed a separate sales and marketing group focused on micro applications. This group markets and sells a broad range of laser products, including pulsed, fiber and other solid-state lasers for various spot and seam welding and fine cutting applications, CO<sub>2</sub> Slab lasers for perforating applications, Q switched, solid-state and ultrashort pulse lasers for surface structuring/ablation, cutting, and drilling, and diode lasers for soldering and plastic welding applications.

The Company's business strategy for its micro applications business is to:

- continue to develop customers in the consumer electronics industry for fine welding and cutting applications, as well as for plastic welding and soldering;
- focus on manufacturers of medical instruments and implants within the medical device industry using mainly cutting and welding applications;
- increase its sales of perforating systems to the packaging industry for applications like easy-tear and special perforated foils for food packaging that allow the transfer of air and keep moisture in packaged goods;
- further broadening its existing portfolio through expanding the output power range and offering different wavelengths (i.e. UV, infrared, green) and different laser technologies (i.e. fiber lasers, ultrashort pulse lasers);

- increase its sales in the photovoltaic market with different applications (e.g. through special laser solutions that realize an efficiency increase of solar cells);
- develop/broaden new markets for short and ultrashort pulse laser applications, such as brittle material cutting; and
- develop/broaden applications such as turbine drilling for the aerospace or power generation industries.

The Company's laser micro product offering consists of laser products which are produced and marketed under the ROFIN, DILAS, Corelase, Lee Laser, and ROFIN-LASAG brand names.

The Company's family of laser products for micro applications, and their principal markets, are discussed below.

<b>LASER SERIES</b>	<b>POWER RANGE</b>	<b>MODE OF EXCITATION</b>	<b>PRINCIPAL MARKETS</b>	<b>PRINCIPAL APPLICATIONS</b>
Manual Welders	60 W - 200 W	Flash lamp	Jewelry, Mold making, Medical device	Spot and seam welding
StarPulse	40 W - 500 W	Flash lamp	Medical device, Electronics	Spot and seam welding
StarFiber	100 W - 600 W	Diode	Electronics, Medical device	Fine cutting, fine welding
X-Lase	1 W - 24 W	Diode	Semiconductor, Electronics, Displays	Scribing, fine cutting, fine welding
StarFemto FX	1 W - 15 W	Diode	Medical device, Watch industry, Automotive	Cutting, structuring, drilling
StarPico	15 W - 50 W	Diode	Medical device, Electronics, Displays & Glass, Photovoltaics, Tool industry	Cutting, structuring, drilling, ablation
PerfoLas Systems	1,000 W - 2,000 W	Radio frequency	Paper	Perforating
StarShape Systems	100 W - 600 W	Radio frequency	Packaging	Cutting, drilling, structuring
UW and MPS Laser Systems	n.a.	n.a.	Electronics, Medical device, Automotive, Semiconductor, Energy, Job shops	Cutting, welding, structuring
Series 800/Series LLP	4 W - 1,000 W	Flash lamp	OEM	Micro/Marking
Series LDP	10 W - 800 W	Diode	OEM	Micro/Marking
Series LEP	2 W - 20 W	Diode	OEM	Micro/Marking
Series LDPP	8 W - 200 W	Diode	OEM	Fine cutting
Series LFP	7 W - 50 W	Diode	OEM	Micro
COMPACT, MINI and EVOLUTION Diode Laser System Series	10 W - 1,000 W	Direct current	Automotive, Electronics, Medical device, Consumer goods	Plastic welding, soldering, micro hardening
KLS Series	15 W - 250 W	Flash lamp	Automotive, Medical device, Consumer goods	Fine cutting, precision drilling, scribing
FLS Series	150 W - 800 W	Flash lamp	Aerospace, Power generation, Tooling	Drilling, cutting, welding
SLS Series	5 W - 220 W	Flash lamp	Medical device, Electronics, Automotive	Spot and seam welding
SLS GX Series	10 W- 15 W	Flash lamp	Medical device, Electronics	Spot welding
LFS Series	150 W - 300 W	Diode	Medical device, Electronics, Watch industry	Precision drilling, cutting and welding
QFS Series	50 W	Diode	Automotive	Scribing

Manual Welders - The Company's manual welders for micro applications, which are sold under the names Performance, Tool Open, and Integral, consist of pulsed, solid-state lasers in the range of 60 to 200 watts, which are primarily used for fine welding applications in the medical device, jewelry, and mold making industries.

StarPulse Series - The StarPulse Series consists of pulsed Nd:YAG rod lasers with power ratings from 40 to 500 watts. StarPulse lasers provide high peak powers and high pulse-to-pulse stability and are designed for use in fine welding applications such as laser welding of highly reflective materials in the medical device and electronics industries.

StarFiber Series - The robust and compact fiber laser systems of the StarFiber Series achieve nominal powers of 100 to 600 watts. The lasers can be operated in either pulse-modulated or continuous-wave mode. The StarFiber Series is designed for a broad range of applications including fine welding, such as welding of electro-mechanic components, and fine cutting, such as in the production of medical devices.

X-Lase - The X-Lase Series consists of picosecond pulse mode-locked fiber laser systems with a maximal output power of up to 24 watts. Main markets are in the semiconductor, electronics, and display industries. In these industries the X-Lase products can be used for thin film patterning, ablation, and scribing applications. Additionally, specific versions of the X-Lase Series have been developed for fine cutting and fine welding of transparent and brittle materials like sapphire, glass or silicon carbide. The X-Lase Series are manufactured and marketed under the Corelase brand.

StarFemto FX - The StarFemto FX Series is comprised of femtosecond pulse mode-locked laser systems with a maximal output power of 15 watts. The main markets are medical implants, automotive, and watch manufacturing, where they are mainly used for fine cutting, drilling, or structuring applications.

StarPico - The StarPico Series consists of picosecond pulse mode-locked laser systems with a maximal output power of 50 watts. The main markets are the medical device, electronics, tool, glass and solar industries, in which they are mainly used for fine cutting, drilling, structuring and ablation.

PerfoLas Systems - The PerfoLas systems consist of a high-power CO<sub>2</sub> laser and a specially designed beam delivery and paper handling system that includes a laser beam splitter (PerfoLas Multiplexer) which allows customers to drill more than 500,000 holes per second into paper or foils. The primary application for these lasers is perforation of paper and foils.

StarShape Systems - Each StarShape system consists of a CO<sub>2</sub> laser in combination with a galvo scanning head and is used for precise cutting, drilling, and surface structuring. The main market is the packaging industry.

The Universal Workstation (“UW”) and Modular Processing System (“MPS”) Series are modular, standard laser-based systems that have been designed to meet a variety of applications including welding, cutting, surface modification, and ablation. Depending on the application, the UW and MPS Systems can be equipped with different laser sources (CO<sub>2</sub>, femtosecond, fiber, diode, or solid-state laser) and modified for specific handling requirements.

The Series 800 and LLP are flash-lamp pumped, solid-state lasers, which are produced and marketed under the Lee Laser brand and sold to OEM customers and system integrators for various micro and marking applications.

The Series LDP and LEP are diode pumped, solid-state lasers that are produced and marketed under the Lee Laser brand and sold to OEM customers and system integrators for various micro and marking applications.

The Series LDPP are diode pulse-pumped Nd:YAG lasers that are produced and marketed under the Lee Laser brand and are designed specifically to precision cut thin metals. The main market is the medical device industry.

The Series LFP are hybrid diode pumped, solid state, picosecond lasers that are produced and marketed under the Lee Laser brand and are sold to OEM customers and system integrators for various micro applications.

The COMPACT, MINI and EVOLUTION Diode Laser System Series are laser systems that are manufactured and marketed under the DILAS brand. These systems are available in a wide range of output powers and wavelengths, including fiber-coupled direct beam or line source solutions, and are engineered for utilization in industrial laser materials processing, mainly for plastic welding, soldering, and brazing applications in the automotive, medical device, and electronic industries.

KLS Series - The KLS Series lasers are pulsed solid-state lasers that provide excellent beam quality and high peak power, which are ideal for fine cutting, drilling, and scribing applications.

The FLS Series are lamp pumped, pulsed, solid-state lasers with high peak power for deep penetration cutting, welding, and drilling for high throughput. Targeted industries are mainly the aerospace, power generation, and tooling industries.

SLS Series - The lasers of this series are pulsed Nd:YAG solid-state lasers with output powers in the range of 5 to 250 watts and pulse durations of up to 200 ms with outstanding process features for welding challenging metals and dissimilar materials. The SLS Series lasers are state-of-the-art production tools in the medical device industry, but are also used in many other applications in the aerospace, power generation, electronics, and automotive industries.

SLS GX Series - The lasers of this series offer an adjustable wavelength mix of 532 and 1064 nm to ensure high producible welding of high reflective materials such as copper and other precious metals.

LFS Series - The pulsed fiber lasers of the LFS Series provide high pulse peak power and high beam quality, and are ideally suited for processing a wide range of materials in the medical device, electronics, and watch industries.

QFS Series - The QFS fiber laser system, consisting of a q-switch laser and a motorized processing head, offers a complete solution for scribing connection rods and other car engine parts in the automotive industry.

The KLS, FLS, SLS, SLS GX, LFS and QFS Series are all manufactured by the Company's Switzerland-based subsidiary LASAG. A broad variety of accessories such as specific beam delivery components, scanners, as well as different processing heads for cutting, welding, or drilling applications are offered in combination with these micro products.

## **COMPONENTS**

Power Supplies - The Company offers power supplies for pulsed and continuous wave, solid-state lasers, CO<sub>2</sub> lasers, diode lasers, as well as RF generators for acousto-optic Q-switches through its wholly-owned subsidiary PMB Elektronik GmbH.

Fiber and Optics Technology and Wafer Processing - Fiber coupling products and optical engines for primary use in fiber lasers are manufactured and marketed by the Company's Finland-based subsidiary Corelase Oy. In addition, the Company's wafer processing takes place in the Finland-based facility.

Laser Diodes and Modules - High-power semiconductor components such as high power, high-brightness laser diodes and modules are manufactured and marketed by the Company's subsidiaries DILAS Diodenlaser GmbH, DILAS Diode Laser Inc., DILAS Diodelaser China, and m2k-laser GmbH.

Fibers and Fiber Optic Beam Deliveries - Fibers, fiber components, beam splitters or switches, and beam combiners designed for use in industrial lasers or as beam delivery systems are manufactured and marketed by Optoskand AB.

Active and Passive Fibers and Amplifiers - Fibers and fiber laser technology components are developed, manufactured, and marketed by Nufem.

The Company's high-technology components are either integrated by other laser manufacturers into their products or are used for the Company's own product portfolio.

## **APPLICATIONS DEVELOPMENT**

In addition to manufacturing and selling laser sources for macro applications and marking and micro applications, ROFIN operates fifteen application centers in nine countries, where it develops laser-based solutions for customers seeking alternatives to conventional manufacturing techniques. Revenues derived from application development are not a significant component of total revenues. Applications development is generally a support service to the sales and marketing function and is performed to customize the laser to the particular needs of the customer. The Company currently has approximately 50 employees in applications development.

## **MARKETS AND CUSTOMERS**

ROFIN sells its laser products and laser-based system solutions to a wide range of industries. Our principal markets are the machine tool, semiconductor, electronics, photovoltaic, and automotive industries. The following table sets forth the allocation

of the Company's total laser-related sales (excluding service, spare parts, and components) among our principal markets:

Principal Market	Fiscal Years			Primary Applications
	2014	2013	2012	
Machine Tool	40%	37%	35%	Cutting and welding
Semiconductor, Electronics, and Photovoltaic	19%	27%	27%	Marking, cutting and welding of integrated circuits, electronic components, smart cards, and structuring of solar cells
Automotive & Sub-Supplier	10%	8%	7%	Cutting, welding, and component marking
	69%	72%	69%	

The remaining 31%, 28%, and 31%, of total laser sales in fiscal 2014, 2013, and 2012, respectively, were attributable to customers in a wide variety of other industries including aerospace, consumer goods, medical device manufacturing, flexible packaging, job shops, jewelry, universities, and institutes. No one customer accounted for over 10% of total sales in any of these periods.

## SALES, MARKETING AND DISTRIBUTION

ROFIN sells its products in approximately 70 countries to OEMs, systems integrators and industrial end users who have in-house engineering resources capable of integrating ROFIN's products into their own production systems. Lasers for cutting applications are marketed and sold principally to OEMs in the machine tool industry, which sell laser cutting machines incorporating ROFIN's products without any substantial involvement by ROFIN. Lasers for welding applications are marketed and sold both to systems integrators and to end users. Laser marking products are marketed and sold directly to end users and to OEMs for integration into their handling systems (mainly for integrated circuit, solar cell, and smart card marking applications). Laser micro products are marketed and sold directly to end users and to OEM customers (mainly for solar cell and jewelry applications). In the case of both welding lasers and laser marking products, the end user is significantly involved in the selection of the laser component. In these cases, ROFIN's application engineers work directly with the end user to optimize the application's performance and demonstrate the advantages of the Company's products.

ROFIN has approximately 153 direct sales engineers operating in 24 countries, approximately 49 of whom are dedicated to marketing lasers for macro applications and approximately 104 of whom are dedicated to marketing lasers for marking and micro applications. ROFIN sales engineers work either in a well-defined geographic territory or are dedicated to specific industries or applications. In addition, ROFIN has 47 independent representatives marketing the Company's laser products in Australia, Austria, Argentina, Brazil, Chile, China, Czech Republic, Denmark, Estonia, Finland, France, Germany, India, Israel, Italy, Korea, New Zealand, Northern Africa, Norway, the Middle East, the Philippines, Poland, Romania, Russia, Singapore, South Africa, Slovenia, Sweden, Switzerland, Thailand, Turkey, Ukraine, United Kingdom, and the United States. These independent representatives provide ROFIN with sales leads and opportunities, but do not distribute ROFIN's products. All sales and delivery of products are conducted by the Company. Of the independent representative agreements, 20 are on an exclusive basis, with the other 27 on a non-exclusive basis. These agreements provide for a standard percentage of the net sales price to be paid as commissions to the representatives. The duration of the agreements is usually one year (with an automatic one-year extension) and a six-month cancellation clause.

ROFIN directs its worldwide sales and marketing of lasers for macro applications from its offices in Hamburg and Mainz (both Germany), Kingston upon Hull (UK), and East Granby, Connecticut (USA), and of laser diode components, from Mainz and Freiburg (both Germany). Worldwide sales and marketing of laser marking products is directed from ROFIN's offices in Gunding-Munich (Germany) and, for laser micro products and power supplies, from Starnberg (Germany). Optical engines for fiber lasers for the worldwide market are sold and marketed from Tampere (Finland) and East Granby, Connecticut (USA), and fiber optics and beam delivery systems are sold and marketed from Gothenburg (Sweden). In Europe, ROFIN also maintains sales and service offices in Belgium, France, Italy, the Netherlands, Spain, Switzerland, and the United Kingdom.

North American sales of ROFIN's macro and micro laser products are managed out of the Company's Plymouth, Michigan (USA), facility. North American sales of its marking products are managed out of its Devens, Massachusetts (USA), facility. The Company also maintains sales offices in Chandler, Arizona; Buffalo Grove, Illinois; and Santa Clara, California (all USA), to support the expansion of ROFIN's laser business in the North American market, and a sales and service office in

Mississauga (Canada) to support the Canadian market. North American sales of diode laser components are directed from Tucson, Arizona (USA).

PRC Laser directs its worldwide sales and marketing of lasers for macro applications from its office in Landing, New Jersey (USA), Lee Laser directs its worldwide sales and marketing of lasers for micro applications from its office in Orlando, Florida (USA), and ROFIN-LASAG directs its worldwide sales and marketing of lasers for micro applications from its office in Thun, Switzerland. NELC direct its sales and marketing of lasers for macro applications from its office in Nanjing (China). All four companies sell their products independently under their own brands.

The Company maintains sales and service offices in China, India, Japan, Singapore, South Korea, and Taiwan. Over the next five years, the Company expects demand for industrial lasers to increase in the Asia/Pacific region. The Company believes that the geographic markets with the greatest long-term business potential in the future are China and India, principally due to the expansion of domestic machine tool, automobile, semiconductor, electronics, and photovoltaic production in these countries.

## **CUSTOMER SERVICE, REPLACEMENT PARTS, AND COMPONENTS**

During fiscal 2014, 2013, and 2012, approximately 42%, 39%, and 39%, respectively, of the Company's revenues were generated from sales of after-sales services, replacement parts, and components for laser products. The Company believes that a high level of customer support is necessary to successfully develop and maintain long-term relationships with its OEM- and end-user customers. The Company seeks to maintain this close relationship as our customers' needs change and evolve.

Recognizing the importance of its existing and growing installed multinational customer base, the Company has expanded its local service and support platform into new geographic regions. ROFIN has 427 customer service personnel. The Company's field service and in-house technical support personnel receive ongoing training with respect to the Company's laser products, maintenance procedures, laser-operating techniques, and processing technology. Most of the Company's OEM customers also provide customer service and support to end users.

Many of ROFIN's laser products are operated 24 hours a day in high speed, quality-oriented manufacturing operations. Accordingly, the Company provides 24 hour, year-round service support to its customers in the United States, Germany, and the majority of other countries in which it operates. The Company plans to continue adopting similar service support elsewhere. In addition, eight-hour response time is provided to certain key customers. This support includes field service personnel who reside in close proximity to the Company's installed base. The Company provides customers with process diagnostic and verification techniques, as well as specialized training in the operation and maintenance of its systems. The Company also offers regularly scheduled and intensive training programs and customized maintenance contracts for its customers.

Of ROFIN's 427 customer service personnel, approximately 274 employees operate in the field in about 50 countries. Field service personnel are also involved in the installation of the Company's systems.

ROFIN's approach to the sale of replacement parts is closely linked to the Company's strategic focus on rapid customer response. The Company provides around-the-clock order entry and provides same or next day delivery of parts worldwide in order to minimize disruption to customers' manufacturing operations. ROFIN typically provides a minimum one-year warranty for its products with warranty extensions negotiated on a case-by-case basis. It agrees to after-sales service and parts supply up to a period of 10 years, if requested by a customer. The Company's growing base of installed laser sources and laser-based systems is expected to continue to generate a stable source of revenues from sales of replacement parts and after-sales service.

In addition, the Company offers components such as OEM-laser modules, optical engines, laser diodes, active and passive fibers, fiber optic delivery systems, and power supplies. These high-technology components are either integrated by other laser manufacturers into their products or are used for the Company's own product portfolio.

## **COMPETITION**

The Company believes that as manufacturing industries continue to modernize, seek to reduce production costs and require more precise and flexible production, the features of laser-based systems will become more desirable than systems incorporating conventional material processing techniques and processes. The increased acceptance of these laser applications by industrial users will be enhanced by laser product line expansion to include lower and higher power CO<sub>2</sub> lasers, variations in wavelength, advancements in fiber-optic beam delivery systems, improvements in reliability, and the introduction of lower and higher power

diode lasers, diode pumped, solid-state lasers, and fiber lasers, capable of performing heavy industrial material processing and marking and micro applications.

### **Laser Macro Products**

The market for laser macro products and systems is fragmented and addressed by a large number of competitors. Many of them are small or privately owned or compete with ROFIN on a limited geographic, industry- or application-specific basis. The Company also competes in certain target markets with competitors that are part of large industrial groups and have access to substantially greater financial and other resources than ROFIN. The overall competitive position of the Company will depend upon a number of factors, including product performance and reliability, price, customer support, manufacturing quality, the compatibility of its products with existing laser systems, and the continued development of products utilizing diode laser, diode pumped, solid-state laser and fiber laser technologies. Competition among laser manufacturers is also based on attracting and retaining qualified engineering and technical personnel.

ROFIN believes it is among the top three suppliers of laser sources in the worldwide market for macro applications. Companies such as Trumpf and Fanuc (for high-power CO<sub>2</sub> lasers), Synrad and Coherent (for low-power CO<sub>2</sub> lasers), Trumpf and IPG Photonics (for solid-state or fiber lasers), and Laserline and Jenoptik (for diode lasers and laser diodes) all compete in a subset of markets in which ROFIN operates. However, in the Company's opinion, none of these companies compete in all of the industries, applications, and geographic markets currently served by ROFIN.

### **Laser Marking and Micro Products**

The Company's laser marking products compete with conventional ink-based and acid-etching technologies, as well as with laser mask-marking. The Company's micro products compete with conventional welding, etching, and spark erosion technologies. The Company believes that its principal competitors in the laser marking and micro markets include Trumpf, GSI Group, Unitek Miyachi, Han's Laser, and IPG Photonics. ROFIN also competes with manufacturers of conventional non-laser products in applications such as welding, drilling, soldering, cutting, and marking.

Significant competitive factors in the market for laser marking and micro products include system performance and flexibility, cost, the size of each manufacturer's installed base, capability for customer support, and breadth of product line. Because many of the required components to develop and produce a laser product for marking applications are commercially available, barriers to entry into this market are low and the Company expects new competitive products to enter this market. The Company believes that its product range for marking and micro applications will compete favorably in this market primarily due to performance and price characteristics of such products.

## **MANUFACTURING AND ASSEMBLY**

ROFIN manufactures and tests its high-power CO<sub>2</sub>, solid-state, and fiber laser macro products at its Hamburg (Germany), Plymouth, Michigan; Landing, New Jersey; East Granby, Connecticut (all USA), and Nanjing (China) facilities. The Company's laser marking products are manufactured and tested at its facilities in Gunding-Munich (Germany), Starnberg (Germany), Oxford (UK), Singapore, and Devens, Massachusetts (USA). ROFIN's micro application products are manufactured and tested in Starnberg (Germany), Tampere (Finland), Thun (Switzerland) and Orlando, Florida (USA). The Company's diode laser products are manufactured and tested at its Mainz (Germany), Freiburg (Germany), Nanjing (China), and Tucson, Arizona (USA), facilities. The Company's low-power CO<sub>2</sub> laser products are manufactured and tested in Kingston upon Hull (UK). Coating of ROFIN's Slab laser electrodes is performed at the Overath (Germany) facility. The Company's fiber optics and beam delivery systems are manufactured and tested in Gothenburg (Sweden), and power supplies are manufactured and tested in Starnberg (Germany). The Company's active and passive fibers and amplifiers are manufactured and tested in East Granby, Connecticut (USA). Optical engines for fiber lasers, fiber lasers modules, and wafer material are designed and manufactured in Tampere (Finland).

Given the competitive nature of the laser business, the Company focuses substantial efforts on maintaining and enhancing the efficiency and quality of its manufacturing operations. The Company utilizes just-in-time and cell-based manufacturing techniques to reduce manufacturing cycle times and inventory levels, thus enabling it to offer on-time delivery and high-quality products to its customers.

ROFIN's in-house manufacturing includes only those manufacturing operations that are critical to achieve quality standards or protect intellectual property. These manufacturing activities consist primarily of product development, testing of components and subassemblies (some of which are supplied from within the Company and others of which are supplied by third party

vendors and then integrated into the Company's finished products), assembly and final testing of the completed product, as well as proprietary software design and hardware/software integration. Although the Company minimizes the number of suppliers and component types, wherever practicable, it has at least two sources of supply for key items. ROFIN has a qualifying program for its vendors and generally seeks to build long-term relationships with such vendors. The Company purchases certain major components from single suppliers. The Company estimates that 10% of its revenues are from the sale of products that require specialized components currently only available from single sources. ROFIN has written agreements with such suppliers and has not had material delays in supplies from these sources. The Company believes that it could, if necessary, purchase such components from alternative sources, within four to six months, following appropriate qualification of such new vendors.

ROFIN is committed to meeting internationally recognized manufacturing standards. Its Hamburg, Gunding-Munich, Starnberg, Mainz, Overath (all Germany), Thun (Switzerland), Gothenburg (Sweden), Monza (Italy), Paris (France), Daventry (UK), Kingston upon Hull (UK), Nanjing (China), Singapore, Pamplona (Spain), East Granby, Connecticut (USA), and Tucson, Arizona (USA), facilities are ISO 9001 certified.

## **RESEARCH AND DEVELOPMENT**

During fiscal 2014, 2013, and 2012, ROFIN's net spending on research and development was \$45.9 million, \$43.0 million, and \$42.6 million, respectively. The Company's net spending on research and development reflects receipt of funding mainly under German and other European governments and European Union grants totaling \$1.6 million, \$2.4 million, and \$1.6 million in fiscal 2014, 2013, and 2012, respectively. ROFIN has approximately 330 employees engaged in product research and development.

ROFIN's research and development activities are directed at meeting customers' manufacturing needs and application processes. Core competencies include CO<sub>2</sub> gas lasers, solid-state lasers, fiber lasers, diode lasers, precision optics, electronic power supplies, fibers, fiber optics, beam delivery, control interfaces, software programming, and systems integration. The Company strives for customer-driven development activities and promotes the use of alliances with key customers and joint development programs in a wide range of its target markets.

The Company's research and development activities are carried out in fifteen centers in Hamburg, Gunding-Munich, Starnberg, Freiburg, and Mainz (all Germany), Kingston upon Hull (UK), Gothenburg (Sweden), Tampere (Finland), Thun (Switzerland), Plymouth, Michigan, Landing, New Jersey, Orlando, Florida, Tucson, Arizona, East Granby, Connecticut (all USA), and Nanjing (China), and are centrally coordinated and managed. ROFIN maintains close working relationships with the leading industrial, government and university research laboratories in Germany, including the Fraunhofer Institute for Laser Technology in Aachen, the Institute for "Technische Physik" of the German Space and Aerospace Research Center in Stuttgart, the Fraunhofer Institute for Applied Solid State Physics in Freiburg, the Fraunhofer Institute for Material Science in Dresden, the Laser Center in Hanover (all Germany), and elsewhere around the world, including the University of Edinburgh in the United Kingdom, Tampere University of Technology in Finland, and University of Bern in Switzerland. These relationships include funding of research, joint development programs, personnel exchange programs, and licensing of patents developed at these institutes.

## **INTELLECTUAL PROPERTY**

ROFIN owns intellectual property, which includes patents, proprietary software, technical know-how and expertise, designs, process techniques, and inventions.

While policies and procedures are in place to protect critical intellectual property rights, ROFIN believes that its success depends to a larger extent on the innovative skills, know-how, technical competence, and abilities of ROFIN's personnel.

ROFIN protects its intellectual property in a number of ways including, in certain circumstances, through patents. ROFIN has sought patent protection primarily in the United States, Europe, and Asia. ROFIN currently holds 244 patents for inventions relating to lasers, processes and power supplies with expiration dates ranging from 2015 to 2033. In addition, 157 patent applications have been filed and are under review by the relevant patent authorities. The Company holds 61 exclusive and non-exclusive licenses of patents and pending patent applications with relevance to its products and laser technology. ROFIN requires its employees and certain of its customers, suppliers, representatives, agents, and consultants to enter into confidentiality agreements to further safeguard ROFIN's intellectual property.

ROFIN, from time to time, receives notices from third parties alleging infringement of such parties' patent or other intellectual property rights by ROFIN's products. While these notices are common in the laser industry and ROFIN has in the past been able to develop non-infringing technology or license necessary patents or technology on commercially reasonable terms, ROFIN cannot assure that it would in the future prevail in any litigation seeking damages or expenses from ROFIN or to enjoin ROFIN from selling its products on the basis of such alleged infringement. Nor can ROFIN assure that it would be able to develop any non-infringing technology or to license any valid and infringed patents on commercially reasonable terms. In the event any third party made a valid claim against ROFIN or its customers and a license were not made available to ROFIN on commercially reasonable terms, ROFIN would be adversely affected.

From time to time, ROFIN files notices of opposition to certain patents on laser technologies held by others, including academic institutions and competitors of ROFIN, which the Company believes could inhibit its ability to develop laser products for industrial material processing applications.

## ORDER BACKLOG

The Company's order backlog was \$141.3 million, \$118.0 million, and \$147.0 million, as of September 30, 2014, 2013, and 2012, respectively. The Company's order backlog, which contains relatively little service, training and spare parts, represents approximately three months of laser shipments. The order backlog as of September 30, 2014, consists of an 18% higher order backlog for macro applications, an 18% higher order backlog for micro and marking applications, and a 35% higher order backlog for components compared to the order backlog as of September 30, 2013. The fluctuation of the U.S. dollar in fiscal year 2014 had a favorable effect of approximately \$2.2 million on year-to-year order backlog. The decrease in the Company's order backlog from September 30, 2013 to September 30, 2012, was attributable to 11% lower orders for macro applications, 25% lower orders for micro and marking applications, and a 27% lower backlog for components. The fluctuation of the U.S. dollar in fiscal year 2013 had a favorable effect of approximately \$0.7 million on year-to-year order backlog.

An order is entered into backlog by ROFIN when a purchase order with an assigned delivery date has been received. Delivery schedules range from one week to six months, depending on the size, complexity and availability of the product or system ordered, although typical delivery dates for laser source products range between one to twelve weeks from the date an order is placed. Although there is a risk that customers may cancel or delay delivery of their orders, orders for standard non-customized lasers can typically be allocated to other customers without significant additional costs. The Company also manages this risk by establishing the right to charge a cancellation fee that covers any material and developmental costs incurred prior to the order being canceled. Enforcement of this right is dependent on many factors including, but not limited to, the customer's requested length of delay, the number of other outstanding orders with the same customer, and the ability to quickly convert the canceled order to another sale.

The Company anticipates shipping the present backlog during fiscal year 2015. However, the Company's backlog at any given date is not necessarily indicative of actual sales for any future period.

## EMPLOYEES

The following table sets forth the Company's employees by geographic regions as of September 30, 2014 and 2013:

	September 30,	
	2014	2013
North America	425	427
Germany	1,066	1,075
Asia	320	329
Other	459	434
	<u>2,270</u>	<u>2,265</u>

The average number of employees for the fiscal year ended September 30, 2014, was 2,265.

While the Company's employees are not covered by collective bargaining agreements and the Company has never experienced a work stoppage, slowdown or strike, the Company's employees at its Hamburg and Starnberg (both Germany) facilities are each represented by a nine-person works council and in Gunding-Munich (Germany) by a seven-person works

council. Additionally, Hamburg and Gunding-Munich are represented by a four-person central works council. Matters relating to compensation, benefits, and work rules are negotiated and resolved between management and the works council for the relevant location. The Company considers its relations with its employees to be good.

## **GOVERNMENT REGULATION**

The majority of the Company's laser products sold in the United States are classified as Class IV Laser Products under applicable rules and regulations of the Center for Devices and Radiological Health ("CDRH") of the U.S. Food and Drug Administration. The same classification system is applied in the European markets. Safety rules are formulated with "Deutsche Industrie Norm" (i.e., German Industrial Standards) or ISO standards, which are internationally harmonized.

CDRH regulations generally require a self-certification procedure pursuant to which, for each product incorporating a laser device, a manufacturer must file periodic reporting of sales and purchases, and compliance with product labeling standards with CDRH. The Company's laser products for macro, micro and laser marking applications can result in injury to human tissue if directed at an individual or otherwise misused.

The Company believes that its laser products for macro, micro and marking applications, and its components are in substantial compliance with all applicable laws for the manufacture of laser devices.

In August 2012, the U.S. Securities and Exchange Commission (SEC) issued a rule under Section 1502 of the Dodd-Frank Wall Street Reform and Consumer Protection Act requiring companies to publicly disclose their use of conflict minerals that originated in the Democratic Republic of the Congo (DRC) or an adjoining country. Under the rule, issuers are required to conduct a "reasonable" due diligence process to ascertain the source of conflict minerals, defined as tantalum, tin, gold or tungsten, that are necessary to the functionality or production of their manufactured or contracted to be manufactured products. Companies are required to provide this disclosure on Form SD filed with the SEC. The Company filed its initial Form SD on June 2, 2014 for the 2013 calendar period.

## **AVAILABLE INFORMATION**

The Company makes available, free of charge on its internet website, its Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after they are electronically filed with, or furnished to, the Securities and Exchange Commission (the "SEC"). You can find these reports on the Company's website at [www.rofin.com](http://www.rofin.com) under the heading "Investor Relations". The information on the Company's website is not incorporated by reference in this Annual Report on Form 10-K.

These reports may also be obtained at the SEC's Public Reference Room at 100 F Street NE, Washington, D.C. 20549. Information on the operation of the Public Reference Room is available by calling the SEC at (202) 551-8090. You may also access this information at the SEC's website (<http://www.sec.gov>). This site contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC.

## ITEM 1A. RISK FACTORS

### THE GLOBAL ECONOMY, CAPITAL MARKETS, CREDIT DISRUPTIONS, AND POLITICAL ENVIRONMENT CHANGES CAN ADVERSELY IMPACT OUR RESULTS OF OPERATIONS.

Our business, operating results, or financial condition can be impacted by a number of macroeconomic factors, which could in turn affect our stock price. These macroeconomic factors include, but are not limited to, consumer confidence and spending levels, unemployment, consumer credit availability, global factory production, and credit market conditions. Additionally, changes in the political environment in the markets in which we operate can adversely impact our business, such as foreign exchange import and export controls, tariffs and other trade barriers, and price or exchange controls.

### DOWNTURNS IN THE INDUSTRIES WE SERVE, PARTICULARLY IN THE MACHINE TOOL, AUTOMOTIVE, SEMICONDUCTOR, ELECTRONICS, AND PHOTOVOLTAIC INDUSTRIES, MAY HAVE A MATERIAL ADVERSE EFFECT ON OUR SALES AND PROFITABILITY.

Our business depends substantially upon capital expenditures particularly by manufacturers in the machine tool, automotive, semiconductor, electronics, and photovoltaic industries. Approximately 69% of our laser sales during fiscal year 2014 were to these industry markets. These industries are cyclical and have historically experienced periods of oversupply, resulting in significantly reduced demand for capital equipment, including the products manufactured and marketed by us. For the foreseeable future, our operations will continue to depend upon capital expenditures in these industries, which, in turn, depend upon the market demand for their products. Decreased demand from manufacturers in these industries, for example, during an economic downturn, may lead to decreased demand for our products. Although such decreased demand would reduce our sales, we may not be able to reduce expenses quickly, due in part to the need for continual investment in research and development and the need to maintain our extensive ongoing customer service and support capability. Although we order materials for assembly in response to firm orders, the lead time for assembly and delivery of some of our products creates a risk that we may incur expenditures or purchase inventories for products which we cannot sell.

Accordingly, any economic downturn or slowdown in the machine tool, automotive, semiconductor, electronics, or photovoltaic industries could have a material adverse effect on our financial condition and results of operations.

### A HIGH PERCENTAGE OF OUR SALES ARE OVERSEAS AND OUR RESULTS ARE THEREFORE SUBJECT TO THE IMPACT OF EXCHANGE RATE FLUCTUATIONS.

Although we report our results in U.S. dollars, approximately 69% of our current sales are denominated in other currencies, including the Euro, Swedish krona, Swiss francs, British pound, Singapore dollar, Japanese yen, Korean won, Taiwanese dollar, Canadian dollar, Indian rupee, and Chinese RMB. The fluctuation of the Euro, and the other functional currencies, against the U.S. dollar has had the effect of increasing and decreasing (as applicable) reported net sales as well as cost of goods sold, gross margin, and selling, general and administrative expenses denominated in such foreign currencies when translated into U.S. dollars as compared to prior periods. Our subsidiaries will, from time to time, pay dividends in their respective functional currencies, thus presenting another area of potential currency exposure for us in the future.

We also face transaction risk from fluctuations in exchange rates between the various currencies in which we do business. We believe that a certain portion of the transaction risk of our operations in multiple currencies is mitigated by our hedging activities, utilizing forward exchange contracts and forward exchange options. We also continue to borrow in many of our operating subsidiaries' functional currencies to reduce exposure to exchange gains and losses. However, there can be no assurance that changes in currency exchange rates will not have a material adverse effect on our business, financial condition, and results of operations.

**OUR INABILITY TO MANAGE THE RISKS ASSOCIATED WITH OUR INTERNATIONAL OPERATIONS COULD ADVERSELY AFFECT OUR BUSINESS.**

Our products are currently marketed in approximately 70 countries, with the United States, Germany, the rest of Europe, and the Asia/Pacific region being our principal markets. Our operations and sales in our principal markets are subject to risks inherent in international business activities, including:

- the general political and economic conditions in each such country or region;
- overlap of differing tax structures;
- 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;
- increased vulnerability to the theft of, and reduced protection for intellectual property rights;
- management of an organization spread over various jurisdictions; and
- unexpected changes in regulatory requirements and compliance with a variety of foreign laws and regulations, such as import and export licensing requirements, trade restrictions, currency control and restrictions, delays, penalties or required withholdings on repatriation of earnings.

Any failure to manage the risks associated with our international business operations could have a material adverse effect on our financial condition and results of operations.

Our profitability may be adversely affected by economic slowdowns in the United States, Europe, or the Asia/Pacific region. A recession in these economies could trigger a decline in laser sales to the machine tool, automotive, semiconductor, electronics, or photovoltaic industries, and any related weaknesses in their respective currencies could adversely affect customer demand for our products, the U.S. dollar value of our foreign currency denominated sales, and ultimately our consolidated results of operations.

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

**OUR GLOBAL OPERATIONS ARE SUBJECT TO EXTENSIVE AND COMPLEX IMPORT AND EXPORT RULES THAT VARY AMONG THE LEGAL JURISDICTIONS IN WHICH WE OPERATE. FAILURE TO COMPLY WITH THESE RULES COULD RESULT IN SUBSTANTIAL PENALTIES.**

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

## WE DEPEND ON THE ABILITY OF OUR OEM CUSTOMERS TO INCORPORATE OUR LASER PRODUCTS INTO THEIR SYSTEMS.

Our sales depend in part upon the ability of our OEM customers to develop and sell systems that incorporate our laser products. Adverse economic conditions, inadequate liquidity, large inventory positions, limited marketing resources, and other factors affecting these OEM customers could subject us to risks of business failure by such customers and potential credit and inventory risks, and thus could have a substantial impact upon our financial results. We cannot provide assurances 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 EXPERIENCED IN THE PAST, AND EXPECT TO EXPERIENCE IN THE FUTURE, FLUCTUATIONS IN OUR QUARTERLY RESULTS. THESE FLUCTUATIONS MAY INCREASE THE VOLATILITY OF OUR STOCK PRICE.

We have experienced and expect to continue to experience some fluctuations in our quarterly results. We believe that fluctuations in quarterly results may cause the market prices of our common stock, on the NASDAQ Global Select Market and the Frankfurt Stock Exchange, to fluctuate, perhaps substantially. Factors which may have an influence on the Company's operating results in a particular quarter include:

- general economic uncertainties;
- fluctuations in demand for, and sales of, our products or prolonged downturns in the industries that we serve;
- the timing of the receipt of orders from major customers;
- product mix;
- competitive pricing pressures;
- the relative proportions of domestic and international sales;
- our ability to design, manufacture, and introduce new products on a cost-effective and timely basis;
- the delayed effect of incurrence of expenses to develop and improve marketing and service capabilities;
- foreign currency fluctuations;
- ability of our suppliers to produce and deliver components and parts, including sole or limited source components, in a timely manner, in the quantity desired, and at the prices we have budgeted;
- our ability to control expenses; and
- costs related to acquisitions of businesses.

These and other factors make it difficult for us to release precise predictions regarding the results and the development of our business. In addition, current conditions in the domestic and global economies are uncertain. As a result, it is difficult to estimate the level of growth for the economy as a whole or of capital expenditures in the industrial markets we serve. Because all of the components of our budgeting and forecasting are dependent on estimates of spending within these markets, the prevailing economic uncertainty renders estimates of future revenue and expenses even more difficult than usual to make. In addition, our backlog at any given time is not necessarily indicative of actual sales for any succeeding period. As our delivery schedule typically ranges from one week to six months, our sales will often reflect orders shipped in the same quarter that they are received. Moreover, customers may cancel or reschedule shipments and production difficulties could delay shipments. Accordingly, the Company's results of operations are subject to significant fluctuations from quarter to quarter. See also "Business - Order Backlog".

Other factors that we believe may cause the market price of our common stock to fluctuate, perhaps substantially, include announcements of new products, technologies, or customers by us or our competitors, developments with respect to intellectual property, and shortfalls in our operations relative to analysts' expectations. In addition, in recent years, the stock market in general, and the shares of technology companies in particular, have experienced wide price fluctuations. These broad market and industry fluctuations, particularly in the semiconductor, electronics, photovoltaics, machine tool, and automotive industries,

may adversely affect the market prices of our common stock on the NASDAQ Global Select Market and the Frankfurt Stock Exchange.

**THE MARKETS FOR OUR PRODUCTS ARE HIGHLY COMPETITIVE AND INCREASED COMPETITION COULD INCREASE OUR COSTS, REDUCE OUR SALES, OR CAUSE US TO LOSE MARKET SHARE.**

The laser industry is characterized by significant price and technical competition. Our current and proposed laser products for macro, marking and micro applications, and components, compete with those of several well-established companies, some of which are larger and have substantially greater financial, managerial and technical resources, more extensive distribution and service networks, and larger installed customer bases than us.

We believe that competition will be particularly intense in the CO<sub>2</sub>, diode, solid-state, and fiber laser markets, as many companies have committed significant research and development resources to pursue opportunities in these markets. There can be no assurance that we will successfully differentiate our current and proposed products from the products of our competitors or that the marketplace will consider our products to be superior to competing products. Because many of the components required to develop and produce a laser-based marking system are commercially available, barriers to entry into this market are relatively low, and we expect new competitive product entries in this market. To maintain our competitive position in these markets, we believe that we will be required to continue a high level of investment in engineering, research and development, marketing, and customer service and support. There can be no assurance that we will have sufficient resources to continue to make these investments, that we will be able to make the technological advances necessary to maintain our competitive position, or that our products will receive market acceptance. See also “Business - Competition”.

**OUR FUTURE GROWTH AND COMPETITIVENESS DEPEND UPON OUR ABILITY TO DEVELOP NEW AND ENHANCED PRODUCTS TO MEET MARKET DEMAND AND TO INCREASE OUR MARKET SHARE FOR LASER MACRO AND MARKING AND MICRO PRODUCTS.**

If we are to increase our laser sales in the near term, these sales will have to come through increases in market share for our existing products, through the development of new products, or through the acquisition of competitors or their products. To date, a substantial portion of our revenues has been derived from sales of high-powered CO<sub>2</sub> laser sources, solid-state laser sources, fiber lasers and diode lasers. In order to increase market demand for these products, we will need to devote substantial resources to:

- continuing to broaden our CO<sub>2</sub>, solid-state, fiber, and diode laser product range;
- continuing to increase the output power and vary the laser wavelengths of our product portfolio; and
- continuing to reduce the manufacturing costs of our product range to achieve more attractive pricing.

A large part of our growth strategy depends upon being able to increase our worldwide market share for laser macro, marking and micro products.

Our future success depends on our ability to anticipate our customers’ needs and develop products that address those needs. Our ability to control costs is limited by our need to invest in research and development. If we are unable to implement our strategy to develop new and enhanced products, our business, operating results, and financial condition could be adversely affected. We cannot provide assurance that we will successfully implement our business strategy or that any of the newly developed or enhanced products will achieve market acceptance or not be rendered obsolete or uncompetitive by products of other companies. See also “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business - The Company’s Laser Products”.

**WE DEPEND ON OUR EXECUTIVE MANAGEMENT TEAM AND SKILLED PERSONNEL TO OPERATE OUR BUSINESS EFFECTIVELY IN A RAPIDLY CHANGING MARKET, AND IF WE ARE UNABLE TO RETAIN EXISTING OR HIRE ADDITIONAL PERSONNEL WHEN NEEDED, OUR ABILITY TO DEVELOP AND SELL OUR PRODUCTS COULD BE HARMED.**

Our future success depends in large part upon the leadership and performance of our executive management team and key employees at the operating level. These key employees include engineering, sales, marketing, manufacturing, and support

personnel for our operations on a worldwide basis. Recruiting and retaining highly skilled personnel in certain functions continues to be difficult. At certain locations where we operate, the cost of living is extremely high and it may be difficult to retain key employees and management at a reasonable cost. We may not be successful in attracting, assimilating, or retaining qualified personnel to fulfill our current or future needs. If we fail to attract additional employees or lose the services of one or more of our executive officers or key employees, or if one or more of them decide to join a competitor or otherwise compete directly or indirectly with us, we may not be able to successfully manage our business or achieve our business objectives. If we lose the services of any of our key employees at the operating or regional level, we may not be able to replace them with similarly qualified personnel, which could harm our business.

#### WE MAY NOT BE ABLE TO SUCCESSFULLY ACQUIRE NEW OPERATIONS OR INTEGRATE FUTURE ACQUISITIONS, WHICH COULD CAUSE OUR BUSINESS TO SUFFER.

An important part of our growth strategy is making strategic acquisitions of companies with complementary operations, technologies, or products. We regularly review potential acquisitions and periodically engage in discussions regarding such possible acquisitions. We may be unable to successfully complete potential strategic acquisitions if we cannot reach agreement on acceptable terms or for other reasons. Future acquisitions may require us to obtain additional debt or equity financing, which may not be available on terms acceptable to us, if at all. In connection with future acquisitions, we may assume the liabilities of the companies we acquire. Any debt that we incur to pay for future acquisition could contain covenants that restrict the manner in which we operate our business. Any new equity securities that we issue for this purpose would be dilutive to our existing stockholders. If we buy a company or a division of a company, we may experience difficulty integrating that company or division's personnel and operations, which could negatively affect our operating results.

In addition:

- the key personnel of the acquired company may decide not to work for us;
- we may experience additional financial and accounting challenges and complexities in areas such as tax planning, treasury management, and financial reporting;
- we may be held liable for risks and liabilities (including for environmental-related costs) as a result of our acquisitions, some of which we may not discover during our due diligence;
- our ongoing business may be disrupted or receive insufficient management attention; and
- we may not be able to realize the synergies, cost savings, or other financial benefits we anticipated.

#### PRODUCTION DIFFICULTIES AND PRODUCT DELIVERY DELAYS OR DISRUPTIONS COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS.

We manufacture and test our products at our facilities in Germany, the United States, the United Kingdom, China, Finland, Sweden, Switzerland, and Singapore. If use of any of our manufacturing facilities were interrupted by a natural disaster or otherwise, our operations would be negatively impacted until we could establish alternative production and service operations. Significant production difficulties could be the result of:

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

In addition, we may experience product delivery delays in the future. A significant disruption in third-party package delivery and import/export services, or significant increases in prices for those services, could interfere with our ability to ship products, increase our costs, and lower our profitability.

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

**IF WE FAIL TO ACCURATELY FORECAST COMPONENT AND MATERIAL REQUIREMENTS FOR OUR PRODUCTS, WE COULD INCUR ADDITIONAL COSTS AND INCUR SIGNIFICANT DELAYS IN SHIPMENTS, WHICH COULD RESULT IN A LOSS OF CUSTOMERS.**

We use rolling forecasts based on anticipated product orders and material requirements planning systems to determine our product requirements. It is very important that we accurately predict both the demand for our products and the lead times required to obtain the necessary components and materials. We depend on our suppliers for most of our product components and materials. Lead times for components and materials that we order vary significantly and depend on factors including the specific supplier requirements, the size of the order, contract terms, and current market demand for components. For substantial increases in our sales levels of certain products, some of our suppliers may need at least nine-month lead time. If we overestimate our component and material requirements, we may have excess inventory, which would increase our costs. If we underestimate our component and material requirements, we may have inadequate inventory, which could interrupt and delay delivery of our products to our customers. Any of these occurrences would negatively impact our net sales, business, or operating results.

**WE DEPEND ON LIMITED SOURCE SUPPLIERS THAT COULD CAUSE SUBSTANTIAL MANUFACTURING DELAYS AND INCREASE OUR COSTS IF A DISRUPTION IN SUPPLY OCCURS.**

We estimate that 10% of our revenues are derived from sales of products that require specialized components only available from single sources. We also rely on a limited number of independent contractors to manufacture subassemblies for some of our products. There can be no assurance that, in the future, our current or alternative sources will be able to meet all of our demands on a timely basis. If one or more of our suppliers or subcontractors experiences difficulties that result in a reduction or interruption in supply to us, or if they fail to meet any of our manufacturing requirements, our business could be harmed until we are able to secure alternative sources, if any. If we are unable to find necessary parts or components on commercially reasonable terms, we could be required to reengineer our products to accommodate available substitutions which could increase our costs and/or have a material adverse effect on manufacturing schedules, product performance, and market acceptance.

The manufacturing of our solid-state lasers require elements of rare earth in small quantities. Shortages of these elements, delays in their delivery and resulting increases of the market price for such materials might have an adverse effect on our production costs.

**IF OUR GOODWILL OR INTANGIBLE ASSETS BECOME IMPAIRED, WE MAY BE REQUIRED TO RECORD A SIGNIFICANT CHARGE TO EARNINGS.**

Under accounting principles generally accepted in the United States, we review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or other intangible assets may not be recoverable include declines in our stock price and market capitalization or future cash flow projections. A decline in our stock price, or any other adverse change in market conditions, particularly if such change has the effect of changing one of the critical assumptions or estimates we used to calculate the estimated fair value of our reporting units, could result in a change to the estimation of fair value that could result in an impairment charge. Any such material charges, whether related to goodwill or purchased intangible assets, may have a material negative impact on our financial and operating results.

WE ARE EXPOSED TO LAWSUITS IN THE NORMAL COURSE OF BUSINESS WHICH COULD HAVE A MATERIAL ADVERSE EFFECT ON OUR BUSINESS, OPERATING RESULTS, OR FINANCIAL CONDITION.

We are exposed to lawsuits in the normal course of our business, including product liability claims, if personal injury, death or commercial losses occur from the use of our products. While we typically maintain business insurance, including directors' and officers' policies, litigation can be expensive, lengthy, and disruptive to normal business operations, including the potential impact of indemnification obligations for individuals named in any such lawsuits. We may not, however, be able to secure insurance coverage on terms acceptable to us in the future. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit, including a recall or redesign of products if ultimately determined to be defective, could have a material adverse effect on our business, operating results, or financial condition.

THE LONG SALES CYCLES FOR OUR PRODUCTS MAY CAUSE US TO INCUR SIGNIFICANT EXPENSES WITHOUT OFFSETTING REVENUES.

Customers often view the purchase of our products as a significant and strategic decision. As a result, customers typically expend significant effort in evaluating, testing, and qualifying our products before making a decision to purchase them, resulting in a lengthy initial sales cycle. While our customers are evaluating our products and before they place an order with us, we may incur substantial sales and marketing and research and development expenses to customize our products to the customer's needs. We may also expend significant management efforts, increase manufacturing capacity and order long lead-time components or materials prior to receiving an order. Even after this evaluation process, a potential customer may not purchase our products. As a result, these long sales cycles may cause us to incur significant expenses without ever receiving revenue to offset such expenses.

OUR FAILURE TO PROTECT OUR PROPRIETARY TECHNOLOGY OR TO AVOID LITIGATION FOR INFRINGEMENT OR MISAPPROPRIATION OF PROPRIETARY RIGHTS OF THIRD PARTIES COULD RESULT IN A LOSS OF REVENUES AND PROFITS.

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 taken by us to protect our intellectual property rights will be adequate to prevent misappropriation or that others will not develop competitive technologies or products.

We currently hold 244 United States and foreign patents on our laser sources and laser applications, with expiration dates ranging from 2015 to 2033. We have also obtained licenses under certain patents covering lasers and related technology incorporated into our products. In addition, 157 patent applications have been filed and are under review by the relevant patent authorities. 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, or that the rights thereunder will provide a competitive advantage to us. See also "Business - Intellectual Property".

From time to time, we receive notices from third parties alleging infringement of such parties' patent or other proprietary rights by our products. While these notices are common in the laser industry and we have in the past been able to develop non-infringing technology or license necessary patents or technology on commercially reasonable terms, there can be no assurance that we would in the future prevail in any litigation seeking damages or expenses from us or to enjoin us from selling products on the basis of such alleged infringement, or that we would be able to develop any non-infringing technology or license any valid and infringed patents on commercially reasonable terms. In the event any third party made a valid claim against us or our customers and a license was not made available to us on commercially reasonable terms, we would be adversely affected.

CHANGES IN GOVERNMENTAL REGULATION OF OUR BUSINESS OR OUR PRODUCTS COULD REDUCE DEMAND FOR OUR PRODUCTS OR INCREASE OUR EXPENSES.

We are subject to many governmental regulations, including but not limited to the laser radiation safety regulations of the Radiation Control for Health and Safety Act administered by the National Center for Devices and Radiological Health, a branch of the United States Food and Drug Administration. Among other things, these regulations require us to file annual reports, to maintain quality control and sales records, to perform product testing, to distribute appropriate operating manuals, to conduct

safety reviews, to incorporate design and operating features in products sold to end users, and to certify and label our products. We are also subject to regulatory oversight, including comparable enforcement remedies, in the markets we serve.

On August 22, 2012, the SEC adopted a new rule requiring disclosures by public companies of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured. The new rule, which went into effect for calendar year 2013 and requires annual disclosure reports to be filed with the SEC, requires companies to perform due diligence, disclose and report whether or not such minerals originate from the Democratic Republic of Congo or an adjoining country. The new rule could affect sourcing at competitive prices and availability in sufficient quantities of certain minerals used in the manufacture of our products, including tin, tungsten, tantalum and/or gold. The number of suppliers who provide conflict-free minerals may be limited. In addition, there may be material costs associated with complying with the disclosure requirements, such as costs related to the due diligence process of determining the source of certain minerals used in our products, as well as costs of possible changes to products, processes, or sources of supply as a consequence of such verification activities. As our supply chain is complex, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the due diligence procedures that we implement, which may harm our reputation. We may also encounter challenges to satisfy those customers who require that all of the components of our products be certified as conflict-free, which could place us at a competitive disadvantage if we are unable to do so.

Any significant change in the regulations described in the paragraphs above could reduce demand for our products or increase our expenses, which in turn could adversely affect our business, financial condition, results of operations, and cash flows.

#### CHANGES IN TAX RATES, TAX LIABILITIES, OR TAX ACCOUNTING RULES COULD AFFECT FUTURE RESULTS.

As a global company, we are subject to taxation in the United States and various other countries and jurisdictions in which we do business. Significant judgment is required to determine our worldwide tax liabilities. Our future tax rates could be affected by changes in the composition of earnings in countries with differing tax rates, changes in the valuation of our deferred tax assets and liabilities, or changes in the tax laws in the jurisdictions in which we do business. In addition, we are subject to regular examination of the income tax returns that we and our subsidiaries file by the Internal Revenue Service and other tax authorities. We regularly assess the likelihood of favorable or unfavorable outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. Although we believe our tax estimates are reasonable, there can be no assurance that any final determination will not be materially different than the treatment reflected in our historical income tax provisions and accruals, which could materially and adversely affect our operating results and financial condition.

#### ANY DEFECTS IN OUR PRODUCTS OR CUSTOMER PROBLEMS ARISING FROM THE USE OF OUR PRODUCTS MAY SERIOUSLY HARM OUR BUSINESS AND REPUTATION.

Our laser products are technologically complex and may contain both known and undetected errors or performance problems. In addition, performance problems can also be caused by the improper installation or use of our products by a customer. These errors or performance problems could result in customer dissatisfaction, which could harm our sales or customer relationships. In addition, these problems may cause us to incur significant warranty and repair costs and divert the attention of our engineering personnel from our product development efforts.

#### IF WE EXPERIENCE A SIGNIFICANT DISRUPTION IN, OR BREACH IN SECURITY OF, OUR INFORMATION TECHNOLOGY SYSTEMS, OUR BUSINESS MAY BE ADVERSELY AFFECTED.

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

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

The Company's manufacturing facilities include the following:

Location of Facility	Owned or Leased	Size** (sq. ft.)	Lease Expiration	Primary Activity
Hamburg, Germany	Owned*	179,574		CO <sub>2</sub> lasers, solid-state lasers, fiber lasers
Starnberg, Germany	Leased	127,520	2015 through 2017	Laser marking and micro products, power supplies
Gunding-Munich, Germany	Leased	81,192	2017	Solid-state lasers, laser marking products
Plymouth, Michigan	Leased	52,128	2017	CO <sub>2</sub> lasers, laser micro and marking systems
Kingston upon Hull, United Kingdom	Leased	48,502	2017	Low-power CO <sub>2</sub> lasers
Orlando, Florida	Owned	35,219		Solid-state lasers
Landing, New Jersey	Owned	34,305		CO <sub>2</sub> lasers
Mainz, Germany	Leased	86,779	2024	Diode lasers and components
Devens, Massachusetts	Leased	16,955	2017	Laser marking systems
Gothenburg, Sweden	Leased	70,859	2015 through 2020	Fiber optic production
Overath, Germany	Leased	22,948	2015	Coating of materials
Oxford, United Kingdom	Leased	14,919	2019	Laser marking systems
Tampere, Finland	Leased	10,064	None	Fiber lasers, optical engines
Tampere, Finland	Owned	44,100		Fiber lasers, optical engines
Pamplona, Spain	Owned	12,658		Laser marking systems
Singapore	Leased	7,815	2015	Laser marking products
Freiburg, Germany	Leased	12,686	2019	Laser diodes
Tucson, Arizona	Leased	22,310	2015	Components
East Granby, Connecticut	Leased	96,565	2027	Fibers, fiber lasers
Nanjing, China	Owned	67,834		Laser products, diode components
Thun, Switzerland	Leased	25,134	2015	Solid-state lasers for micro material processing

\* The facility is owned by ROFIN-SINAR Laser GmbH ("RSL"); the real property on which the facility is located is leased by RSL under a 99-year lease.

\*\* Includes sales, administration and research and development facilities, where applicable.

The Thun (Switzerland) facility lease has a renewal option for five years. One of the Starnberg (Germany) main facilities is leased until 2016 from a member of the Company's Board of Directors and includes a clause to terminate the lease contract within a two-year notice period during the contract, while the other main facilities are leased until 2016 and 2017. The Freiburg (Germany) facility lease has a renewal option for five years. The Tampere (Finland) facility lease can be terminated upon six-month notice from the landlord and the lessee.

The Company maintains sales, administration, and research and development facilities at each of the Hamburg, Starnberg, Gunding-Munich, Mainz, Freiburg, Kingston upon Hull, Gothenburg, Tampere, East Granby, Plymouth, Landing, Orlando, Thun, and Nanjing locations. The Company also maintains sales and service offices worldwide, all of which are leased, with the exception of the Pamplona (Spain) and Seoul (South Korea) properties which are owned.

The Company believes that its existing facilities are adequate to meet its currently projected needs for the next 12 months and that suitable additional or alternative space would be available, if necessary, in the future on commercially reasonable terms.

**ITEM 3. LEGAL PROCEEDINGS**

The Company has been and is likely to be involved from time to time in litigation involving its intellectual property and ordinary routine litigation arising in the ordinary course of business.

A licensor of patents that, before their expiration in 2010, covered the technology used in certain of the Company's CO<sub>2</sub> lasers has asserted that the Company has calculated royalties due in respect of certain sales of such CO<sub>2</sub> lasers in a manner that is not consistent with the applicable license agreement. In addition, the licensor claims that it has not been provided with copies of invoices and other documentation relating to such sales, to which it asserts it is entitled under the license agreement. The Company disputes these and related allegations and believes that it is in compliance with all of its obligations under the license agreement. The patents, and therefore the license rights, have already expired and there are no further license fees to be calculated and paid. Accordingly, management believes that the resolution of this matter will not have a material adverse impact on the Company's financial condition, results of operations, or cash flows.

**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

The Company's common stock is traded on the NASDAQ Global Select Market and also on the Prime Standard Segment of the Frankfurt Stock Exchange, under the symbol RSTI and international securities identification number (ISIN) US7750431022, respectively. The table below sets forth the high and low closing sales prices of the Company's common stock for each quarter ended during the last two fiscal years as reported by NASDAQ:

Quarter ended	Common Stock Trade Prices	
	High	Low
December 31, 2012	\$ 21.68	\$ 17.93
March 31, 2013	\$ 28.25	\$ 22.27
June 30, 2013	\$ 27.65	\$ 23.99
September 30, 2013	\$ 25.43	\$ 22.49
December 31, 2013	\$ 27.02	\$ 23.05
March 31, 2014	\$ 26.38	\$ 21.28
June 30, 2014	\$ 24.66	\$ 21.81
September 30, 2014	\$ 24.42	\$ 21.79

At November 26, 2014, the Company had six holders of record of its common stock and 28,049,666 shares outstanding. A significantly greater number of holders of the Company's common stock are "street name" or beneficial holders, whose shares are held of record by bankers, brokers, and other financial institutions. The Company has not paid dividends on its common stock and does not anticipate paying dividends in the foreseeable future.

During fiscal year 2014, the Company did not sell any equity securities that were not registered under the Securities Act.

Except as set forth in the next paragraph, there were no purchases of common stock of the Company made by the Company or any "affiliated purchaser" of the Company as defined in Rule 10b-18(a)(3) under the Exchange Act during the fourth fiscal quarter of fiscal year 2014.

On February 5, 2014, the Board of Directors authorized the Company to initiate a share buyback of up to \$25.0 million of the Company's Common Stock over the next twelve months ending February 10, 2015, subject to market conditions. The shares were able to be repurchased from time to time in open market transactions or privately negotiated transactions at the Company's discretion, including as to the quantity, timing, and price thereof. During the year ended September 30, 2014, the Company purchased shares of common stock as follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly-Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
February 1, 2014 through February 28, 2014	75,500	\$ 21.84	75,500	\$ 23.4 million
March 1, 2014 through March 31, 2014	166,213	\$ 23.73	241,713	\$ 19.4 million
May 1, 2014 through May 31, 2014	28,490	\$ 22.59	270,203	\$ 18.8 million
Total/Average	270,203	\$ 23.08		

### STOCK PRICE PERFORMANCE GRAPH

The following Stock Price Performance Graph includes comparisons required by the SEC. The Graph does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filings under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference therein.

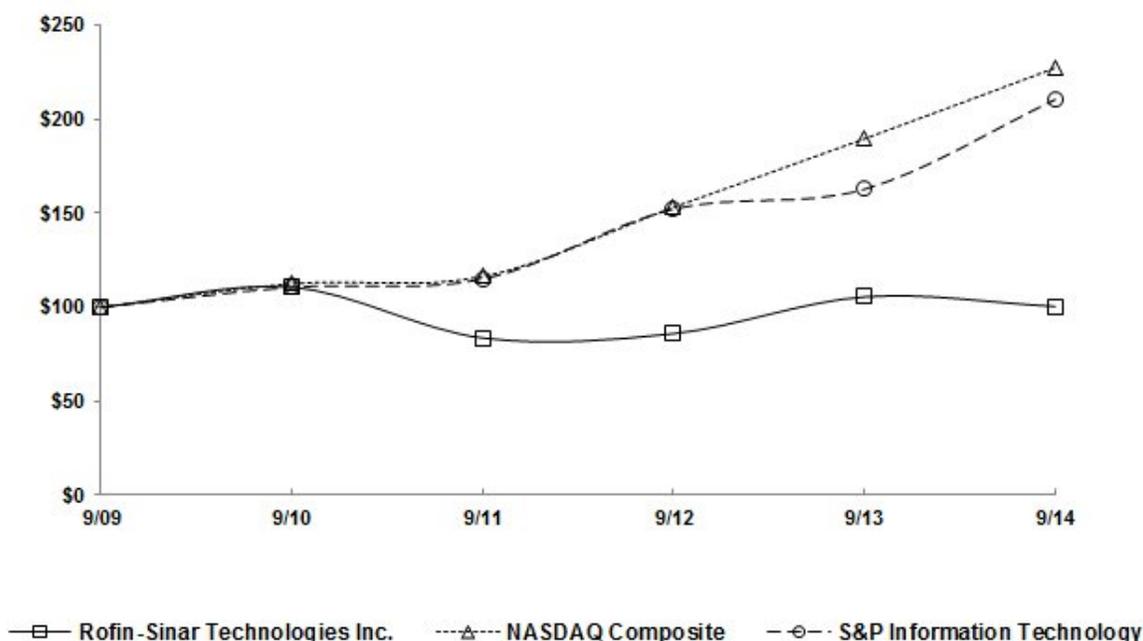
The following graph presents the one-year total return for ROFIN-SINAR Technologies Inc. common stock compared with the NASDAQ Stock Market Index and the S&P Technology Sector Index. ROFIN-SINAR selected these comparative groups due to industry similarities and the fact that they contain several direct competitors.

The graph assumes that the value of the investment in ROFIN-SINAR Technologies Inc. common stock, the NASDAQ Stock Market Index, and the S&P Technology Sector Index each was \$100 on September 30, 2009, and that all dividends were reinvested. The S&P Technology Sector Index is weighted by market capitalization.

The stock price performance shown in this graph is not necessarily indicative of, and not intended to suggest future stock price performance.

### COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN\*

Among Rofin-Sinar Technologies Inc., the NASDAQ Composite Index and the S&P Information Technology Index



\*\$100 invested on 9/30/09 in stock or index, including reinvestment of dividends.  
Fiscal year ending September 30.

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#### EDGAR REPRESENTATION OF DATA POINTS USED IN PRINTED GRAPHIC

	ROFIN-SINAR Technologies Inc.	NASDAQ Stock Market Index	S&P Technology Sector Index
9/30/2009	100	100	100
9/30/2010	110.54	112.55	110.66
9/30/2011	83.62	116.28	114.90
9/30/2012	85.93	153.12	152.14
9/30/2013	105.44	189.49	162.65
9/30/2014	100.44	227.09	210.26

## ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth selected consolidated financial data for the past five fiscal years. The information set forth below should be read in conjunction with the consolidated financial statements and notes and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” contained elsewhere in this Annual Report on Form 10-K.

	Year ended September 30,				
	2014	2013	2012	2011	2010
STATEMENT OF OPERATIONS DATA:					
Net sales	\$ 530,117	\$ 560,068	\$ 540,121	\$ 597,763	\$ 423,570
Cost of goods sold	341,202	363,559	343,769	365,684	257,316
Gross profit	188,915	196,509	196,352	232,079	166,254
Selling, general & administrative expenses	106,051	101,726	101,088	107,510	89,908
Research & development expenses	45,900	43,014	42,604	38,337	30,137
Amortization expense	2,906	2,553	2,279	2,569	2,250
Income from operations	34,058	49,216	50,381	83,663	43,959
Net interest expense (income)	234	54	(11)	(135)	375
Income before income taxes	36,680	49,155	52,392	87,143	45,901
Income tax expense	11,528	14,139	17,180	26,070	15,442
Net income attributable to RSTI	25,168	34,755	34,530	60,032	29,840
Earnings per common share					
attributable to RSTI– Basic	\$ 0.90	\$ 1.23	\$ 1.21	\$ 2.11	\$ 1.04
Earnings per common share					
attributable to RSTI– Diluted	\$ 0.89	\$ 1.22	\$ 1.20	\$ 2.06	\$ 1.02
Shares used in computing earnings					
per share – Basic	28,073	28,189	28,498	28,440	28,807
Shares used in computing earnings					
per share – Diluted	28,222	28,392	28,744	29,105	29,212
OPERATING DATA (as percentage of sales):					
Gross profit	35.6%	35.1%	36.4%	38.8%	39.3%
Selling, general & administrative expenses	20.0%	18.2%	18.7%	18.0%	21.2%
Research & development expenses	8.7%	7.7%	7.9%	6.4%	7.1%
Income from operations	6.4%	8.8%	9.3%	14.0%	10.4%
Income before income taxes	6.9%	8.8%	9.7%	14.6%	10.8%
BALANCE SHEET DATA:					
Working capital	\$ 374,022	\$ 372,778	\$ 318,827	\$ 333,328	\$ 287,443
Total assets	688,585	699,910	652,532	653,946	558,192
Line of credit and loans	14,766	18,622	22,545	22,863	20,661
Long-term debt	11,511	14,913	5,662	14,742	15,488
Total equity	538,709	543,418	493,919	478,617	417,476

## **ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **OVERVIEW**

ROFIN-SINAR Technologies is a leader in the design, development, engineering, manufacturing, and marketing of laser sources and laser-based system solutions for industrial material processing applications, which include primarily cutting, welding, and marking a wide range of materials. The Company's product portfolio ranges from single laser-beam sources to highly complex systems, covering all of the key laser technologies such as CO<sub>2</sub> lasers, fiber, solid-state, and diode lasers, and the entire power spectrum, from single-digit watts up to multi-kilowatts, as well as a comprehensive spectrum of wavelengths. An extensive range of laser components completes the product portfolio. Lasers are a non-contact technology for material processing, which have several advantages compared to conventional manufacturing tools that are desirable in industrial applications. The Company's lasers all deliver a high-quality beam at guaranteed power outputs and feature compact design, high processing speed, flexibility, low operating and maintenance costs, and easy integration into the customer's production process thus meeting a broad range of its customers' material processing requirements.

According to the Industrial Laser Solutions magazine's 2014 forecast for industry data published in January 2014, worldwide laser revenues for industrial applications (excluding lithography, inspection, measurement, research, medical, etc.) are expected to reach approximately \$2.5 billion. Based on this data, the Company estimates that it has currently a market share in the relevant industrial laser sector of approximately fourteen percent (based on laser-related sales volume). The Company has sold more than 71,000 laser sources since 1975 and currently has over 4,000 active customers (including multinational companies with multiple facilities purchasing from the Company). During fiscal 2014, 2013, and 2012, approximately 40%, 38%, and 38%, respectively, of the Company's revenues related to sales of laser products for macro applications, approximately 47%, 49%, and 50% respectively, related to sales of laser products for marking and micro applications, and approximately 13%, 13%, and 12%, respectively, related to sales of components.

Through its global manufacturing, distribution and service network, the Company provides a comprehensive range of laser sources and laser-based system solutions to the following principal target markets: the machine tool, automotive, semiconductor, electronics, and photovoltaic industries. The Company sells directly to end users and to original equipment manufacturers ("OEMs") that integrate ROFIN's laser sources with other system components. Many of ROFIN's customers are among the largest global participants in their respective industries. During fiscal 2014, 2013, and 2012, 19%, 20%, and 22%, respectively, of the Company's sales were in North America, 49%, 45%, and 44%, respectively, were in Europe, and 32%, 35%, and 34%, respectively, were in Asia.

The results of the fiscal year ended September 30, 2014, were characterized by a slow first half year with lower sales into Asia, especially China to the machine tool industry. The second half of fiscal year 2014 resulted in a recovery of the Asian markets, including China with an improved and stable business for CO<sub>2</sub> laser technology, while the opportunities in fiber laser business were still limited due to ongoing cost cutting measures. Sales increased in Europe while sales in North America and Asia decreased. The main contributing industries in fiscal year 2014 were the machine tool, automotive, medical device and consumer electronics industries.

### **Outlook**

The market for industrial laser material processing applications is growing. We believe that new technologies and new product introductions, with different technological setups, will create new market opportunities. While we anticipate the trend towards more fiber laser usage will continue, we expect that traditional laser technology, in many different variations, will maintain its market share due to special performance criteria. ROFIN will continue to introduce new products, such as high-power fiber lasers and ultrashort pulse lasers, for the use in new applications, such as brittle material cutting. We are making good progress in the cost-efficient production of the next generation high-power fiber lasers, which we will be introducing in calendar year 2015. We believe we are well-positioned for 2015 and beyond, as we begin the year with a solid backlog and we expect the launch of these next-generation products to significantly improve our market position and support future growth in revenue and profitability. However, the Company expects that the strengthening of the U.S. dollar, especially against the EURO, will have an unfavorable impact on reported revenues in fiscal year 2015. Due to the natural hedging of our business model, net income should be less affected by the average exchange rate resulting from the strong U.S. dollar.

## Acquisitions and Formation of New Entities

Effective April 12, 2010, the Company purchased the Electro Optics fiber optic gyroscope coil winding business of Optelecom-NKF, Inc., through its wholly-owned subsidiary Nufern. This purchase resulted in additional goodwill of \$0.3 million.

Effective October 15, 2010, the Company acquired 100% of the common stock of LASAG AG, Thun (Switzerland), through its wholly-owned subsidiary ROFIN-SINAR Technologies Europe S.L.U. ("RSTE"). Additionally, the Company acquired the LASAG sales and service operations in Germany, Italy, Japan, and the United States. LASAG is one of the original laser companies with 40 years of experience in the development and manufacturing of industrial solid-state lasers. LASAG markets and sells its laser products for fine cutting, spot welding, drilling, and scribing applications to the medical device, automotive, electronic, and aerospace industries. In addition, LASAG has special expertise in high-precision drilling and laser processing heads. This purchase resulted in goodwill of \$1.6 million and other intangibles, net of \$2.3 million.

Effective August 24, 2011, the Company formed ROFIN BAASEL Laser India Pvt. Ltd. in Mumbai (India) as a wholly-owned subsidiary through its wholly-owned subsidiaries ROFIN-SINAR Laser GmbH (99%) and ROFIN-BAASEL Lasertech GmbH & Co KG (1%). It started its operations in October 2011 and is responsible for sales and service of ROFIN laser products in India.

On each of October 26, 2011, and March 12, 2012, the Company purchased an additional 5% of the share capital, and on November 18, 2013, the Company purchases the remaining 10% of the shares capital of m2k-laser GmbH through ROFIN-SINAR Laser GmbH under an option agreement between the Company and the minority shareholders of m2k-laser GmbH. As a result of those share purchases, the Company currently holds 100% of the share capital of m2k-laser GmbH.

Effective March 28, 2007, the Company acquired 100% of the common stock of Corelase Oy, Tampere (Finland). Corelase Oy has considerable experience in semiconductors, optics, and fiber technology. Its product lines include ultrashort pulse, mode-locked fiber laser systems, fiber laser modules, and other components. The terms of the purchase included payment of a deferred purchase price based on Corelase Oy achieving certain financial targets. On December 14, 2011, the Company finalized and paid the deferred purchase price. This payment resulted in additional goodwill of \$13.4 million.

Effective September 29, 2011, the Company received the remaining 15% of the share capital of H2B Photonics GmbH ("H2B") through a transfer of shares and now holds 100% of the share capital. In May 2012, the Company merged its wholly-owned subsidiary PMB Elektronik GmbH with H2B and named the newly formed subsidiary PMB Elektronik GmbH.

Effective December 20, 2012, the Company acquired the remaining 20% of the common stock of ROFIN-BAASEL China Co., Ltd. through its wholly-owned subsidiary RSL. The Company currently holds 100% of the share capital of ROFIN-BAASEL China Co., Ltd.

Effective January 8, 2013, the Company acquired the remaining 20% of the common stock of Nanjing Eastern Technologies Company, Ltd. The Company currently holds 100% of the share capital of Nanjing Eastern Technologies Company, Ltd.

Effective December 20, 2013, the Company acquired the remaining 12% of the common stock of ROFIN-BAASEL Japan Corp. through its wholly-owned subsidiary ROFIN-SINAR Laser GmbH. The Company currently holds 100% of the share capital of ROFIN-BAASEL Japan Corp.

On April 10, 2014, the Company completed the acquisition of certain assets of FiLaser USA LLC. ("FiLaser") and subsidiaries. The transaction contains all intellectual property including trademarks, know-how, patents, and patent applications of FiLaser. FiLaser has developed advanced laser process technology used for precision cutting and drilling of brittle material including glass, sapphire, and semiconductor substrates.

Effective June 12, 2014, the Company acquired the remaining 5% of the common stock of DILAS Diodenlaser GmbH through its wholly-owned subsidiary ROFIN-SINAR Technologies Europe S.L.U. The Company currently holds 100% of the share capital of DILAS Diodenlaser GmbH.

## RESULTS OF OPERATIONS

For the periods indicated, the following table sets forth the percentage of net sales represented by the respective line items in the Company's consolidated statements of operations:

	Years ended September 30,		
	2014	2013	2012
Net sales	100.0%	100.0%	100.0%
Cost of goods sold	64.4%	64.9%	63.6%
Gross profit	35.6%	35.1%	36.4%
Selling, general and administrative expenses	20.0%	18.2%	18.7%
Research & development expenses	8.7%	7.7%	7.9%
Intangibles amortization	0.5%	0.5%	0.4%
Income from operations	6.4%	8.8%	9.3%
Income before income taxes	6.9%	8.8%	9.7%
Net income attributable to RSTI	4.7%	6.2%	6.4%

### Fiscal Year 2014 Compared to Fiscal Year 2013

Net Sales – Net sales of \$530.1 million represents a decrease of \$30.0 million, or 5%, over the prior year. Net sales decreased \$17.0 million, or 4%, in Europe/Asia and decreased \$12.9 million, or 11%, in North America, compared to the prior year. The U.S. dollar fluctuated against foreign currencies, which had a favorable effect on net sales of \$8.6 million. Net sales of laser products for macro applications decreased by 2% to \$209.6 million, primarily due to lower business with the machine tool industries and advanced applications which was partially offset by improved business from the automotive industry. Net sales of lasers for marking and micro applications decreased by 8% to \$250.2 million compared to fiscal year 2013. This was mainly due to lower demand for our lasers for micro and marking applications, principally from the electronics and photovoltaic industries, though this was partially offset by higher demand from the semiconductor and jewelry industries. Revenues for the component business decreased by 4% to \$70.3 million, primarily due to lower sales related to laser diode products and fiber-related components.

Gross Profit – The Company's gross profit of \$188.9 million represents a decrease of \$7.6 million, or 4%, from the prior year. As a percentage of sales, gross profit increased to 36% from 35% in prior year. The increased percentage margin in fiscal year 2014 was primarily a result of a favorable product mix and the continuing efforts of our manufacturing cost reduction program for high-power fiber lasers. Gross profit was favorably affected by \$1.2 million in fiscal year 2014 due to the fluctuation of the U.S. dollar against foreign currencies.

Selling, General and Administrative Expenses – Selling, general and administrative expenses increased by \$4.3 million, or 4%, to \$106.1 million, compared to fiscal year 2013, primarily as a result of one-time expenses associated with the expansion and modernization of production facilities as well as higher consulting fees and an increase in allowance for bad debts. As a percentage of net sales, selling, general and administrative expenses increased to 20% from 18% in prior year. Selling, general and administrative expenses were unfavorably affected by \$1.7 million due to the fluctuation of the U.S. dollar against foreign currencies in fiscal year 2014.

Research and Development – The Company's net expenses for research and development amounted to \$45.9 million, which represents an increase of \$2.9 million, or 7%, primarily due to a reduction of \$0.9 million in R&D grants and higher expenses related to the intellectual property associated with the newly acquired FiLaser technology. Gross research and development expenses for fiscal year 2014 and 2013, were \$47.5 million and \$45.4 million, respectively, and were reduced by \$1.6 million and \$2.4 million of government grants during the respective periods. The Company will continue to apply for, and expects to continue receiving, government grants towards research and development, principally in Europe. Research and development expenses were unfavorably affected by \$1.1 million due to the fluctuation of the U.S. dollar against foreign currencies in fiscal year 2014.

Other Income/Expenses – Net other income of \$2.6 million in fiscal year 2014 represents an increase of \$2.7 million compared with net other expenses of \$0.1 million in the prior year. This increase is a result of \$1.0 million due to the partial forgiveness of a loan with the State of Connecticut related to investments and creation of new jobs and net exchange gains of \$1.4 million in fiscal year 2014, compared to net exchange losses of \$0.5 million in fiscal year 2013, offset by \$0.2 million lower net interest income.

Income Tax Expense – Income tax expense of \$11.5 million in fiscal year 2014 and \$14.1 million in fiscal year 2013, represents effective tax rates of 31.4% and 28.8% for the respective periods. The higher effective income tax rate in fiscal year 2014 is

mainly a result of the generation of taxable income in countries with higher tax rates and because the research and development credit legislation has not been re-enacted in the U.S. Income tax expense, a significant portion of which is incurred in foreign currencies, was unfavorably affected by \$0.2 million due to the fluctuation of the U.S. dollar against foreign currencies.

Net Income Attributable to RSTI – As a result of the foregoing factors, net income attributable to RSTI of \$25.2 million (\$0.89 per diluted share, based on 28.2 million weighted average common shares outstanding) in fiscal year 2014 decreased by \$9.6 million over the prior year's net income attributable to RSTI of \$34.8 million (\$1.22 per diluted share, based on 28.4 million weighted average common shares outstanding). Net income attributable to RSTI was unfavorably affected by \$1.8 million in fiscal year 2014 due to the fluctuation of the U.S. dollar against foreign currencies.

### **Fiscal Year 2013 Compared to Fiscal Year 2012**

Net Sales – Net sales of \$560.1 million represents an increase of \$19.9 million, or 4%, over the prior year. Net sales increased \$22.9 million, or 5%, in Europe/Asia and decreased \$3.0 million, or 3%, in North America, compared to the prior year. The U.S. dollar fluctuated against foreign currencies, which had a favorable effect on net sales of \$0.6 million. Net sales of laser products for macro applications increased by 4% to \$214.6 million, primarily due to the higher demand for our fiber lasers and CO<sub>2</sub> lasers from OEM customers in the machine tool industry. Net sales of lasers for marking and micro applications rose by \$0.5 million to \$272.7 million, an increase of less than 1% compared to fiscal year 2012. This was due to higher demand for our lasers for micro and marking applications, principally from the electronics and smart card industries, though this was partially offset by lower demand from the semiconductor industry. Revenues for the component business increased by 16% to \$72.8 million, primarily due to higher sales related to laser diode products and fiber-related components.

Gross Profit – The Company's gross profit of \$196.5 million represents a slight increase of \$0.2 million, or less than 1%, over the prior year. As a percentage of sales, gross profit decreased to 35%. The decreased percentage margin in fiscal year 2013 was primarily a result of an unfavorable product mix towards a larger portion of fiber lasers, a decrease in our service and spare parts business, and higher fixed costs related to manufacturing and qualification of new components for our high-power fiber laser portfolio. Gross profit was unfavorably affected by \$0.5 million in fiscal year 2013 due to the fluctuation of the U.S. dollar against foreign currencies.

Selling, General and Administrative Expenses – Selling, general and administrative expenses increased by \$0.6 million, or 1%, to \$101.7 million, compared to fiscal year 2012, primarily as a result of higher labor cost and sales commissions. As a percentage of net sales, selling, general and administrative expenses decreased to 18%. Selling, general and administrative expenses were unfavorably affected by \$0.1 million due to the fluctuation of the U.S. dollar against foreign currencies in fiscal year 2013.

Research and Development – The Company's net expenses for research and development amounted to \$43.0 million, which represents an increase of \$0.4 million, or 1%, primarily due to the continuing activities to broaden our fiber laser and ultrashort pulse laser product portfolio. Gross research and development expenses for fiscal year 2013 and 2012 were \$45.4 million and \$44.2 million, respectively, and were reduced by \$2.4 million and \$1.6 million of government grants during the respective periods. The Company will continue to apply for, and expects to continue receiving, government grants towards research and development, principally in Europe. Research and development expenses were unfavorably affected by \$0.2 million due to the fluctuation of the U.S. dollar against foreign currencies in fiscal year 2013.

Other Income/Expense – Net other expenses of \$0.1 million in fiscal year 2013 represents a decrease of \$2.1 million compared with net other income of \$2.0 million in the prior year. This decrease is a result of net exchange losses of \$0.5 million in fiscal year 2013, compared to net exchange gains of \$1.4 million in fiscal year 2012, \$0.1 million lower net interest income, and a lower net miscellaneous income of \$0.2 million.

Income Tax Expense – Income tax expense of \$14.1 million in fiscal year 2013 and \$17.2 million in fiscal year 2012, represents effective tax rates of 28.8% and 32.8% for the respective periods. The lower effective income tax rate in fiscal year 2013 is mainly a result of the generation of taxable income in countries with lower tax rates and the utilization of research and development credits, mainly in the US. Income tax expense, a significant portion of which is incurred in foreign currencies, was not materially affected by the fluctuation of the U.S. dollar against foreign currencies.

Net Income Attributable to RSTI – As a result of the foregoing factors, net income attributable to RSTI of \$34.8 million (\$1.22 per diluted share, based on 28.4 million weighted average common shares outstanding) in fiscal year 2013 increased by \$0.3 million over the prior year's net income attributable to RSTI of \$34.5 million (\$1.20 per diluted share, based on 28.7 million

weighted average common shares outstanding). Net income attributable to RSTI was unfavorably affected by \$0.8 million in fiscal year 2013 due to the fluctuation of the U.S. dollar against foreign currencies.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Fiscal Year 2014**

The Company's primary sources of liquidity at September 30, 2014, were cash and cash equivalents of \$128.5 million, short-term investments of \$13.1 million, and short-term credit lines of \$65.0 million. As of September 30, 2014, \$1.6 million was outstanding under the short-term lines of credit and \$2.0 million was used for bank guarantees under these lines of credit, leaving \$61.4 million available for borrowing under short-term lines of credit. In addition, the Company maintained credit lines specific to bank guarantees for \$13.8 million, of which \$2.7 million was used. Therefore, \$72.5 million was unused and available under our short-term and bank guarantee lines of credit, in aggregate, at September 30, 2014. At September 30, 2014, the entire amount of our long-term lines of credit was fully drawn. The Company is subject to financial covenants under some of these facilities and lines of credit, which could restrict the Company from drawing money under them. At September 30, 2014, the Company was in compliance with these covenants.

Cash and cash equivalents decreased by \$5.2 million during fiscal year 2014. Approximately \$35.5 million in cash and cash equivalents were provided by operating activities, primarily as the result of the net income (\$25.2 million) plus other non cash items, principally depreciation and amortization (\$17.3 million) and stock-based compensation expense (\$4.3 million) and a decrease in other accounts receivable (\$2.9 million). Operating cash flow was negatively affected by a decrease in accrued liabilities and pension obligations (\$3.9 million) and an increase in trade accounts receivable (\$3.6 million).

Net cash used in investing activities totaled \$24.2 million for the year ended September 30, 2014, and was primarily related to various additions to property and equipment (\$10.4 million), the purchase of short-term investments (\$38.7 million) and acquisitions (\$5.9 million), partly offset by the sale of short-term investments (\$30.5 million).

Net cash used in financing activities totaled \$10.7 million for the year ended September 30, 2014, and was primarily related to payments to minority shareholders (\$4.9 million), the stock buyback program (\$6.2 million), and repayments of loans (\$41.7 million), partly offset by proceeds from the issuance of debt (\$39.7 million) and \$2.4 million generated through issuance of new shares from the exercise of stock options.

The Company expects that its capital expenditures will be approximately \$44 million in fiscal year 2015.

Management believes that cash flows from operations, along with existing cash and cash equivalents and availability under the credit facilities and lines of credit, will provide adequate resources to meet the Company's capital requirements and operational needs on both a current and a long-term basis.

As of September 30, 2014, \$118.9 million of the total \$142 million of cash, cash equivalents, and short-term investments, was held by our non-US subsidiaries, with the balance (\$22.8 million) held by our US subsidiaries. As of that date, of the \$14.8 million of the Company's indebtedness to banks, \$3.0 million was owed by our US subsidiaries, and \$11.8 million was owed by our non-US subsidiaries. We expect our existing domestic cash, cash equivalents, and short-term investments, together with cash flows from operations to be sufficient to fund our domestic operating activities. In addition, the US Company has \$20.0 million in available and unused lines of credit at September 30, 2014. Therefore, we do not intend, nor do we foresee a need, to repatriate foreign earnings that are considered to be indefinitely reinvested, and we do not believe there are any material implications for or restrictions on the liquidity of our domestic subsidiaries as a result of having a majority of our cash, cash equivalents, and short-term investments held by our foreign subsidiaries.

### **Fiscal Year 2013**

The Company's primary sources of liquidity at September 30, 2013, were cash and cash equivalents of \$133.7 million, short-term investments of \$3.2 million, and short-term credit lines of \$67.0 million. As of September 30, 2013, \$2.1 million was outstanding under the short-term lines of credit and \$1.5 million was used for bank guarantees under these lines of credit, leaving \$63.4 million available for borrowing under short-term lines of credit. In addition, the Company maintained credit lines specific to bank guarantees for \$21.2 million, of which \$7.7 million was used. Therefore, \$76.9 million was unused and available under our short-term and bank guarantee lines of credit, in aggregate, at September 30, 2013. At September 30, 2013,

the entire amount of our long-term lines of credit was fully drawn. The Company is subject to financial covenants under some of these facilities and lines of credit, which could restrict the Company from drawing money under them. At September 30, 2013, the Company was in compliance with these covenants.

Cash and cash equivalents increased by \$35.0 million during fiscal year 2013. Approximately \$57.0 million in cash and cash equivalents were provided by operating activities, primarily as the result of the net income (\$35.0 million) plus other non-cash items, principally depreciation and amortization (\$15.3 million) and a decrease in inventories (\$10.1 million). Operating cash flow was negatively affected by an increase in other accounts receivable (\$2.7 million) and by a decrease in accounts payable (\$2.2 million) and income tax payable (\$1.3 million).

Net cash used in investing activities totaled \$15.5 million for the year ended September 30, 2013, and was primarily related to various additions to property and equipment (\$16.2 million) and the purchase of short-term investments (\$6.3 million), partially offset by the sale of short-term investments (\$6.8 million).

Net cash used in financing activities totaled \$9.4 million for the year ended September 30, 2013, and was primarily related to payments to minority shareholders (\$4.3 million), the stock buyback program (\$4.1 million) and repayments of loans (\$24.9 million), partly offset borrowings from banks (\$20.9 million) and \$2.9 million generated through issuance of new shares from the exercise of stock options.

The Company expects that its capital expenditures will be approximately \$19 million in fiscal year 2014.

Management believes that cash flows from operations, along with existing cash and cash equivalents and availability under the credit facilities and lines of credit, will provide adequate resources to meet the Company's capital requirements and operational needs on both a current and a long-term basis.

As of September 30, 2013, \$114.2 million of the total \$137 million of cash, cash equivalents, and short-term investments, was held by our non-US subsidiaries, with the balance (\$22.8 million) held by our US subsidiaries. As of that date, of the \$18.6 million of the Group's indebtedness to banks, \$4.0 million was owed by our US subsidiaries, and \$14.6 million was owed by our non-US subsidiaries. We expect our existing domestic cash, cash equivalents, and short-term investments, together with cash flows from operations to be sufficient to fund our domestic operating activities. In addition, the US Company has \$20.0 million in available and unused lines of credit at September 30, 2013. Therefore, we do not intend, nor do we foresee a need, to repatriate foreign earnings that are considered to be indefinitely reinvested, and we do not believe there are any material implications for or restrictions on the liquidity of our domestic subsidiaries as a result of having a majority of our cash, cash equivalents, and short-term investments held by our foreign subsidiaries.

## **Fiscal Year 2012**

The Company's primary sources of liquidity at September 30, 2012, were cash and cash equivalents of \$98.8 million, short-term investments of \$2.4 million, short-term credit lines of \$72.9 million, and long-term credit lines of \$7.2 million. As of September 30, 2012, \$15.3 million was outstanding under the short-term lines of credit and \$1.6 million was used for bank guarantees under these lines of credit, leaving \$56.0 million available for borrowing under short-term lines of credit. In addition, the Company maintained credit lines specific to bank guarantees for \$15.1 million, of which \$6.7 million was used. Therefore, \$64.3 million was unused and available under our short-term and bank guarantee lines of credit, in aggregate, at September 30, 2012. At September 30, 2012, the entire amount of our long-term lines of credit was fully drawn. The Company is subject to financial covenants under some of these facilities and lines of credit, which could restrict the Company from drawing money under them. At September 30, 2012, the Company was in compliance with these covenants.

Cash and cash equivalents decreased by \$28.7 million during fiscal year 2012. Approximately \$22.0 million in cash and cash equivalents were provided by operating activities, primarily as the result of the net income (\$35.2 million) plus other non-cash items, principally depreciation and amortization (\$13.9 million) and a decrease in accounts receivable (\$7.6 million). Operating cash flow was negatively affected by the increase in inventories (\$18.2 million) and by a decrease in accrued liabilities and pension obligations (\$11.4 million) and income tax payable (\$6.2 million).

Net cash used in investing activities totaled \$39.4 million for the year ended September 30, 2012, and was primarily related to various additions to property and equipment (\$27.3 million), acquisitions (\$13.4 million), and purchase of short-term investments (\$8.7 million), partially offset by proceeds from the sale of short-term investments (\$9.8 million).

Net cash used in financing activities totaled \$9.5 million for the year ended September 30, 2012, and was primarily related to the stock buyback program (\$10.7 million) and repayments loans (\$10.5 million), partly offset by borrowings from banks (\$10.9 million).

The following table illustrates the Company's contractual obligations as of September 30, 2014:

Contractual Obligations	Payments due by period (in thousands)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long and short-term debt	\$ 14,766	\$ 3,255	\$ 8,627	\$ 1,540	\$ 1,344
Pension obligations	26,165	793	1,895	2,511	20,966
Operating lease obligations	30,629	9,827	11,506	4,010	5,286
Purchase obligations *	93,756	71,292	19,989	1,413	1,062
Interest obligation	579	171	271	71	66
Other short- and long-term obligations reflected on the registrant's Balance Sheet	5,792	1,045	1,969	725	2,053
<b>Total</b>	<b>\$ 171,687</b>	<b>\$ 86,383</b>	<b>\$ 44,257</b>	<b>\$ 10,270</b>	<b>\$ 30,777</b>

\* Purchase obligations include payments due under various types of agreements to purchase raw materials, services, or other goods.

Note – Uncertain tax benefit liabilities of \$0.8 million are not included in the Company's contractual obligation table, as the Company cannot make reasonable estimates about the timing of any required payments related to these liabilities.

### Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements or financing arrangements involving variable interest entities, except for the remaining unused credit lines amounting to \$72.5 million.

### CURRENCY EXCHANGE RATE FLUCTUATIONS

Although the Company prepares its consolidated financial statements in U.S. dollars, approximately 69% of its net sales are denominated in other currencies, primarily the Euro, Swedish krona, Swiss francs, British pound, Singapore dollar, Taiwanese dollar, Korean won, Japanese yen, Canadian dollar, Indian rupee, and Chinese RMB. Net sales and costs and related assets and liabilities are generally denominated in the functional currencies of the operations, thereby serving to reduce the Company's exposure to exchange gains and losses.

Exchange differences upon translation from each operation's functional currency to U.S. dollars are accumulated as a separate component of equity. The currency translation adjustment component of shareholders' equity had the effect of decreasing total equity by \$7.8 million at September 30, 2014, as compared to increasing total equity by \$17.1 million at September 30, 2013.

The fluctuation of the Euro and the other relevant functional currencies against the U.S. dollar has had the effect of increasing or decreasing (as applicable) reported net sales, as well as cost of goods sold, gross margin, selling, general and administrative expenses, and research and development expenses, denominated in such foreign currencies when translated into U.S. dollars as compared to prior periods.

The Company defines the term "constant currency" to mean that financial data for a period are translated into U.S. dollars using the same foreign currency exchange rates that were used to translate financial data for the previously reported period. Changes in sales, gross profit, and income from operations include the effect of fluctuations in foreign currency exchange rates. The Company's management reviews and analyzes business results on a constant currency basis and believes these results represent the Company's underlying business trends without distortion due to currency fluctuations. The Company believes that this "constant currency" financial information is a useful measure for investors because it reflects actual changes in operations.

The following chart compares our net sales, gross profit, and income from operations for each of fiscal years 2014, 2013, and 2012, to the equivalent financial results calculated on a “constant currency” basis. Because this “constant currency” financial information does not conform to Generally Accepted Accounting Principles, it is presented under the caption “Non-GAAP Constant Currency”:

	Fiscal Year 2014		Fiscal Year 2013		Fiscal Year 2012	
	GAAP Actual	Non-GAAP Constant Currency	GAAP Actual	Non-GAAP Constant Currency	GAAP Actual	Non-GAAP Constant Currency
	(in millions)					
Net sales	\$ 530.1	\$ 521.5	\$ 560.1	\$ 559.5	\$ 540.1	\$ 558.4
Gross profit	188.9	187.7	196.5	197.0	196.4	199.5
Income from operations	34.1	35.7	49.2	50.0	50.4	47.8

Between fiscal year 2013 and 2014, the average exchange rate for the Euro strengthened against the U.S. dollar by approximately 2.9%. The impact of this strengthening was to increase net sales and gross profit by \$8.6 million and \$1.2 million, respectively, because approximately 69% of fiscal year 2014 sales were denominated in other currencies, primarily the Euro. These exchange rate fluctuations had the effect of increasing operating expense by \$2.9 million, thereby decreasing income from operations by \$1.6 million.

Between fiscal year 2012 and 2013, the average exchange rate for the Euro strengthened against the U.S. dollar by approximately 0.6%. The impact of fluctuations in exchanges rates of foreign currencies against the U.S. dollar was to increase net sales by \$0.6 million and to decrease gross profit by \$0.5 million, because approximately 67% of fiscal year 2013 sales were denominated in other currencies, primarily the Euro. These exchange rate fluctuations had the effect of increasing operating expense by \$0.3 million, thereby decreasing income from operations by \$0.8 million.

Between fiscal year 2011 and 2012, the average exchange rate for the Euro weakened against the U.S. dollar by approximately 6.8%. The impact of this weakening was to decrease net sales and gross profit by \$18.3 million and \$3.1 million, respectively, because approximately 64% of sales were denominated in other currencies, primarily the Euro. This weakening of the Euro had the effect of decreasing operating expenses by \$5.7 million, thereby increasing income from operations only by \$2.6 million.

## CRITICAL ACCOUNTING POLICIES

The Company’s significant accounting policies are also described in Note 1 of the consolidated financial statements. Certain of the accounting policies require the application of significant judgment by management in selecting appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty.

### *Allowance for Doubtful Accounts*

The Company records allowances for uncollectible customer accounts receivable based on historical experience. Additionally, an allowance is made based on an assessment of specific customers’ financial condition and liquidity. If the financial condition of the Company’s customers were to deteriorate, additional allowances may be required. No individual customer represents more than 10% of total accounts receivable. Any increase in allowance will impact operating income during a given period.

### *Inventory Valuation*

Inventories are stated at the lower of cost or market, after provisions for excess and obsolete inventory salable at prices below cost. Provisions for slow moving and obsolete inventories are provided based on current assessments about historical experience and future product demand and production requirements for the next twelve months. We also write-down up to ninety percent of our total demo inventory costs over thirty six months. These factors are impacted by market conditions, technology changes, and changes in strategic direction, and require estimates and management judgment that may include elements that are uncertain. The Company evaluates the adequacy of these provisions quarterly. Although the Company strives to achieve a balance between market demands and risk of inventory excess or obsolescence, it is possible that, should

conditions change, additional provisions may be needed. Any changes in provisions will impact operating income during a given period.

### ***Warranty Reserves***

The Company provides reserves for the estimated costs of product warranties when revenue is recognized. The Company relies upon historical experience, expectations of future conditions, and its service data to estimate its warranty reserve. The Company continuously monitors these data to ensure that the reserve is sufficient. Warranty costs have historically been within our expectations. To the extent we experience increased warranty claim activity or increased costs associated with servicing those claims (such costs may include material, labor, and travel costs), revisions to the estimated warranty liability would be required. Increases in reserves will impact operating income during the period.

### ***Pension Obligations***

The determination of the Company's obligation and expense for pension is dependent on the selection of certain actuarial assumptions in calculating those amounts. Assumptions are made about interest rates, expected investment return on plan assets, total turnover rates, and rates of future compensation increases. In addition, the Company provides the actuarial consultants with subjective factors such as withdrawal rates and mortality rates to develop their calculations of these amounts. The Company generally reviews these assumptions at the beginning of each fiscal year. The Company is required to consider current market conditions, including changes in interest rates, in making these assumptions. The actuarial assumptions that the Company uses may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates, or longer or shorter life spans of participants. These differences may result in a significant impact on the amount of pension benefits expense the Company has recorded or may record.

Another key assumption in determining the net pension expense is the assumed discount rate to be used to discount plan obligations. The Company's U.S. plan uses a cash flow matching approach, which uses projected cash flows matched to spot rates along a high-quality corporate yield curve to determine the present value of cash flows to calculate a single equivalent discount rate. A lower discount rate increases the present value of benefit obligations and increases pension expense.

To determine the expected long-term rate of return on plan assets, the Company considers the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets.

### ***Income Taxes***

We estimate our income tax provision in each of the jurisdictions in which we operate, a process that includes estimating exposures related to examinations by taxing authorities. We must also make judgments regarding the ability to realize the deferred tax assets. The carrying value of our net deferred tax assets is based on our belief that it is more likely than not that we will generate sufficient future taxable income in certain jurisdictions to realize these deferred tax assets. A valuation allowance has been established for deferred tax assets that we do not believe meet the "more likely than not" criteria. We assess whether an uncertain tax position taken or expected to be taken in a tax return meets the threshold for recognition and measurement in the consolidated financial statements. Our judgments regarding future taxable income as well as tax positions taken or expected to be taken in a tax return may change due to changes in market conditions, changes in tax laws, or other factors. If our assumptions and consequently our estimates change in the future, the valuation allowances and/or tax reserves established may be increased or decreased, resulting in a respective increase or decrease in income tax expense.

### ***Share-Based Payment***

Stock-based compensation cost is measured at grant date, based on the fair value of the award, and is recognized as expense over the employee requisite vesting period. We make judgments about the fair value of the awards, including the expected term of the award, volatility of the underlying stock and estimated forfeitures, which impact the amount of compensation expense recognized in the financial statements. Such amounts may change as a result of additional grants, forfeitures, modifications in assumptions, and other factors. The income tax effects of share-based payments are recognized in the financial statements for those awards which will normally result in tax deductions under existing tax law. Under current U.S. federal tax laws, we receive a compensation expense deduction related to stock options only when those options are exercised and vested shares are received. Accordingly, the financial statement recognition of compensation cost for stock options creates a deductible temporary difference which results in a deferred tax asset and a corresponding deferred tax benefit in the statement of operations for all U.S.-based employees. Stock compensation expense related to non-U.S. employees is treated as a permanent difference for income tax purposes.

## **Recent Accounting Pronouncements Adopted**

In June 2011, the Financial Accounting Standards Board ("FASB") issued guidance requiring changes to the presentation of comprehensive income which requires entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. These changes, with retrospective application, became effective for the Company in fiscal year 2013. Other than the change in presentation to report comprehensive income as a separate but consecutive statement, these changes did not have an impact on the consolidated financial statements.

In September 2011, the FASB issued Accounting Standards Update ("ASU") 2011-08, "Testing Goodwill for Impairment". The amendments under ASU 2011-08 allow entities to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity is not required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that the reporting unit's fair value is less than its carrying amount. The amendments included a number of events and circumstances for entities to consider in conducting the qualitative assessment. Entities now have the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step quantitative goodwill impairment test. ASU 2011-08 was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 (fiscal year 2013 for the Company). Adoption of ASU 2011-08 did not have a material impact on the Company's financial statements.

In December 2011, the FASB issued ASU 2011-11, "Disclosures about Offsetting Assets and Liabilities". ASU 2011-11 amended guidance on balance sheet presentation, to converge the presentation of offsetting assets and liabilities between U.S. GAAP and IFRS. ASU 2011-11 requires that entities disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. In January 2013, the FASB issued ASU 2013-01 which limited the scope of this guidance to derivatives, repurchase type agreements, and securities borrowing and lending transactions. The guidance from these updates became effective for the Company in fiscal year 2014. Adoption of this guidance did not have an impact on the Company's financial statements.

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". ASU 2013-02 requires reclassification adjustments for items that are reclassified from accumulated other comprehensive income to net income be presented on the financial statements or in a note to the financial statements. The new disclosure requirements are effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. As such, ASU 2013-02 became effective October 1, 2013, for the Company and is applied prospectively. The adoption of this updated authoritative guidance resulted in an additional footnote disclosure but had no effect on our financial condition, results of operations, or cash flows.

## **Recent Accounting Pronouncements Not Yet Adopted as of September 30, 2014**

In March 2013, the FASB amended guidance related to a parent company's accounting for the release of the cumulative translation adjustment into net income upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. This guidance is effective for fiscal periods beginning after December 15, 2013, and is to be applied prospectively to derecognition events occurring after the effective date. The Company does not anticipate that the adoption of this amendment will have a material impact on its financial statements.

In July 2013, the FASB issued ASU 2013-10, "Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes". The update permits the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to the interest rates on direct Treasury obligations of the U.S. government (UST) and the London Interbank Offered Rate (LIBOR). The update also removed the restriction on using different benchmark rates for similar hedges. ASU 2013-10 has no effect on the financial statements as of September 30, 2013, but will be applicable to any hedging activity the Company enters into after July 17, 2013.

In July 2013, the FASB issued guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Under this guidance an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax

position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. These amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not believe the adoption will have a significant impact on the Company's consolidated financial statements.

In May 2014, the FASB issued guidance on revenue from contracts with customers, which implements a five step process of how an entity should recognize revenue in order to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for the Company as of October 1, 2017, and early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are currently evaluating the impact that the adoption will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

Other accounting standards that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's financial statements upon adoption.

## **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The following discussion about the Company's market risk disclosures involves forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements. The Company is exposed to market risk related to changes in interest rates and foreign currency exchange rates. The Company does not use derivative financial instruments for trading purposes.

### **Interest Rate Sensitivity**

As of September 30, 2014, the Company maintained cash equivalents and short-term investments of \$141.7 million, consisting mainly of non-taxable interest bearing securities and demand deposits all with maturities of less than one year. If short-term interest rates were to increase or decrease by 10%, the impact on interest income would be less than \$0.1 million.

As of September 30, 2014, the Company had \$0.8 million of variable rate debt on which the interest rate is reset every three months, \$3.1 million of variable rate debt on which the interest rate is reset every six months, \$1.6 million of variable rate debt on which the interest rate is reset every twelve months, and \$9.3 million of fixed rate debt. Maturities of this debt are as follows: \$3.3 million is due in 2015, \$4.0 million is due in 2016, \$4.6 million is due in 2017, \$1.2 million is due in 2018, \$0.4 million is due annually from 2019 through 2022, and \$0.2 million is due in 2023. A 10% change in the variable interest rates of the Company's debt would result in an increase or decrease in interest expense of less than \$0.1 million.

The Company has entered into two interest rate swap agreements to minimize the interest expenses on a portion of its variable debt described in the previous paragraph by shifting from variable to fixed interest rates. One swap agreement is for a total notional amount of Euro 0.6 million (equivalent to \$0.8 million based on the exchange rate at September 30, 2014) and the other is for a total notional amount of Swiss francs 3.0 million (equivalent to \$3.1 million based on the exchange rate at September 30, 2014).

### **Foreign Currency Exchange Risk**

The Company enters into foreign currency forward contracts and forward exchange options generally of less than one year duration to hedge a portion of its foreign currency risk on sales transactions. At September 30, 2014, the Company held Japanese yen forward exchange contracts with notional amounts of Euro 1.7 million. The gains or losses resulting from a 10% change in currency exchange rates would be approximately \$0.2 million and \$0.3 million, respectively.

## **ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

See Item 15(a) for an index to the consolidated financial statements, which are incorporated here by reference.

## **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

## **ITEM 9A. CONTROLS AND PROCEDURES**

Attached as exhibits to this Form 10-K are certifications of the Company's Chief Executive Officer and Chief Financial Officer, which are required in accordance with Rule 13a-14 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). This "Controls and Procedures" section includes information concerning the controls and controls evaluation referred to in the certifications. Part IV, Item 15 of this Form 10-K, sets forth the report of Deloitte & Touche LLP, our independent registered public accounting firm, regarding its audit of the Company's internal control over financial reporting set forth below in this section. This section should be read in conjunction with the certifications and the Deloitte & Touche LLP report for a more complete understanding of the topics presented.

### **Evaluation of Disclosure Controls and Procedures**

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act). Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of September 30, 2014.

There has been no change in the Company's internal control over financial reporting during the fourth quarter of the fiscal year ended September 30, 2014, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### **Management Report on Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting to provide reasonable assurance regarding the reliability of the Company's financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles. Internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records, that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with Generally Accepted Accounting Principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management assessed the Company's internal control over financial reporting as of September 30, 2014, the end of its fiscal year. Management based its assessment on criteria established in "Internal Control - Integrated Framework" (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management's assessment included evaluation of such elements as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and the Company's overall control environment. This assessment is supported by testing and monitoring performed by the Company's Internal Audit organization.

Based on its assessment, management has concluded that the Company's internal control over financial reporting was effective as of the end of the fiscal year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with Generally Accepted Accounting Principles. Management reviewed the results of its assessment with the Audit Committee of the Company's Board of Directors.

The Company's independent registered public accounting firm, Deloitte & Touche LLP, independently assessed the effectiveness of the Company's internal control over financial reporting. Deloitte & Touche LLP has issued an attestation report

concurring with management's assessment, which is included at the beginning of Part IV, Item 15 of this Annual Report on Form 10-K.

The Company's management does not expect that the internal controls over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Due to the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues, errors and instances of fraud, if any, within the Company have been or will be detected.

**ITEM 9B. OTHER INFORMATION**

None.

**PART III**

**ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required by this item is included in the "Election of Directors", "Directors and Executive Officers", "Section 16(a) Beneficial Ownership Reporting Compliance", and "Committees of the Board of Directors; Meetings and Compensation of Directors", sections of the Company's Proxy Statement to be filed in connection with the Company's 2015 Annual Meeting of Stockholders to be held in March 2015, and is incorporated by reference herein.

**ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is included in the "Executive Compensation and Related Information" section of the Company's Proxy Statement to be filed in connection with the Company's 2015 Annual Meeting of Stockholders to be held in March 2015, and is incorporated by reference herein.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

The following table sets forth the number of securities authorized for issuance under our equity compensation plans at September 30, 2014:

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders:			
2002 Equity Incentive Plan	987,700	28 1/2	—
2007 Incentive Stock Plan	2,122,150 *	25 1/5	360,500
Total equity compensation plans approved by security holders	3,109,850	27 1/10	360,500
Equity compensation plans not approved by security holders	—	—	—
Total	3,109,850	27 1/10	360,500

\* Does not include 84,000 shares that were issued as the annual grants of shares of common stock to outside Board of Directors.

The following table presents information regarding the beneficial ownership of our common stock by each person known to us to beneficially own more than 5% of our outstanding shares of common stock as of November 26, 2014.

Name and address of Beneficial Owner	Amount Beneficially Owned	Percent of Class Beneficially Owned
National Rural Electric Cooperative Association 4301 Wilson Boulevard Arlington, VA 22203 (1)	1,458,799	5.20%
Third Avenue Management LLC 622 Third Avenue 32nd Floor New York, NY 10017 (2)	1,701,340	6.07%
First Eagle Investment Management, LLC 1345 Avenue of the Americas New York, NY 10105 (3)	1,906,810	6.8%
Franklin Resources, Inc. Charles B. Johnson Rupert H. Johnson, Jr. One Franklin Parkway San Mateo, CA 94403-1906		
Franklin Advisory Services, LLC One Parker Plaza Ninth Floor Fort Lee, NJ 07024-2938 (4)	2,333,864	8.32%
The Vanguard Group 100 Vanguard Boulevard Malvern, PA 19355 (5)	1,718,408	6.13%
Royce & Associates, LLC 745 Fifth Avenue New York, NY 10151 (6)	2,162,782	7.71%
Blackrock, Inc. 40 East 52nd Street New York, NY 10022 (7)	2,867,582	10.22%

- (1) This information is based solely on a Schedule 13G, filed with the SEC on February 14, 2014, signed by Peter R. Morris.
- (2) This information is based solely on a Schedule 13G, filed with the SEC on February 14, 2014. Third Avenue Management LLC reported aggregate beneficial ownership of 1,701,340 shares, with sole voting power of 1,697,262 shares and sole dispositive power of 1,701,340 shares.
- (3) This information is based solely on a Schedule 13G/A, filed with the SEC on February 14, 2014, signed by Mark Goldstein.
- (4) This information is based solely on a Schedule 13G/A, filed with the SEC on February 12, 2014.
- (5) This information is based solely on a Schedule 13G/A, filed with the SEC on February 12, 2014. The Vanguard Group reported aggregate beneficial ownership of 1,718,408; sole voting power of 45,366; sole dispositive power of 1,674,642; and shared dispositive power of 43,766.
- (6) This information is based solely on a Schedule 13G/A, filed with the SEC on January 13, 2014.
- (7) This information is based solely on a Schedule 13G/A, filed with the SEC on January 10, 2014. Blackrock, Inc. reported aggregate beneficial ownership of 2,867,582; sole voting power of 2,756,483; and sole dispositive power of 2,867,582.

The remaining information required by this item is included in the "Security Ownership of Certain Beneficial Owners" and "Management" sections of the Company's Proxy Statement to be filed in connection with the Company's 2015 Annual Meeting of Stockholders to be held in March 2015, and is incorporated by reference herein.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required by this item is included in the "Compensation Committee", "Compensation Committee Interlocks and Insider Participation", and "Certain Relationships and Related Transactions" sections of the Company's Proxy Statement to be filed in connection with the Company's 2015 Annual Meeting of Stockholders to be held in March 2015, and is incorporated by reference herein.

The main facility in Starnberg is rented under a 25-year operating lease from the former minority shareholder of ROFIN-BAASEL Lasertech GmbH & Co. KG ("CBL"), Mr. Baasel, who is also a member of the Board of Directors of the Company, and includes a clause to terminate the lease contract upon two-year notice. The Company paid expenses, mainly for rental expenses, \$0.9 million to Mr. Baasel during fiscal year 2014, and \$0.8 million during fiscal years 2013 and 2012.

The Company believes that all transactions noted above have been executed on an arms-length basis. Except for the foregoing, no director, officer, nominee director, 5% holder of the Company's shares, or immediate family member, associate or affiliate thereof, had any material interest, direct or indirect, in any transaction since the beginning of fiscal year 2014 or has any material interest, direct or indirect, in any proposed transaction, having a value of \$60,000 or more.

**Indebtedness of Officers and Directors**

Since the beginning of fiscal year 2004, there has been no indebtedness to the Company by any director or officer or associates of any such person, other than reimbursements for purchases, for ordinary travel and expense advances and for other transactions in the ordinary course of business.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information set forth under "Independent Public Accountants" in the definitive form of the Company's Proxy Statement to be filed in connection with the Company's 2014 Annual Meeting of Stockholders to be held in March 2015, is incorporated by reference herein.

## PART IV

### ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- a. 1 Consolidated Financial Statements
- The following financial statements are filed as part of this Form 10-K:
- |   |     |
|---|-----|
| Report of Independent Registered Public Accounting Firm   | F-1 |
| Consolidated Balance Sheets as of September 30, 2014, and 2013  | F-2 |
| Consolidated Statements of Operations for the years ended<br>September 30, 2014, 2013, and 2012           | F-4 |
| Consolidated Statements of Comprehensive Income for the years ended<br>September 30, 2014, 2013, and 2012 | F-5 |
| Consolidated Statements of Stockholders' Equity for the years ended<br>September 30, 2014, 2013, and 2012 | F-6 |
| Consolidated Statements of Cash Flows for the years ended<br>September 30, 2014, 2013, and 2012           | F-7 |
| Notes to Consolidated Financial Statements  | F-8 |
- 2 Financial Statement Schedules
- |   |      |
|---|------|
| Schedule II – Valuation and Qualifying Accounts | F-32 |
|---|------|
- Schedules not listed above have been omitted because the matter or conditions are not present or the information required to be set forth therein is included in the Consolidated Financial Statements hereto.
- 3 Exhibits
- The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this Annual Report.

EXHIBIT  
NUMBER

DESCRIPTION

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- 3.1 Certificate of Incorporation of the Company and Form of Certificate of Amendment thereto (\*)
- 3.2 By-Laws of the Company, As Amended Through November 29, 2011 (\*\*\*\*\*)
- 4.1 Form of Rights Agreement (\*)
- 10.1 Inheritable Building Right (Erbbaurecht), dated as of March 1, 1990, between ROFIN-SINAR Laser GmbH and Lohss GmbH (in German, English summary provided) (\*)
- 10.2 Lease Agreement, dated August 10, 1990, between Josef and Maria Kranz and ROFIN-SINAR Laser GmbH (in German, English summary provided) (\*)
- 10.3 Lease Agreement, dated March 25, 1993, between DR Group and ROFIN-SINAR, Incorporated (Concept Drive property) (\*)
- 10.4 ROFIN-SINAR Laser GmbH Pension Plan (in German, English summary provided) (\*) (a)
- 10.5 Deutsche Bank AG Commitment Letter dated August 22, 1996 (\*)
- 10.6 Form of Employment Agreement, dated as of September 2, 1996, among Peter Wirth, ROFIN-SINAR Laser GmbH, and ROFIN-SINAR Technologies Inc. (in German, English summary provided) (a)
- 10.7 Form of Employment Agreement, dated as of September 2, 1996, among Gunther Braun, ROFIN-SINAR Laser GmbH, and ROFIN-SINAR Technologies Inc. (in German, English summary provided) (\*) (a)
- 10.8 Lease Agreement between Carl Baasel and ROFIN-SINAR Laser GmbH (\*\*)
- 10.9 2002 Equity Incentive Plan (\*\*\*\*) (a)
- 10.10 2007 Incentive Stock Plan (\*\*\*\*\*) (a)
- 14.1 Code of Business Ethics (\*\*\*\*)
- 21.1 List of Subsidiaries of the Registrant
- 23.1 Consent of Deloitte & Touche, LLP Independent Registered Public Accounting Firm
- 31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
- 31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
- 32.1 Section 1350 Certification of Chief Executive Officer
- 32.2 Section 1350 Certification of Chief Financial Officer

EXHIBIT NUMBER	DESCRIPTION
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
(*)	Incorporated by reference to the exhibits filed with the Company's Registration Statement on Form S-1 (File No. 333-09539) which was declared effective on September 25, 1996.
(**)	Incorporated by reference to the exhibit filed with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 24, 2000.
(****)	Incorporated by reference to the exhibit filed with the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on December 23, 2003.
(*****)	Incorporated by reference to the exhibit filed with the Company's Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on January 30, 2004.
(*****)	Incorporated by reference to the exhibit filed with the Company's Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on January 25, 2007, and as amended by the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2011.
(*****)	Incorporated by reference to the exhibit filed with the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 29, 2011.
(a)	Management contracts and compensatory plans and arrangements required to be filed as exhibits pursuant to Item 15(c) of this Report.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 26, 2014

ROFIN-SINAR TECHNOLOGIES INC.

By: /s/ Günther Braun

Günther Braun

President, Chief Executive Officer, and Director

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ Peter Wirth</u> Peter Wirth	Chairman of the Board	November 26, 2014
<u>/s/ Günther Braun</u> Günther Braun	President, Chief Executive Officer, and Director	November 26, 2014
<u>/s/ Ingrid Mittelstaedt</u> Ingrid Mittelstaedt	Chief Financial Officer	November 26, 2014
<u>/s/ Ralph Reins</u> Ralph Reins	Director	November 26, 2014
<u>/s/ Gary Willis</u> Gary Willis	Director	November 26, 2014
<u>/s/ Carl F. Baasel</u> Carl F. Baasel	Director	November 26, 2014
<u>/s/ Daniel Smoke</u> Daniel Smoke	Director	November 26, 2014
<u>/s/ Stephen Fantone</u> Stephen Fantone	Director	November 26, 2014

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of  
ROFIN-SINAR Technologies Inc. and Subsidiaries

Plymouth, Michigan

We have audited the accompanying consolidated balance sheets of ROFIN-SINAR Technologies Inc. and subsidiaries (the "Company") as of September 30, 2014 and 2013, and the related consolidated statements of operations, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended September 30, 2014. Our audits also included the financial statement schedule listed in the Index at Item 15 (the "financial statement schedule"). We also have audited the Company's internal control over financial reporting as of September 30, 2014, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on these financial statements and financial statement schedule and an opinion on the Company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of ROFIN-SINAR Technologies Inc. and subsidiaries as of September 30, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of September 30, 2014, based on the criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

/s/ Deloitte & Touche LLP

Detroit, MI

December 1, 2014

**ROFIN-SINAR TECHNOLOGIES INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(dollars in thousands, except share data)

	September 30,	
	2014	2013
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 128,537	\$ 133,733
Short-term investments	13,121	3,244
Accounts receivable, trade	111,364	114,088
Less allowance for doubtful accounts	(3,338)	(3,423)
Trade accounts receivable, net	108,026	110,665
Accounts receivable from related party (note 15)	—	5
Other accounts receivable	4,885	7,893
Inventories, net (note 3)	190,321	198,460
Prepaid expenses	5,449	4,474
Deferred income tax assets (note 10)	23,536	22,818
Total current assets	473,875	481,292
Long-term investments (note 2)	—	1,900
Property and equipment, at cost (note 4)	180,746	180,397
Less accumulated depreciation	(101,043)	(93,485)
Property and equipment, net	79,703	86,912
Deferred income tax assets (note 10)	16,890	13,446
Goodwill (note 5)	100,355	104,404
Intangibles, net (note 5)	15,712	10,674
Other assets	2,050	1,282
Total assets	<u>\$ 688,585</u>	<u>\$ 699,910</u>
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Line of credit and short-term borrowings (note 7 and 8)	\$ 3,255	\$ 3,709
Accounts payable, trade	22,702	24,596
Accounts payable to related party (note 15)	443	331
Income taxes payable (note 10)	5,872	5,290
Deferred income tax liabilities (note 10)	4,437	4,651
Accrued liabilities (note 6)	63,144	69,937
Total current liabilities	99,853	108,514
Long-term debt (note 8)	11,511	14,913
Pension obligations (note 11)	25,692	24,070
Deferred income tax liabilities (note 10)	7,303	5,040
Other long-term liabilities	5,517	3,955
Total liabilities	149,876	156,492
Commitments and contingencies (note 9)		

Stockholders' equity:

Preferred stock, 5,000,000 shares authorized, none issued or outstanding	—	—
Common stock, \$0.01 par value, 50,000,000 shares authorized, 32,884,000 shares issued at September 30, 2014 (32,725,950 shares issued at September 30, 2013)	329	327
Additional paid-in capital	232,832	228,124
Retained earnings	487,976	462,808
Accumulated other comprehensive income (loss)	(14,072)	11,533
Treasury shares, at cost, 4,871,884 shares at September 30, 2014 (4,601,681 at September 30, 2013)	(169,262)	(163,026)
Total ROFIN-SINAR Technologies Inc. stockholders' equity	537,803	539,766
Noncontrolling interest in subsidiaries	906	3,652
Total equity	538,709	543,418
Total liabilities and equity	\$ 688,585	\$ 699,910

See accompanying notes to consolidated financial statements

**ROFIN-SINAR TECHNOLOGIES INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**YEARS ENDED SEPTEMBER 30, 2014, 2013, AND 2012**  
**(dollars in thousands, except share and per share amounts)**

	Years ended September 30,		
	2014	2013	2012
Net sales	\$ 530,117	\$ 560,068	\$ 540,121
Cost of goods sold	341,202	363,559	343,769
Gross profit	<u>188,915</u>	<u>196,509</u>	<u>196,352</u>
Selling, general and administrative expenses	106,051	101,726	101,088
Research and development expenses	45,900	43,014	42,604
Amortization expense	2,906	2,553	2,279
Income from operations	<u>34,058</u>	<u>49,216</u>	<u>50,381</u>
Other expense (income):			
Interest income	(485)	(541)	(692)
Interest expense	719	595	681
Foreign currency losses (gains)	(1,425)	452	(1,358)
Miscellaneous	(1,431)	(445)	(642)
Total other expense (income), net	<u>(2,622)</u>	<u>61</u>	<u>(2,011)</u>
Income before income taxes	36,680	49,155	52,392
Income tax expense (note 10)	11,528	14,139	17,180
Net income	<u>25,152</u>	<u>35,016</u>	<u>35,212</u>
Less: net income (loss) attributable to the noncontrolling interest	(16)	261	682
Net income attributable to RSTI	<u>\$ 25,168</u>	<u>\$ 34,755</u>	<u>\$ 34,530</u>
Net income attributable to RSTI per share (note 12):			
Per Share of Common Stock Basic	\$ 0.90	\$ 1.23	\$ 1.21
Per Share of Common Stock Diluted	<u>\$ 0.89</u>	<u>\$ 1.22</u>	<u>\$ 1.20</u>
Weighted average shares used in computing earnings per share (note 12):			
Basic	28,073,081	28,188,849	28,498,395
Diluted	<u>28,222,191</u>	<u>28,391,762</u>	<u>28,744,267</u>

See accompanying notes to consolidated financial statements

**ROFIN-SINAR TECHNOLOGIES INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**YEARS ENDED SEPTEMBER 30, 2014, 2013, AND 2012**  
**(dollars in thousands)**

	Years ended September 30,		
	2014	2013	2012
Net income	\$ 25,152	\$ 35,016	\$ 35,212
Other comprehensive income (loss):			
Fair value of interest rate swap agreements, net of tax expense of \$15 and \$25 and tax benefits of \$5	47	80	(9)
Foreign currency translation adjustments	(24,850)	14,830	(11,133)
Defined benefit pension plans, net of tax benefit of \$391 and tax expense of \$619 and tax benefit \$1,679 (note 11)	(802)	859	(3,540)
Other comprehensive income (loss), net of tax	<u>\$ (25,605)</u>	<u>\$ 15,769</u>	<u>\$ (14,682)</u>
Total comprehensive income (loss)	<u>\$ (453)</u>	<u>\$ 50,785</u>	<u>\$ 20,530</u>
Less: Total comprehensive income (loss) attributable to the noncontrolling interest	(16)	261	682
Total comprehensive income (loss) attributable to RSTI	<u><u>\$ (437)</u></u>	<u><u>\$ 50,524</u></u>	<u><u>\$ 19,848</u></u>

See accompanying notes to consolidated financial statements

**ROFIN-SINAR TECHNOLOGIES INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**YEARS ENDED SEPTEMBER 30, 2014, 2013, AND 2012**  
**(dollars in thousands, except share data)**

	Number of Common Shares Outstanding	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	ROFIN- SINAR Technologies Stockholder s' Equity	Non- Controlli ng Interests	Total Equity
BALANCES at September 30, 2011	28,486,759	\$ 324	\$ 217,896	\$ 393,523	\$ 10,446	\$ (148,232)	\$ 473,957	4,660	\$ 478,617
Total comprehensive income (loss)				34,530	(14,682)		19,848	682	20,530
Common stock issued in connection with Stock Incentive Plans	91,400	1	5,443	—	—	—	5,444	—	5,444
Purchases of treasury stock	(505,195)	—	—	—	—	(10,672)	(10,672)	—	(10,672)
BALANCES at September 30, 2012	<u>28,072,964</u>	<u>\$ 325</u>	<u>\$ 223,339</u>	<u>\$ 428,053</u>	<u>\$ (4,236)</u>	<u>\$ (158,904)</u>	<u>\$ 488,577</u>	<u>\$ 5,342</u>	<u>\$ 493,919</u>
Total comprehensive income (loss)				34,755	15,769	—	50,524	261	50,785
Purchase of non-controlling interest	—	—	(2,332)	—	—	—	(2,332)	(1,951)	(4,283)
Common stock issued in connection with Stock Incentive Plans	230,450	2	7,117	—	—	—	7,119	—	7,119
Purchases of treasury stock	(179,145)	—	—	—	—	(4,122)	(4,122)	—	(4,122)
BALANCES at September 30, 2013	<u>28,124,269</u>	<u>\$ 327</u>	<u>\$ 228,124</u>	<u>\$ 462,808</u>	<u>\$ 11,533</u>	<u>\$ (163,026)</u>	<u>\$ 539,766</u>	<u>\$ 3,652</u>	<u>\$ 543,418</u>
Total comprehensive income (loss)				25,168	(25,605)	—	(437)	(16)	(453)
Purchase of non-controlling interest	—	—	(2,302)	—	—	—	(2,302)	(2,730)	(5,032)
Common stock issued in connection with Stock Incentive Plans	158,050	2	7,010	—	—	—	7,012	—	7,012
Purchases of treasury stock	(270,203)	—	—	—	—	(6,236)	(6,236)	—	(6,236)
BALANCES at September 30, 2014	<u>28,012,116</u>	<u>\$ 329</u>	<u>\$ 232,832</u>	<u>\$ 487,976</u>	<u>\$ (14,072)</u>	<u>\$ (169,262)</u>	<u>\$ 537,803</u>	<u>\$ 906</u>	<u>\$ 538,709</u>

See accompanying notes to consolidated financial statements

**ROFIN-SINAR TECHNOLOGIES INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED SEPTEMBER 30, 2014, 2013, AND 2012**  
**(dollars in thousands)**

	Years ended September 30,		
	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 25,152	\$ 35,016	\$ 35,212
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	17,312	15,318	13,924
Issuance of restricted stock	292	245	222
Provision for doubtful accounts	889	156	1,176
Exchange rate (gains) losses	(837)	540	(1,356)
Loss (gains) on disposal of property and equipment	(55)	398	151
Stock-based compensation expenses	4,282	3,929	4,466
Deferred income taxes	(2,178)	(2,542)	(1,744)
Other non-cash income	(1,000)	—	—
Change in operating assets and liabilities:			
Accounts receivable, trade	(3,560)	(469)	7,594
Other accounts receivable	2,866	(2,698)	120
Inventories	(1,972)	10,068	(18,172)
Prepaid expenses and other	(2,316)	1,582	(1,958)
Accounts payable	(653)	(2,247)	(94)
Income taxes payable	1,221	(1,320)	(6,185)
Accrued liabilities and pension obligations	(3,899)	(952)	(11,380)
Net cash provided by operating activities	<u>35,544</u>	<u>57,024</u>	<u>21,976</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Additions to property and equipment	(10,389)	(16,168)	(27,283)
Proceeds from the sale of property and equipment	231	128	173
Purchases of short-term investments	(38,671)	(6,253)	(8,707)
Proceeds from the sale of short-term and long-term investments	30,499	6,771	9,841
Acquisitions	(5,891)	—	(13,413)
Net cash used in investing activities	<u>(24,221)</u>	<u>(15,522)</u>	<u>(39,389)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from the issuance of debt	39,726	20,878	10,949
Repayments to bank	(41,677)	(24,869)	(10,483)
Purchase of treasury stock	(6,236)	(4,122)	(10,672)
Issuance of common stock	2,389	2,945	460
Excess tax benefit from stock options	48	2	295
Payments to subsidiary's minority shareholders	(4,911)	(4,262)	—
Net cash used in financing activities	<u>(10,661)</u>	<u>(9,428)</u>	<u>(9,451)</u>
Effect of foreign currency translation on cash	(5,858)	2,924	(1,813)
Net increase (decrease) in cash and cash equivalents	(5,196)	34,998	(28,677)
Cash and cash equivalents at beginning of year	133,733	98,735	127,412
Cash and cash equivalents at end of year	<u>\$ 128,537</u>	<u>\$ 133,733</u>	<u>\$ 98,735</u>
Cash paid during the year for interest	<u>\$ 355</u>	<u>\$ 614</u>	<u>\$ 714</u>
Cash paid during the year for income taxes	<u>\$ 10,716</u>	<u>\$ 21,560</u>	<u>\$ 24,812</u>

See accompanying notes to consolidated financial statements

**ROFIN-SINAR TECHNOLOGIES INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**September 30, 2014, 2013, and 2012**  
**(dollars in thousands, except per share amounts)**

1. SUMMARY OF ACCOUNTING POLICIES

**Description of the Company and Business**

The primary business of ROFIN-SINAR Technologies Inc. (“ROFIN” or “RSTI” or “the Company”) is to develop, manufacture, and market industrial lasers and supplies used for material processing applications. The majority of the Company’s customers are in the machine tool, automotive, semiconductor, and electronics industries and are located in the United States, Europe, and Asia. For the years ended September 30, 2014, 2013, and 2012, ROFIN generated approximately 58% , 61% , and 61% , respectively, of its revenues from the sale of lasers and laser systems. For the years ended September 30, 2014, 2013, and 2012, approximately 42%, 39%, and 39%, respectively, of its revenues were generated from sales of after-sales services, replacement parts, and components for laser products.

The accompanying financial statements present the historical financial information of ROFIN-SINAR Technologies Inc., its wholly-owned subsidiaries ROFIN-SINAR, Inc. (“RS Inc.”), PRC Laser Corp. (“PRC”), Lee Laser, Inc. (“Lee”), ROFIN-BAASEL Canada Ltd., DILAS Diode Laser, Inc., Corelase Oy, Nufern, ROFIN-SINAR Technologies Europe S.L.U. (“RSTE”), Nanjing Eastern Technologies Company, Ltd. (“NETC”) and its 80%-owned subsidiaries Nanjing Eastern Laser Company, Ltd. (“NELC”). RSTE, a European holding company, includes the consolidated accounts of its wholly-owned subsidiaries ROFIN-SINAR Laser GmbH (“RSL”), DILAS Diodenlaser GmbH (“DILAS”), ROFIN-BAASEL Italiana S.r.l., ROFIN-BAASEL France SAS, ROFIN-SINAR UK Ltd., ROFIN-BAASEL UK Ltd., ROFIN-BAASEL Benelux B.V., ROFIN-BAASEL Singapore Pte., Ltd., ROFIN-BAASEL Espana S.L.U. (“RBE”), ROFIN-BAASEL Taiwan Ltd., ROFIN-BAASEL Korea Co., Ltd., ROFIN-LASAG AG (“LASAG”) and ROFIN-BAASEL Swiss AG.

ROFIN-BAASEL UK Ltd. includes the consolidated accounts of its wholly-owned subsidiary ES Technology Ltd.

The financial statements of PRC include the consolidated accounts of PRC Laser Europe N.V., Belgium.

RSL includes the consolidated accounts of its wholly-owned subsidiaries, ROFIN-BAASEL Japan Corp., Rasant-Alcotec Beschichtungstechnik GmbH (“Rasant”), ROFIN-BAASEL Lasertech GmbH & Co. KG (“CBL”), Optoskand AB (“Optoskand”), CBL Verwaltungsgesellschaft mbH, m2k-laser GmbH (“m2k”), ROFIN BAASEL Laser India Pvt. Ltd., and ROFIN-BAASEL China Co., Ltd.

CBL includes the consolidated accounts of its wholly-owned subsidiaries, ROFIN-BAASEL, Inc. (“RB Inc.”), WB-PRC Laser Service GmbH, Basel Lasermed GmbH, and PMB Elektronik GmbH (which was merged with H2B Photonics GmbH in May 2012).

DILAS includes the consolidated accounts of its 95%-owned subsidiary DILAS Diodelaser China Co., Ltd.

All intercompany balances and transactions have been eliminated in consolidation.

**Acquisitions and Formation of New Entities**

The Company uses the acquisition method of accounting for its acquisitions with the respective results of operations included in the consolidated results from the date of acquisition.

- On each of October 26, 2011, and March 12, 2012, the Company purchased an additional 5% of the share capital, and on November 18, 2013, the Company purchased the remaining 10% of the shares capital of m2k-laser GmbH through ROFIN-SINAR Laser GmbH under an option agreement between the Company and the minority shareholders of m2k-laser GmbH. As a result of those share purchases, the Company currently holds 100% of the share capital of m2k-laser GmbH.
- Effective March 28, 2007, the Company acquired 100% of the common stock of Corelase Oy, Tampere (Finland). Corelase Oy has considerable experience in semiconductors, optics, and fiber technology. Its product lines include ultrashort pulse, mode-locked fiber laser systems, fiber laser modules, and other components. The terms of the purchase included payment of a deferred purchase price based on Corelase Oy achieving certain financial targets. On

December 14, 2011, the Company finalized and paid the deferred purchase price. This payment resulted in additional goodwill of \$13.4 million.

- Effective September 29, 2011, the Company received the remaining 15% of the share capital of H2B Photonics GmbH through a transfer of shares and now holds 100% of the share capital. In May 2012, the Company merged its wholly-owned subsidiary PMB Elektronik GmbH with H2B and named the new formed subsidiary PMB Elektronik GmbH.
- Effective December 20, 2012, the Company acquired the remaining 20% of the common stock of ROFIN-BAASEL China Co., Ltd. through its wholly-owned subsidiary RSL. The Company currently holds 100% of the share capital of ROFIN-BAASEL China Co., Ltd.
- Effective January 8, 2013, the Company acquired the remaining 20% of the common stock of Nanjing Eastern Technologies Company, Ltd. The Company currently holds 100% of the share capital of Nanjing Eastern Technologies Company, Ltd.
- Effective December 20, 2013, the Company acquired the remaining 12% of the common stock of ROFIN-BAASEL Japan Corp. through its wholly-owned subsidiary RSL. The Company currently holds 100% of the share capital of ROFIN-BAASEL Japan Corp.
- Effective June 12, 2014, the Company acquired the remaining 5% of the common stock of DILAS Diodenlaser GmbH through its wholly-owned subsidiary RSTE. The Company currently holds 100% of the share capital of DILAS Diodenlaser GmbH.

None of these acquisitions were material for the purpose of proforma presentation.

The Company also completed the following acquisition of certain assets.

- On April 10, 2014, the Company completed the acquisition of certain assets of FiLaser USA LLC. ("FiLaser") and subsidiaries. The transaction contains all intellectual property including know-how, patents, and patent applications of FiLaser. FiLaser has developed advanced laser process technology used for precision cutting and drilling of brittle material including glass, sapphire, and semiconductor substrates. The Company has held back approximately 28% of the purchase price as security for various claims. In addition, the purchase agreement also provides for potential future earn-out payments from revenues generated from certain of these intangible assets.

## **Fair Value**

The Company's cash, short-term investments, accounts receivable, and accrued liabilities are carried at amounts, that reasonably approximate their fair value due to their short-term nature. The Company's notes payable are at variable interest rates that approximate market. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Where available, fair value is based on observable market prices or parameters or derived from such prices or parameters. Where observable prices or inputs are not available, valuation models may be applied.

Assets and liabilities recorded at fair value in our balance sheet are categorized based upon the level of judgment associated with the inputs used to measure their fair values. Hierarchical levels are directly related to the amount of subjectivity associated with the inputs to fair valuation of these assets and liabilities and are as follows:

- Level 1 - Unadjusted observable quoted prices for identical instruments in active markets.
- Level 2 - Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- Level 3 - Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

## **Cash Equivalents**

Cash equivalents consist of financial instruments that are readily convertible into cash and have original maturities of three months or less at the time of acquisition.

## 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 the first-in, first-out and weighted average cost methods.

The Company writes 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 management, additional inventory write-downs may be required. We also write-down up to ninety percent of our total demo inventory costs over thirty six months.

## Property and Equipment

Property and equipment are recorded at cost and depreciated over their estimated useful lives, except for leasehold improvements, which are amortized over the lesser of their estimated useful lives or the term of the lease. The methods of depreciation are straight line for financial reporting purposes and accelerated for income tax purposes. Depreciable lives for financial reporting purposes are as follows:

	Useful Lives
Buildings	40 Years
Technical machinery and equipment	3-10 Years
Furniture and fixtures	3-10 Years
Computers and software	3-4 Years
Leasehold improvements	Term of lease

Total depreciation expense for the years ended September 30, 2014, 2013, and 2012, amounted to \$14,406, \$12,765, and \$11,646, respectively.

The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell.

## Goodwill and Other Intangible Assets

Goodwill represents the excess purchase price over the fair value of the assets acquired in connection with the Company's acquisitions.

Goodwill is required to be tested on an annual basis for potential impairment at the reporting unit level. A reporting unit is defined as the lowest level of an entity that is a business and that can be distinguished, physically and operationally and for internal reporting purposes, from other activities, operations, and assets of the entity. A reporting unit can be no higher than an operating segment and would generally be lower than that level of reporting. The Company manages its business under one operating and reportable segment, and has one reporting unit.

In testing for impairment, the fair value of the reporting unit, that is determined based on market data, is compared to its carrying amount. If the carrying value is below the fair value assessment, there will be no impairment loss. If the fair value is below the carrying value, then the Company is required to perform an additional test to determine the implied fair value of the goodwill.

The Company performed its annual goodwill impairment testing as of September 30<sup>th</sup> and determined that the fair value of its reporting unit exceeds its carrying value and accordingly, the second step of the impairment test was not required to be performed.

## **Revenue Recognition and Accounts Receivable Valuation**

Revenue is recognized when persuasive evidence of an arrangement exists, the product has been delivered, the price is fixed or determinable and collection is probable. Terms under these arrangements are generally free on board (“FOB”) shipping point, or ex works factory (“EXW”), at which time legal title passes from the Company to the customer. Therefore, delivery is generally considered to have occurred upon shipment. In certain circumstances customers may negotiate different terms. In these situations, delivery is considered to have occurred once legal title has passed from the Company to the customer. This may be at delivery to the customer’s destination or acceptance by the Company’s customer.

Sales to end-user customers and resellers typically do not have customer acceptance provisions and only certain of the original equipment manufacturer (“OEM”) customer sales have customer acceptance provisions. Customer acceptance is generally limited to performance under published product specifications. For the few product sales that have customer acceptance provisions because of higher than published specifications, (1) the products are tested and accepted by the customer at a company site or by the customer’s acceptance of the results of a testing program prior to shipment to the customer, or (2) the revenue is deferred until customer acceptance occurs. The Company records revenues net of volume discount rebates that are earned by certain OEM customers, based on sales levels, pursuant to contractual agreements.

The vast majority of our sales are made to OEMs, resellers, and end users in the industrial market. Sales made to OEMs and resellers in the industrial market do not require installation of the products by the Company, as installation is performed by the customer and are not subject to other post-delivery obligations. The Company may enter into multiple-deliverable arrangements which include the delivery of lasers, laser systems, installation, and training. Revenue from these arrangements is allocated to separate units of accounting if certain criteria are met. The allocation of the arrangement consideration to the separate units of accounting is based on vendor-specific objective evidence or third-party evidence. If such evidence is not available, the Company uses best estimate of selling price. Revenue related to installation and training is recognized when installation is completed or training is provided which usually takes place up to three months after the delivery of the laser or the laser system.

The Company records allowances for uncollectible customer accounts receivable based on historical experience. Additionally, an allowance is made based on an assessment of specific customers’ financial condition and liquidity. If the financial condition of the Company’s customers were to deteriorate, additional allowances may be required.

## **Income and Other Taxes**

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss tax carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates that apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company recognizes certain tax liabilities for anticipated tax audit findings in the U.S. and other tax jurisdictions based on its estimate of whether, and to the extent to which additional taxes would be due. If the audit finding results in actual taxes owed more or less than what the Company anticipated, its income tax expense would increase or decrease in the period of determination.

Revenue and expenses are presented net of any country-specific taxes.

## **Accounting for Warranties**

The Company issues a standard warranty of one to two years for parts and labor on lasers that are sold. Additionally, extended warranties are negotiated on a contract-by-contract basis. The Company provides for estimated warranty costs as products are shipped.

The Company’s estimate of costs to fulfill its warranty obligations is based on historical experience and expectation of future conditions. To the extent the Company experiences increased warranty claim activity or increased costs associated with servicing those claims, revisions to the estimated warranty liability would be required.

## **Foreign Currency Translation**

The assets and liabilities of the Company's operations outside the United States are translated into U.S. dollars at exchange rates in effect on the balance sheet date, and revenues and expenses are translated using a weighted average exchange rate during the period. Gains or losses resulting from the translation of foreign currency financial statements are recorded as a separate component of stockholders' equity. Gains and losses resulting from the remeasurement of foreign currency transactions are reported as a component of "Other expense (income), net".

## **Earnings per Share ("EPS")**

Basic EPS is computed by dividing "Net Income attributable to RSTI" by the weighted average number of common shares outstanding during the period. Diluted EPS reflects the potential dilution from common stock equivalents (stock options).

## **Comprehensive Income**

Comprehensive income consists of net income, foreign currency translation adjustments, pension liability adjustments, and fair value of interest rate swap agreements, and is presented in the consolidated statements of stockholders' equity and comprehensive income.

## **Research and Development Expenses**

Research and development costs are expensed when incurred and are net of primarily German and other European governments and European Union grants of \$1,555, \$2,437, and \$1,638, received for the years ended September 30, 2014, 2013, and 2012, respectively. The Company has no future obligations under such grants.

## **Derivative Financial Instruments**

The Company uses derivative financial instruments to manage funding costs and exposures arising from fluctuations in interest rates. These derivative financial instruments consist primarily of interest rate swaps. The Company does not use derivative financial instruments for trading purposes.

On the date the derivative contract is entered into, the Company designates the derivative as a hedge of the variability of cash flows to be paid related to a recognized liability ("cash flow" hedge). Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge are recorded in other comprehensive income, until earnings are affected by the variability in cash flows of the designated hedged item.

Interest rate swap agreements designated as hedges of the Company's financial liabilities are recorded in the consolidated balance sheet at fair value. Adjustments to the fair value of the derivative asset or liability are recorded as an adjustment to other comprehensive income. One swap agreement is for a total notional amount of Euro 0.6 million and the other is for a total notional amount of Swiss francs 3.0 million.

From time to time, the Company enters into foreign currency forward contracts and forward exchange options generally of less than one year duration to hedge a portion of its sales transactions denominated in foreign currencies. The gains and losses from these foreign currency forward contracts and forward exchange options are reflected in the consolidated statement of operations. At September 30, 2014, the Company held a Japanese yen forward exchange contract with a notional amount of Euro 1.7 million.

## **Operating Leases**

The Company leases facilities under operating leases. Building lease agreements generally include rent escalation clauses. Most of the Company's lease agreements include renewal periods at the Company's option. The Company recognizes scheduled rent increases on a straight-line basis over the lease term beginning with the date the Company takes possession of the leased space.

## **Use of Estimates**

Management of the Company makes a number of estimates and assumptions relating to the reporting of assets and liabilities, the disclosure of contingent assets and liabilities, and the reporting of revenues and expenses, to prepare these financial statements in conformity with generally accepted U.S. accounting principles. Significant items subject to such estimates and assumptions include the valuation allowance for receivables, inventory valuation, warranty liabilities, the valuation allowance

for deferred tax assets, assets and obligations related to employee benefits, and share-based payment awards. Actual results could differ from these estimates.

### **Stock Incentive Plans**

The Company measures share-based payments to employees, including grants of employee stock options, at fair value and expenses them in the consolidated statement of operations over the service period (generally the vesting period) of the grant.

### **Shipping and Handling Costs**

The Company accounts for shipping and handling fees and costs by recording revenue from shipping and handling fees in net sales and shipping and handling costs in cost of sales.

### **Recent Accounting Pronouncements Adopted**

In June 2011, the Financial Accounting Standards Board ("FASB") issued guidance requiring changes to the presentation of comprehensive income which requires entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. These changes, with retrospective application, became effective for the Company in fiscal year 2013. Other than the change in presentation to report comprehensive income as a separate but consecutive statement, these changes did not have an impact on the consolidated financial statements.

In September 2011, the FASB issued Accounting Standards Update ("ASU") 2011-08, "Testing Goodwill for Impairment". The amendments under ASU 2011-08 allow entities to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under these amendments, an entity is not required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that the reporting unit's fair value is less than its carrying amount. The amendments included a number of events and circumstances for entities to consider in conducting the qualitative assessment. Entities now have the option to bypass the qualitative assessment for any reporting unit in any period and proceed directly to performing the first step of the two-step quantitative goodwill impairment test. ASU 2011-08 was effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 (fiscal year 2013 for the Company). Adoption of ASU 2011-08 did not have a material impact on the Company's financial statements.

In December 2011, the FASB issued ASU No. 2011-11, "Disclosures about Offsetting Assets and Liabilities". ASU 2011-11 amended guidance on balance sheet presentation, to converge the presentation of offsetting assets and liabilities between U.S. GAAP and IFRS. ASU 2011-11 requires that entities disclose both gross information and net information about both instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. In January 2013, the FASB issued ASU 2013-01 which limited the scope of this guidance to derivatives, repurchase type agreements, and securities borrowing and lending transactions. The guidance from these updates became effective for the Company in fiscal year 2014. Adoption of this guidance did not have an impact on the Company's financial statements.

In February 2013, the FASB issued ASU 2013-02, "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". ASU 2013-02 requires reclassification adjustments for items that are reclassified from accumulated other comprehensive income to net income be presented on the financial statements or in a note to the financial statements. The new disclosure requirements are effective for fiscal years, and interim periods within those years, beginning after December 15, 2012. As such, ASU 2013-02 became effective October 1, 2013, for the Company and is applied prospectively. The adoption of this updated authoritative guidance resulted in an additional footnote disclosure but had no effect on our financial condition, results of operations, or cash flows.

### **Recent Accounting Pronouncements Not Yet Adopted as of September 30, 2014**

In March 2013, the FASB amended guidance related to a parent company's accounting for the release of the cumulative translation adjustment into net income upon derecognition of certain subsidiaries or groups of assets within a foreign entity or of an investment in a foreign entity. This guidance is effective for fiscal periods beginning after December 15, 2013, and is to be applied prospectively to derecognition events occurring after the effective date. The Company does not anticipate that the adoption of this amendment will have a material impact on its financial statements.

In July 2013, the FASB issued ASU 2013-10, "Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes". The update permits the Fed Funds Effective Swap Rate to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to the interest rates on direct Treasury obligations of the U.S. government (UST) and the London Interbank Offered Rate (LIBOR). The update also removed the restriction on using different benchmark rates for similar hedges. ASU 2013-10 has no effect on the financial statements as of September 30, 2013, but will be applicable to any hedging activity the Company enters into after July 17, 2013.

In July 2013, the FASB issued guidance on financial statement presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. Under this guidance an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. These amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The Company does not believe the adoption will have a significant impact on the Company's consolidated financial statements.

In May 2014, the FASB issued guidance on revenue from contracts with customers, which implements a five step process of how an entity should recognize revenue in order to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This guidance will be effective for the Company as of October 1, 2017, and early application is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are currently evaluating the impact that the adoption will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

Other accounting standards that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on the Company's financial statements upon adoption.

## 2. FAIR VALUE MEASUREMENTS

Financial assets and liabilities, measured at fair value on a recurring basis, are classified on the valuation hierarchy in the table below:

	September 30, 2014			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 128,537	\$ 128,537	\$ —	\$ —
Short-term investments	13,121	13,121	—	—
Derivatives	(92)	—	(92)	—
Other long-term assets	550	—	550	—
Total assets and liabilities at fair value	<u>\$ 142,116</u>	<u>\$ 141,658</u>	<u>\$ 458</u>	<u>\$ —</u>

	September 30, 2013			
	Total	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 133,733	\$ 133,733	\$ —	\$ —
Short-term investments	3,244	3,244	—	—
Derivatives	(126)	—	(126)	—
Non-current auction rate securities	1,900	—	—	1,900
Other long-term assets	250	—	250	—
Total assets and liabilities at fair value	<u>\$ 139,001</u>	<u>\$ 136,977</u>	<u>\$ 124</u>	<u>\$ 1,900</u>

The changes in the fair value measurement of investments using significant unobservable inputs (level 3), are as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)	
September 30, 2012	\$	3,200
Settlements		(1,300)
September 30, 2013	\$	1,900
Settlements		(1,900)
September 30, 2014	\$	—

All level 3 investments were auction rate securities which are variable rate securities tied to short-term interest rates with maturities on the face of the securities in excess of 90 days. All level 3 investments were settled at par value.

### 3. INVENTORIES

Inventories, net of obsolescence and lower of cost or market reserves, are summarized as follows:

	September 30,	
	2014	2013
Finished goods	\$ 31,625	\$ 30,177
Work in progress	41,057	43,870
Raw materials and supplies	68,298	71,367
Demo inventory	18,268	20,691
Service parts	31,073	32,355
Total inventories	\$ 190,321	\$ 198,460

### 4. PROPERTY AND EQUIPMENT

Property and equipment include the following:

	September 30,	
	2014	2013
Buildings	\$ 44,290	\$ 44,135
Technical machinery and equipment	67,241	61,890
Construction in progress	2,064	6,864
Furniture and fixtures	30,385	31,144
Computers and software	8,777	8,352
Leasehold improvements	27,989	28,012
Total property and equipment, at cost	\$ 180,746	\$ 180,397

## 5. GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill for the years ended September 30, 2014 and 2013, are as follows:

	Germany	United States	Rest of World	Total
Balance as of September 30, 2012	\$ 41,802	\$ 13,156	\$ 46,657	\$ 101,615
Additional goodwill from acquisitions	—	—	—	—
Currency exchange differences	1,881	141	767	2,789
Balance as of September 30, 2013	\$ 43,683	\$ 13,297	\$ 47,424	\$ 104,404
Additional goodwill from acquisitions	—	—	—	—
Currency exchange differences	(2,745)	(206)	(1,098)	(4,049)
Balance as of September 30, 2014	\$ 40,938	\$ 13,091	\$ 46,326	\$ 100,355

The carrying values of other intangible assets are as follows:

	September 30, 2014		September 30, 2013	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:				
Patents	\$ 17,947	\$ 8,721	\$ 10,764	\$ 8,270
Customer base	18,404	16,883	19,084	16,778
Other	22,101	17,136	22,389	16,515
Total	\$ 58,452	\$ 42,740	\$ 52,237	\$ 41,563

Patents are amortized on a straight-line basis over the life of the patent which ranges from 1 to 20 years. Customer base is amortized on a straight-line basis over seven years. Other intangible assets mainly comprised of software and unpatented technology are amortized on a straight-line basis between 1 and 16 years. Amortization expense for the years ended September 30, 2014, 2013, and 2012, was \$2,906, \$2,553, and \$2,279, respectively.

At September 30, 2014, estimated amortization expense of existing intangible assets for the next five fiscal years based on the average exchange rates as of September 30, 2014, is as follows:

	Amortization Expense
2015	\$ 3,000
2016	1,900
2017	1,700
2018	1,300
2019	1,100

## 6. ACCRUED LIABILITIES

Accrued liabilities are comprised of the following:

	September 30,	
	2014	2013
Employee compensation	\$ 21,822	\$ 23,402
Warranty reserves	10,778	12,301
Other taxes payable	665	320
Customer deposits	12,379	16,242
Other	17,500	17,672
Total accrued liabilities	<u>\$ 63,144</u>	<u>\$ 69,937</u>

The Company provides for the estimated costs of product warranties when revenue is recognized. The estimate of costs to fulfill warranty obligations is based on historical experience and expectation of future conditions.

The change in warranty reserves for the years ended September 30, 2014 and 2013, are as follows:

Balance as of September 30, 2012	\$ 11,894
Additional accruals for warranties during the period	4,351
Usage during the period	(4,356)
Currency translation	412
Balance as of September 30, 2013	<u>\$ 12,301</u>
Additional accruals for warranties during the period	5,105
Usage during the period	(6,074)
Currency translation	(554)
Balance as of September 30, 2014	<u><u>\$ 10,778</u></u>

## 7. LINES OF CREDIT

The Company maintains \$20,000 in short-term lines of credit in the U.S. As of September 30, 2014, \$20,000 remained unused and available for future use. As of September 30, 2013, \$20,000 was available under short-term lines of credit in the U.S.

In addition, the Company's non-U.S. subsidiaries have short-term credit lines amounting to \$45,029, which allow them to borrow in the applicable local currency. At September 30, 2014 and 2013, direct borrowings under these agreements totaled \$1,555 and \$2,071, respectively. Additionally, \$2,030 and \$1,459 were used for bank guarantees under those lines of credit as of September 30, 2014 and 2013, respectively. The remaining unused portion of the lines of credit at September 30, 2014, was \$41,444, in aggregate. Interest rates vary from 0.54% to 2.60%, depending upon the country and the usage made of the available credit.

Furthermore, the Company also maintains credit lines specific to bank guarantees amounting to \$13,764 and \$21,235 as of September 30, 2014 and 2013, respectively, of which \$2,696 and \$7,726 was used as of September 30, 2014 and 2013, respectively.

The Company is subject to financial covenants under some of these lines of credit, which could restrict the Company from drawing money under them.

## 8. LONG-TERM DEBT

Long-term debt included in the Consolidated Balance Sheets is comprised of the following:

Description	September 30,	
	2014	2013
2.53% Term loan due 2015	\$ 758	\$ 1,897
1.85% Term loan due 2018	3,157	3,388
1.7% Term loan due 2017	3,157	3,388
2.6% Term loan due 2016	3,139	3,879
1.0% State of Connecticut Term loan due 2023	3,000	4,000
Total long-term debt facilities	13,211	16,551
Current portion of long-term debt included in line of credit and short term borrowings	1,700	1,638
Total long-term debt	<u>\$ 11,511</u>	<u>\$ 14,913</u>

Principal payments of long-term debt as of September 30, 2014, are as follows:

Fiscal year ending September 30,	Total
2016	\$ 4,043
2017	4,584
2018	1,165
2019	375
2020 and thereafter	1,344
	<u>\$ 11,511</u>

## 9. COMMITMENTS

The Company leases operating facilities and equipment under various operating leases. The lease agreements require payment of real estate taxes, insurance, and maintenance expenses by the Company.

Minimum lease payments for future fiscal years under non-cancellable operating leases as of September 30, 2014, are:

Fiscal year ending September 30,	Total
2015	\$ 9,827
2016	7,063
2017	4,443
2018	2,253
2019	1,757
2020 and thereafter	5,286

Rent expense charged to operations for the years ended September 30, 2014, 2013, and 2012, approximated \$10,786, \$10,733, and \$10,061, respectively.

Purchase obligations for payments due under various types of agreements to purchase raw materials, services, and other goods as of September 30, 2014, are:

Less than 1 Year	\$ 71,292
1 - 3 Years	19,989
3 - 5 Years	1,413
More than 5 years	1,062

## 10. INCOME TAXES

Significant components of the income tax provision are as follows:

	Years ended September 30,		
	2014	2013	2012
Current:			
United States	\$ 4,350	\$ 4,393	\$ 5,710
Foreign	9,356	12,288	13,214
Total current	<u>13,706</u>	<u>16,681</u>	<u>18,924</u>
Deferred:			
United States	(1,202)	(1,107)	(1,145)
Foreign	(976)	(1,435)	(599)
Total deferred	<u>(2,178)</u>	<u>(2,542)</u>	<u>(1,744)</u>
Total income tax expense	<u>\$ 11,528</u>	<u>\$ 14,139</u>	<u>\$ 17,180</u>

Income (Loss) before income taxes is attributable to the following geographic regions:

	Years ended September 30,		
	2014	2013	2012
United States	\$ 5,383	\$ 10,131	\$ 9,101
Germany	5,000	19,215	28,112
France	227	(562)	77
Italy	515	1,146	794
Singapore	2,832	2,535	2,454
United Kingdom	8,150	8,631	7,442
Switzerland	3,612	2,003	(945)
China	6,190	4,381	2,139
Japan	481	175	996
Other	4,290	1,500	2,222
Total income before income taxes	<u>\$ 36,680</u>	<u>\$ 49,155</u>	<u>\$ 52,392</u>

The difference between actual income tax expense and the amount computed by applying the U.S. federal income tax rate is as follows:

	Years ended September 30,		
	2014	2013	2012
U.S. federal statutory tax rate	35%	35%	35%
Computed "expected" tax expense	\$ 12,838	\$ 17,154	\$ 18,316
Difference between U.S. and foreign statutory rates	(3,087)	(3,617)	(2,828)
Other permanent differences	(67)	(87)	134
Research & development credits	(276)	(935)	—
Adjustment of valuation allowance	(401)	(3)	(151)
Change in statutory tax rates	774	37	(135)
Non deductible expenses	1,212	1,106	1,252
Other	535	484	592
Actual tax expense	<u>\$ 11,528</u>	<u>\$ 14,139</u>	<u>\$ 17,180</u>

Total income taxes for the years ended September 30, 2014, 2013, and 2012, were allocated as follows:

	Years ended September 30,		
	2014	2013	2012
Income taxes from operations	\$ 11,528	\$ 14,139	\$ 17,180
Stockholders' equity:			
Tax benefit applicable to the exercise of stock options	(48)	(2)	(295)
Tax (benefit) expense applicable to defined benefit pension plan	(391)	619	(1,679)
Tax (benefit) expense applicable to the fair value of interest swap agreements	15	25	(5)
Total income tax	<u>\$ 11,104</u>	<u>\$ 14,781</u>	<u>\$ 15,201</u>

Deferred income taxes result from temporary differences between the amount of assets and liabilities recognized for financial reporting and tax purposes. The components of net deferred income taxes are as follows:

	September 30,	
	2014	2013
Deferred income tax assets:		
Foreign		
Net operating loss carryforwards	\$ 5,231	\$ 5,029
Inventories	5,809	5,647
Pension obligations	2,984	2,813
Accounts payable	105	83
Accounts receivable	100	—
Other	871	931
Total Foreign	15,100	14,503
United States:		
Net operating loss carryforwards	6,970	7,428
Tax credits	122	122
Warranty reserve	918	918
Inventories	7,312	6,516
Allowance for doubtful accounts	272	253
Accrued liabilities	911	676
Pension obligations	1,476	1,071
Property & equipment	—	70
Accounts receivables	236	119
Stock-based compensation expense	2,356	2,189
Other	144	341
Total United States	20,717	19,703
Gross deferred income tax assets	35,817	34,206
Less: Valuation allowance	(2,687)	(3,088)
Net deferred income tax assets	\$ 33,130	\$ 31,118
Deferred income tax liabilities:		
Foreign:		
Property & equipment	(400)	(689)
Intangibles	(2,800)	(2,384)
Accounts receivable	—	(12)
Other	(1,084)	(1,320)
Total Foreign	(4,284)	(4,405)
United States:		
Property & equipment	(2)	—
Non-US earnings	(158)	(140)
Total United States	(160)	(140)
Gross deferred income tax liabilities	(4,444)	(4,545)
Net deferred income tax assets	\$ 28,686	\$ 26,573

The total deferred income tax assets (liabilities) are included in the accompanying consolidated balance sheet as follows:

	September 30,	
	2014	2013
Deferred income tax assets – current	\$ 23,536	\$ 22,818
Deferred income tax assets – non-current	16,890	13,446
Deferred income tax liabilities – current	(4,437)	(4,651)
Deferred income tax liabilities – non-current	(7,303)	(5,040)
Net deferred income tax assets	<u>\$ 28,686</u>	<u>\$ 26,573</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible, as well as limitations imposed by the relevant taxing jurisdictions on the future benefits of those deductions. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, the relevant statutory and regulatory limitations, and tax planning strategies in making this assessment. Based upon the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

At September 30, 2014, the Company had state net operating tax loss carryforwards available of \$38,195 in the United States (which start to expire in 2022). Additionally, the Company had federal net operating tax loss carryforwards available of \$12,031 in the United States, \$7,935 in Germany, and \$13,963 in other European/Asian countries (which start to expire in 2017). As of September 30, 2014, deferred tax assets, net of valuation allowances related to these operating tax losses and tax credits, amounted to \$9,635.

We have accumulated undistributed earnings of foreign subsidiaries aggregating approximately \$440 million at September 30, 2014. These earnings are expected to be indefinitely reinvested outside of the United States. If those earnings were distributed in the form of dividends or otherwise, they would be subject to United States federal income taxes (subject to an adjustment for foreign tax credits), state income taxes and withholding taxes payable to the various foreign countries. It is not currently practicable to estimate the tax liability that might be payable on the repatriation of these foreign earnings.

The Company's policy is to recognize interest and penalties accrued on any unrecognized tax benefits as interest expense and SG&A, respectively. The Company classified the unrecognized tax benefit as non-current because payment is not anticipated within one year of the balance sheet date. As of September 30, 2014, the Company's gross unrecognized tax benefits totaled \$770, which includes \$205 of interest and penalties. Approximately \$565 of unrecognized tax benefits would impact the effective tax rate, if recognized. The Company estimates that the unrecognized tax benefits will not change significantly within the next year.

A reconciliation of the beginning and ending amount of gross unrecognized tax benefits, excluding the related accrual for interest, is as follows:

Balance at September 30, 2011	\$	828
Decreases in tax positions for prior years		(392)
Increases in tax positions for current years		—
Settlements with taxing authorities		—
Balance at September 30, 2012	<u>\$</u>	<u>436</u>
Decreases in tax positions for prior years		—
Increases in tax positions for current years		38
Settlements with taxing authorities		—
Balance at September 30, 2013	<u>\$</u>	<u>474</u>
Decreases in tax positions for prior years		(85)
Increases in tax positions for current years		381
Settlements with taxing authorities		—
Balance at September 30, 2014	<u>\$</u>	<u>770</u>

The Company files federal and state income tax returns in several domestic and foreign jurisdictions. In most tax jurisdictions, returns are subject to examination by the relevant tax authorities for a number of years after the returns have been filed. With limited exceptions, the Company is no longer subject to examination by the United States Internal Revenue Service for years through 2008. With respect to state and local tax jurisdictions and countries outside the United States, with limited exceptions, the Company is no longer subject to income tax audits for years before 2008.

## 11. EMPLOYEE BENEFIT PLANS

The Company has defined benefit pension plans for the RSL and RS Inc. employees. The Company's U.S. plan began in fiscal year 1995 and is funded. Any new employees hired after January 1, 2007, are not eligible for the RS Inc. pension plan. As is the normal practice with German companies, the German pension plan is unfunded. Any new employees, hired after the acquisition of CBL, are not eligible for the RSL pension plan. The measurement date of the Company's pension plans is September 30.

The Company's Spanish subsidiary had a defined benefit pension plan which began in fiscal year 2009 and was funded. In July 2013, a new labor agreement was negotiated that affected the Company's Spanish subsidiary. Under the new agreement, the Company's Spanish pension plan was canceled during fiscal year 2013, and all assets used to fund the plan were remitted back to the Company.

Effective January 1, 2012, the RS Inc. defined benefit pension plan was amended to exclude highly compensated employees, as defined by the Internal Revenue Service, from receiving future years of service under the RS Inc. pension plan. A non-qualified defined benefit pension plan was created to replace the benefits lost by the employees that were otherwise excluded from the qualified pension plan.

The determination of the Company's obligation and expense for pension is dependent on the selection of certain actuarial assumptions in calculating those amounts. Assumptions are made about interest rates, expected investment return on plan assets, total turnover rates, and rates of future compensation increases. In addition, the Company's actuarial consultants use subjective factors such as withdrawal rates and mortality rates to develop their calculations of these amounts. The Company generally reviews these assumptions at the beginning of each fiscal year. The Company is required to consider current market conditions, including changes in interest rates, in making these assumptions. The actuarial assumptions that the Company uses may differ materially from actual results due to changing market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants. These differences may result in a significant impact on the amount of pension benefits expense the Company has recorded or may record.

Another key assumption in determining the net pension expense is the assumed discount rate to be used to discount plan obligations. The Company's U.S. plan uses a cash flow matching approach, which uses projected cash flows matched to spot rates along a high-quality corporate yield curve to determine the present value of cash flows to calculate a single equivalent discount rate. A lower discount rate increases the present value of benefit obligations and increases pension expense.

To determine the expected long-term rate of return on plan assets, the Company considers the current and expected asset allocations, as well as historical and expected returns on various categories of plan assets.

The following table sets forth the funded status of the plans at the balance sheet dates:

	September 30,	
	2014	2013
Change in benefit obligation:		
Projected benefit obligation at beginning of year	\$ 34,261	\$ 32,615
Service cost	943	1,024
Interest cost	1,282	1,279
Actuarial losses (gains)	1,673	(658)
Settlement	—	(168)
Foreign exchange rate impacts	(1,128)	731
Benefits paid – total	(590)	(562)
Projected benefit obligation at end of year	36,441	34,261
Projected benefit obligation at end of year:		
U.S. plans	14,275	12,707
Foreign plans	22,166	21,554
Projected benefit obligation at end of year	36,441	34,261
Change in plan assets:		
Fair value of plan assets at beginning of year	9,803	9,008
Actual return on plan assets	732	883
Employer contributions	—	200
Foreign exchange rate impacts	—	2
Settlement	—	(56)
Benefits paid – funded plans	(259)	(234)
Fair value of plan assets at end of year	10,276	9,803
Fair value of plan assets at end of year:		
U.S. plans	10,276	9,803
Foreign plans	—	—
Fair value of plan assets at end of year	10,276	9,803
Funded status at end of year	\$ (26,165) *	\$ (24,458) *
Amounts recognized in the consolidated balance sheet		
Accrued benefit liability	\$ (26,165)	\$ (24,458)
Accumulated other comprehensive loss (pre-tax)	9,257	8,064
Net amount recognized	\$ (16,908)	\$ (16,394)

\*\$473 and \$388 relate to expected payments in the following twelve months for the Company's unfunded non-US plans and are therefore classified in current "Accrued liabilities" in the consolidated balance sheets as of September 30, 2014 and 2013, respectively.

	September 30,	
	2014	2013
Information for pension plans with an accumulated benefit obligation in excess of plan assets		
Projected benefit obligation	\$ 36,441	\$ 34,261
Accumulated benefit obligation	33,716	31,129
Fair value of plan assets	10,276	9,803

	September 30,	
	2014	2013
Components of net periodic benefit cost and other amounts recognized in other comprehensive income		
<b>Net periodic benefit cost</b>		
Service Cost	\$ 943	\$ 1,024
Interest Cost	1,282	1,279
Expected return on plan assets	(667)	(606)
Amortization of net loss	341	494
Amortization of prior service cost	75	49
<b>Net periodic benefit cost</b>	<b>\$ 1,974</b>	<b>\$ 2,240</b>
Other changes in plan assets and benefit obligations recognized in other comprehensive income (pre-tax)		
Net loss (gain)	1,268	(1,429)
Amortization of prior service cost	(75)	(49)
<b>Total recognized in other comprehensive income</b>	<b>\$ 1,193</b>	<b>\$ (1,478)</b>
<b>Total recognized in net periodic benefit cost and other comprehensive income</b>	<b>\$ 3,167</b>	<b>\$ 762</b>

The weighted average assumptions used in the valuation of the plan are as follows:

	September 30,	
	2014	2013
Discount rate to determine benefit obligations:		
United States	4.22%	4.66%
Foreign	2.40%	3.50%
Discount rate to determine net periodic benefit cost:		
United States	4.66%	3.78%
Foreign	3.50%	3.80%
Expected return on plan assets		
United States	7.00%	7.00%
Foreign	—%	—%
Rate of compensation increase		
United States	3.0%	3.0%
Foreign	3.0%	3.0%

The Company recognizes the over (under) funded status of the defined benefit plans in the statement of financial position. The Company also recognizes, in other comprehensive income, certain gains and losses that arise during the period but are deferred under current pension accounting rules.

Expected benefit payments for each of the next five fiscal years and for the five years aggregated thereafter is as follows: \$793 in 2015, \$807 in 2016, \$1,089 in 2017, \$1,416 in 2018, \$1,095 in 2019, and \$7,942 thereafter.

The Company's pension plan asset allocations at September 30, 2014 and 2013, by asset category are as follows:

	2014			2013	
	Dollar Value	Percentage	Target Allocation	Dollar Value	Percentage
Certificates of Deposit	\$ —	—%	5%	\$ 369	4%
Equity Securities	5,208	51%	50%	5,236	53%
Debt Securities	5,068	49%	45%	4,198	43%
<b>Total Plan Assets</b>	<b>\$ 10,276</b>	<b>100%</b>	<b>100%</b>	<b>\$ 9,803</b>	<b>100%</b>

The Company employs a total return investment approach whereby a mix of equity, debt securities, and government securities are used to maximize the long-term return of plan assets for a prudent level of risk. The intent of this strategy is to minimize plan expenses by maximizing investment returns within that prudent level of risk. Furthermore, equity investments are diversified across U.S. and non-U.S. stocks as well as growth, value, and small and large capitalizations. Additionally, cash balances are maintained at levels adequate to meet near-term plan expenses and benefit payments. Investment risk is measured and monitored on an ongoing basis through semi-annual investment portfolio reviews.

Investments in our defined benefit plan are stated at fair value. Level 1 assets are valued using quoted market prices that represent the asset value of the shares held by the trusts. The level 2 assets are investments in pooled funds, which are valued using a model to reflect the valuation of their underlying assets that are publicly traded with observable values. The fair value of our level 3 pension plan assets are measured by compiling the portfolio holdings and independently valuing the securities in those portfolios.

The fair values of our pension plan assets, by level within the fair value hierarchy, are as follows:

Asset Categories	September 30, 2014			
	Level 1	Level 2	Level 3	Total
<b>Equity Securities</b>				
Small Cap	\$ —	\$ 209	\$ —	\$ 209
Mid Cap	—	494	—	494
Large Cap	—	1,853	—	1,853
Total Market Stock	—	867	—	867
International	—	1,441	—	1,441
Emerging Markets	—	344	—	344
<b>Debt Securities</b>				
Bonds & Mortgages	—	3,866	—	3,866
Inflation Protected	—	519	—	519
High Yield	—	514	—	514
Money Market	—	169	—	169
<b>Total Plan Assets</b>	<b>\$ —</b>	<b>\$ 10,276</b>	<b>\$ —</b>	<b>\$ 10,276</b>

Asset Categories	September 30, 2013			
	Level 1	Level 2	Level 3	Total
Certificates of Deposit	\$ —	\$ 369	\$ —	\$ 369
<b>Equity Securities</b>				
Small Cap	—	261	—	261
Mid Cap	—	541	—	541
Large Cap	—	2,924	—	2,924
International	—	1,286	—	1,286
Emerging Markets	—	224	—	224
<b>Debt Securities</b>				
Bonds & Mortgages	—	3,143	—	3,143
Inflation Protected	—	452	—	452
High Yield	—	483	—	483
Money Market	—	120	—	120
<b>Total Plan Assets</b>	<b>\$ —</b>	<b>\$ 9,803</b>	<b>\$ —</b>	<b>\$ 9,803</b>

RS Inc., RB Inc., PRC, Lee Laser, ROFIN-BAASEL Canada Ltd., DILAS Diode Laser, Inc., and Nufern have 401(k) plans for the benefit of all eligible U.S. employees, as defined by the plan. Participating employees may contribute up to 16% of their qualified annual compensation. Those subsidiaries match 50% of the first 5 to 6% of the employees' compensation contributed as a salary deferral. Company contributions for the years ended September 30, 2014, 2013, and 2012, were \$701, \$719, and \$617, respectively.

## 12. EARNINGS PER COMMON SHARE

The calculation of the weighted average number of common shares outstanding for each period is as follows:

	Years ended September 30,		
	2014	2013	2012
Weighted number of shares for basic earnings per common share	28,073,081	28,188,849	28,498,395
Potential additional shares due to outstanding dilutive stock options	149,110	202,913	245,872
Weighted number of shares for diluted earnings per common share	<u>28,222,191</u>	<u>28,391,762</u>	<u>28,744,267</u>

The weighted-average diluted shares outstanding for the years ended September 30, 2014, 2013, and 2012, excludes the dilutive effect of approximately 2,927 thousand, 2,557 thousand, and 2,205 thousand stock options, respectively, since the impact of including these options in diluted earnings per share for these years was antidilutive.

## 13. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income is comprised of the following:

	September 30,		
	2014	2013	2012
Foreign currency translation adjustment	\$ (7,759)	\$ 17,091	\$ 2,261
Defined benefit pension plans (net of taxes of \$3,006 in 2014, \$2,615 in 2013, and \$3,234 in 2012)	(6,251)	(5,449)	(6,308)
Fair value of interest swap agreements (net of taxes of \$18 in 2014, \$33 in 2013, and \$59 in 2012)	(62)	(109)	(189)
Total accumulated other comprehensive income (loss)	<u>\$ (14,072)</u>	<u>\$ 11,533</u>	<u>\$ (4,236)</u>

The changes in Accumulated Other Comprehensive Income by component, net of tax, during the year ended September 30, 2014, are as follows:

	Defined Benefit Plans	Foreign Currency Translation Adjustments	Fair Value of Interest Swap Agreements	Total
Balance at September 30, 2013	\$ (5,449)	\$ 17,091	\$ (109)	\$ 11,533
Other comprehensive income before reclassifications	—	(24,850)	47	(24,803)
Amounts reclassified from accumulated other comprehensive income	(802)	—	—	(802)
Balance at September 30, 2014	<u>\$ (6,251)</u>	<u>\$ (7,759)</u>	<u>\$ (62)</u>	<u>\$ (14,072)</u>

The reclassifications out of Accumulated Other Comprehensive Income for the year ended September 30, 2014, are as follows:

	September 30, 2014
Unamortized loss on defined benefit pension plans	
Amortization	\$ (1,193)
Tax effects	391
Total reclassification for the period	<u>\$ (802)</u>

#### 14. TREASURY STOCK

On February 5, 2014, the Board of Directors authorized the Company to initiate a share buyback of up to \$25 million of the Company's Common Stock over the next twelve months ending February 10, 2015, subject to market conditions. The shares may be repurchased from time to time in open market transactions or privately negotiated transactions at the Company's discretion. During the year ended September 30, 2014, the Company purchased approximately 0.3 million shares of common stock, at an average price of \$23.08, under the stock buyback program for a total price of \$6,236.

#### 15. RELATED PARTY TRANSACTIONS

The Company had sales to its minority shareholder in Japan amounting to \$4, \$458, and \$853, in fiscal years 2014, 2013 and 2012, respectively, and purchases from the minority shareholder only in fiscal year 2013 amounting to \$29. As of September 30, 2013, the accounts receivable with the minority shareholder in Japan amounted to \$5. Effective December 20, 2013, the Company acquired the remaining 12% of the common stock of ROFIN-BAASEL Japan Corp. from the minority shareholder in Japan.

The Company maintains other accounts payable to related party in China amounting to \$317 and \$319 and as of September 30, 2014 and 2013, respectively.

In fiscal year 2014, the Company had expenses of \$57, compared to \$151 in fiscal year 2013, mainly for purchases of materials and services, from the minority shareholder of m2k. At September 30, 2013, the Company had accrued \$189 for the put/call option to purchase the remaining interests in m2k and \$305 was capitalized for accumulated interest losses. Effective November 18, 2013, the Company purchased the remaining 10% of the share capital of m2k through its wholly-owned subsidiary RSL under the option agreement between the Company and the minority shareholders of m2k.

Effective June 12, 2014, the Company acquired the remaining 5% of the common stock of DILAS through its wholly-owned subsidiary RSTE from the minority shareholder of DILAS.

The main facility in Starnberg is rented under a 25-year operating lease from the former minority shareholder of CBL, Mr. Baasel, who is also a member of the Board of Directors of the Company, and includes a clause to terminate the lease upon two-year notice. The Company paid expenses, mainly for rental expense of \$883, \$846 and \$837 to Mr. Baasel during fiscal years 2014, 2013, and 2012, respectively.

#### 16. GEOGRAPHIC INFORMATION

Assets, revenues, and income before taxes, by geographic region attributed based on the geographic location of the RSTI entities are summarized below:

ASSETS	September 30,	
	2014	2013
North America	\$ 246,370	\$ 243,215
Germany	430,123	445,568
Other	347,992	340,677
Intercompany eliminations	(335,900)	(329,550)
Total assets	<u>\$ 688,585</u>	<u>\$ 699,910</u>
PROPERTY AND EQUIPMENT, NET	September 30,	
	2014	2013
North America	\$ 16,319	\$ 17,856
Germany	41,828	48,256
Other	21,822	21,132
Intercompany eliminations	(266)	(332)
Total long-lived assets	<u>\$ 79,703</u>	<u>\$ 86,912</u>

REVENUES - TOTAL BUSINESS

	Years ended September 30,		
	2014	2013	2012
North America	\$ 146,053	\$ 157,936	\$ 168,262
Germany	330,485	358,701	365,122
Other	276,832	262,197	222,034
Intercompany eliminations	(223,253)	(218,766)	(215,297)
	<u>\$ 530,117</u>	<u>\$ 560,068</u>	<u>\$ 540,121</u>

INTERCOMPANY REVENUES

	Years ended September 30,		
	2014	2013	2012
North America	\$ 12,602	\$ 13,859	\$ 12,693
Germany	148,441	147,470	147,683
Other	62,210	57,437	54,921
Intercompany eliminations	(223,253)	(218,766)	(215,297)
	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

EXTERNAL REVENUES

	Years ended September 30,		
	2014	2013	2012
North America	\$ 133,450	\$ 144,078	\$ 155,569
Germany	182,045	211,231	217,439
Other	214,622	204,759	167,113
	<u>\$ 530,117</u>	<u>\$ 560,068</u>	<u>\$ 540,121</u>

INCOME BEFORE INCOME TAXES

	Years ended September 30,		
	2014	2013	2012
North America	\$ 5,490	\$ 10,275	\$ 9,521
Germany	5,000	19,215	28,112
Other	26,190	19,665	14,759
	<u>\$ 36,680</u>	<u>\$ 49,155</u>	<u>\$ 52,392</u>

17. ENTERPRISE WIDE INFORMATION

The Company derives revenues from the sale and servicing of laser products used for macro applications, from the sale and servicing of laser products for marking and micro applications, and from the sale of components products.

Product and service sales are summarized below:

Product Category	September 30,		
	2014	2013	2012
Laser macro products	\$ 209,632	\$ 214,623	\$ 205,394
Laser marking and micro products	250,228	272,632	272,195
Components	70,257	72,813	62,532
	<u>\$ 530,117</u>	<u>\$ 560,068</u>	<u>\$ 540,121</u>

## 18. SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

The following represents the Company's quarterly results (millions of dollars, except per share amounts):

	Quarters ended			
	Dec. 31, 2013	March 31, 2014	June 30, 2014	Sept. 30, 2014
Net sales	\$ 121.2	\$ 128.6	\$ 134.3	\$ 146.1
Gross profit	41.3	46.3	46.7	54.6
Net income	2.3	4.5	6.4	12.0
Net income attributable to RSTI	2.2	4.5	6.5	12.0
Earnings per share – Basic	0.08	0.16	0.23	0.43
Earnings per share – Diluted	0.08	0.16	0.23	0.43

	Quarters ended			
	Dec. 31, 2012	March 31, 2013	June 30, 2013	Sept. 30, 2013
Net sales	\$ 142.2	\$ 131.1	\$ 139.1	\$ 147.6
Gross profit	50.1	46.8	49.3	50.2
Net income	9.0	7.3	8.8	9.9
Net income attributable to RSTI	8.9	7.4	8.7	9.8
Earnings per share – Basic	0.32	0.26	0.31	0.35
Earnings per share – Diluted	0.32	0.26	0.31	0.35

## 19. STOCK INCENTIVE PLANS

Effective March 16, 2011, the stockholders approved an amendment to the ROFIN-SINAR Technologies Inc. 2007 Incentive Stock Plan (“the 2007 Incentive Plan”) that increases the number of shares reserved for issuance from 1,600,000 to 3,100,000 shares. The 2007 Incentive Plan supersedes the ROFIN-SINAR Technologies Inc. 1996 Non-Employee Directors’ Stock Plan and the ROFIN-SINAR Technologies Inc. 2002 Equity Incentive Plan. Under the 2007 Incentive Plan, the Company has reserved shares of common stock to provide for the grant of options to purchase common stock (“options”), grants of shares of common stock (“stock grants”), stock units, and stock appreciation rights (“SARs”) to certain eligible employees and to outside directors. There were no incentive stock options, restricted stock or performance shares granted in fiscal years 2014 or 2013 under this Plan. Non-qualified stock options were granted to officers and other key employees in fiscal years 2014 and 2013. During fiscal year 2014, outside directors each received 3,000 shares of common stock and 342,500 non-qualified stock options were granted to officers and other key employees. The terms of these issuances are the same as those described below.

### Directors’ Plan

The Company had reserved 100,000 shares of common stock for the Directors’ Plan, which covered non-employee members of the Board of Directors. Under this Plan each member of the Board of Directors who was not an employee of the Company and who was elected or continued as a member of the Board of Directors was entitled to receive an initial grant of 1,500 shares of common stock and thereafter an annual grant of 1,500 shares of common stock. The Directors’ Plan also provided that non-employee directors aged 65 or older, upon their appointment or election to the Board of Directors, will receive, in lieu of such initial and annual grants of shares of common stock, 7,500 shares of restricted stock which shall vest in 5 equal installments from the date of grant and each of the following four anniversaries thereof. Prior to vesting, no shares of restricted stock may be sold, transferred, assigned, pledged, encumbered or otherwise disposed of, subject to certain exceptions. The Company records compensation expense based on the fair market value of the common stock, as determined by the closing price at the date of issuance. This plan was superseded by the 2007 Incentive Plan, as discussed above.

### Equity Incentive Plan

The Company also maintained the previous Equity Incentive Plans, whereby incentive and non-qualified stock options, restricted stock and performance shares were granted to officers and other key employees to purchase a specified number of shares of common stock at a price not less than the fair market value on the date of grant. The term of the Equity Incentive

Plans continued through 2011. Options generally vest over five years and expire not later than ten years after the date on which they are granted. These plans were superseded by the 2007 Incentive Plan, as discussed above.

The fair value of our stock options was estimated based on the date of grant using the Black-Scholes option pricing model. The following assumptions were used in these calculations:

	September 30,		
	2014 Grants	2013 Grants	2012 Grants
Weighted average grant date fair value	\$ 11.72	\$ 12.42	\$ 11.09
Expected life	5.40 Years	5 Years	5 Years
Volatility	50.55%	49.64%	46.11%
Risk-free interest rate	1.48%	0.98%	1.22%
Dividend yield	—%	—%	—%

For purposes of the Black-Scholes model, the Company uses historical data to estimate the expected life, volatility, and estimated forfeitures of an option. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant.

The balance of outstanding stock options and all options activity for the year ended September 30, 2014, is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (Millions)
Outstanding at September 30, 2013	3,238,700	\$ 26 <sup>9/10</sup>		
Granted	342,500	\$ 25 <sup>1/5</sup>		
Exercised	(146,050)	\$ 16 <sup>3/8</sup>		
Forfeited	(78,100)	\$ 28 <sup>1/2</sup>		
Outstanding at September 30, 2014	3,357,050	\$ 27 <sup>1/10</sup>	4.86	
Exercisable at September 30, 2014	2,353,100	\$ 27 <sup>1/10</sup>	3.50	\$ 3.0

As of September 30, 2014, there was \$10,121 of total unrecognized compensation cost related to stock options. These costs are expected to be recognized over a weighted average period of 3.09 years.

	Years ended September 30,		
	2014	2013	2012
Fair value of shares vested during the year	\$ 3,686	\$ 4,035	\$ 4,962
Total intrinsic value of stock options exercised	\$ 1,151	\$ 2,932	\$ 1,363
Cash received from stock option exercises	\$ 2,389	\$ 2,901	\$ 460

**ROFIN-SINAR TECHNOLOGIES INC. AND SUBSIDIARIES**  
**Valuation and Qualifying Accounts - Allowance for Doubtful Accounts**  
**Years ended September 30, 2014, 2013, and 2012**  
**(dollars in thousands)**

	Balance at Beginning of Period	Acquired Reserve	Additions- Charged to Costs and Expenses	(Deductions)	Balance at End of Period
September 30, 2012	\$ 3,693	\$ —	\$ 1,666	\$ (1,444)	\$ 3,915
September 30, 2013	\$ 3,915	\$ —	\$ 156	\$ (648)	\$ 3,423
September 30, 2014	\$ 3,423	\$ —	\$ 889	\$ (974)	\$ 3,338

**Allowance for Inventory Reserve**  
**Years ended September 30, 2014, 2013, and 2012**  
**(dollars in thousands)**

	Balance at Beginning of Period	Acquired Reserve	Additions	Usage for Disposals and Scrap	Balance at End of Period
September 30, 2012	\$ 25,292	\$ —	\$ 7,039	\$ (5,174)	\$ 27,157
September 30, 2013	\$ 27,157	\$ —	\$ 8,890	\$ (7,455)	\$ 28,592
September 30, 2014	\$ 28,592	\$ —	\$ 7,133	\$ (5,751)	\$ 29,974

## INDEX TO EXHIBITS

Exhibit No.	Exhibit
3.1	Certificate of Incorporation of the Company and Form of Certificate of Amendment thereto (*)
3.2	By-Laws of the Company, As Amended Through November 29, 2011 (*****)
4.1	Form of Rights Agreement (*)
10.1	Inheritable Building Right (Erbbaurecht), dated as of March 1, 1990, between ROFIN-SINAR Laser GmbH and Lohss GmbH (in German, English summary provided) (*)
10.2	Lease Agreement, dated August 10, 1990, between Josef and Maria Kranz and ROFIN-SINAR Laser GmbH (in German, English summary provided) (*)
10.3	Lease Agreement, dated March 25, 1993, between DR Group and ROFIN-SINAR, Incorporated (Concept Drive property) (*)
10.4	ROFIN-SINAR Laser GmbH Pension Plan (in German, English summary provided) (*) (a)
10.5	Deutsche Bank AG Commitment Letter dated August 22, 1996 (*)
10.6	Form of Employment Agreement, dated as of September 2, 1996, among Peter Wirth, ROFIN-SINAR Laser GmbH, and ROFIN-SINAR Technologies Inc. (in German, English summary provided) (a)
10.7	Form of Employment Agreement, dated as of September 2, 1996, among Gunther Braun, ROFIN-SINAR Laser GmbH, and ROFIN-SINAR Technologies Inc. (in German, English summary provided) (*) (a)
10.8	Lease Agreement between Carl Baasel and ROFIN-SINAR Laser GmbH (**)
10.9	2002 Equity Incentive Plan (****) (a)
10.10	2007 Incentive Stock Plan (*****) (a)
14.1	Code of Business Ethics (*****)
21.1	List of Subsidiaries of the Registrant
23.1	Consent of Deloitte & Touche, LLP Independent Registered Public Accounting Firm,
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1	Section 1350 Certification of Chief Executive Officer
32.2	Section 1356 Certification of Chief Financial Officer
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
(*)	Incorporated by reference to the exhibits filed with the Company's Registration Statement on Form S-1 (File No. 333-09539) which was declared effective on September 25, 1996.
(**)	Incorporated by reference to the exhibit filed with the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 24, 2000.
(****)	Incorporated by reference to the exhibit filed with the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on December 23, 2003.
(*****)	Incorporated by reference to the exhibit filed with the Company's Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on January 30, 2004.
(*****)	Incorporated by reference to the exhibit filed with the Company's Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on January 25, 2007, and as amended by the Company's Current Report on Form 8-K filed with the Securities and Exchange Commission on March 2, 2011.
(*****)	Incorporated by reference to the exhibit filed with the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 29, 2011.
(a)	Management contracts and compensatory plans and arrangements required to be filed as exhibits pursuant to Item 15(c) of this Report.

## LIST OF SUBSIDIARIES AND INVESTMENTS OF ROFIN-SINAR TECHNOLOGIES INC.

Name	State or Other Jurisdiction of Incorporation
ROFIN-SINAR, Inc.	Delaware, USA
PRC LASER Corporation	Delaware, USA
PRC Laser Europe N.V.	Belgium
Lee Laser, Inc.	Delaware, USA
Nuferm	East Granby, USA
ROFIN-SINAR Technologies Europe S.L.U.	Spain
ROFIN-SINAR Laser GmbH	Germany
ROFIN-BAASEL Japan Corp.	Japan
Rasant-Alcotec Beschichtungstechnik GmbH	Germany
Baasel Lasermed GmbH	Germany
CBL Verwaltungsgesellschaft mbH	Germany
ROFIN-BAASEL Lasertech GmbH & Co. KG	Germany
ROFIN-BAASEL, Inc.	Massachusetts, USA
WB-PRC Laser Service GmbH	Germany
Optoskand AB	Sweden
PMB Elektronik GmbH	Germany
ROFIN-BAASEL Italiana S.r.l.	Italy
ROFIN-BAASEL France SAS	France
ROFIN-SINAR UK Ltd.	United Kingdom
ROFIN-BAASEL UK Ltd.	United Kingdom
ROFIN-BAASEL Benelux B.V.	The Netherlands
ROFIN-BAASEL Singapore Pte., Ltd.	Singapore
ROFIN-BAASEL Espana S.L.U.	Spain
DILAS Diodenlaser GmbH	Germany
ROFIN-BAASEL Taiwan Ltd.	Taiwan
ROFIN-BAASEL Korea Co., Ltd.	Korea
ROFIN-BAASEL China Co., Ltd.	China
ROFIN-BAASEL Canada Ltd.	Canada
DILAS Diode Laser, Inc.	Delaware, USA
m2k-laser GmbH	Germany
Corelase Oy	Finland
ES Technology Ltd.	United Kingdom
DILAS Diodelaser China Co., Ltd.	China
Nanjing Eastern Technologies Company, Ltd.	China
ROFIN-BAASEL Swiss AG	Switzerland
Nanjing Eastern Laser Co., Ltd.	China
ROFIN-LASAG AG	Switzerland
ROFIN BAASEL Laser India Pvt. Ltd.	India

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement Nos. 333-103145, 333-157973, and 333-174082 on Form S-8 of our report dated December 1, 2014, relating to the consolidated financial statements and financial statement schedule of ROFIN-SINAR Technologies Inc. and subsidiaries, and the effectiveness of ROFIN-SINAR Technologies Inc. and subsidiaries internal control over financial reporting, appearing in this Annual Report on Form 10-K of ROFIN-SINAR Technologies Inc. for the year ended September 30, 2014.

Deloitte & Touche LLP

Detroit, MI

December 1, 2014

**Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer**

I, Günther Braun, certify that:

1. I have reviewed this Annual Report on Form 10-K of ROFIN-SINAR Technologies Inc.
2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Annual Report.
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 1, 2014

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Günther Braun  
Chief Executive Officer

**Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer**

I, Ingrid Mittelstaedt, certify that:

1. I have reviewed this Annual Report on Form 10-K of ROFIN-SINAR Technologies Inc.
2. Based on my knowledge, this Annual Report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.
3. Based on my knowledge, the financial statements, and other financial information included in this Annual Report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this Annual Report.
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Generally Accepted Accounting Principles;
  - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report, based on such evaluation; and
  - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: December 1, 2014

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Ingrid Mittelstaedt  
Chief Financial Officer

**Section 1350 Certification of the Chief Executive Officer**

In connection with the Annual Report of ROFIN-SINAR Technologies Inc. (the “Company”) on Form 10-K for the year ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Günther Braun, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 1, 2014

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Günther Braun  
Chief Executive Officer

**Section 1350 Certification of the Chief Financial Officer**

In connection with the Annual Report of ROFIN-SINAR Technologies Inc. (the “Company”) on Form 10-K for the year ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Ingrid Mittelstaedt, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: December 1, 2014

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Ingrid Mittelstaedt  
Chief Financial Officer