

GSI GROUP INC
Form 10-Q
December 13, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended July 2, 2010

Or

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

For the transition period from to

Commission File No. 000-25705

GSI Group Inc.

(Exact name of registrant as specified in its charter)

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New Brunswick, Canada
(State or other jurisdiction of
incorporation or organization)
125 Middlesex Turnpike
Bedford, Massachusetts, USA
(Address of principal executive offices)

98-0110412
(I.R.S. Employer
Identification No.)
01730
(Zip Code)
(781) 266-5700
(Registrant's telephone number, including area code)

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

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

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

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

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

As of October 31, 2010, there were 100,026,395 of the Registrant's common shares, no par value, issued and outstanding.

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GSI GROUP INC.

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Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements****GSI GROUP INC.****(DEBTORS-IN-POSSESSION)****CONSOLIDATED BALANCE SHEETS****(In thousands of U.S. dollars, except share data)****(Unaudited)**

	July 2, 2010	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 87,373	\$ 63,328
Accounts receivable, net of allowance of \$650 and \$1,776, respectively	55,247	47,037
Income taxes receivable	22,334	24,192
Inventories	64,077	65,596
Deferred tax assets	6,364	6,370
Deferred cost of goods sold	6,317	30,070
Prepaid expenses and other current assets	4,962	5,479
Total current assets	246,674	242,072
Property, plant and equipment, net of accumulated depreciation and amortization of \$50,199 and \$49,227, respectively	47,519	49,502
Deferred tax assets	23,032	22,876
Investments in auction rate securities		11,272
Other assets	3,766	4,983
Intangible assets, net	57,195	61,509
Goodwill	44,578	44,578
Total Assets	\$ 422,764	\$ 436,792
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Accounts payable	\$ 26,726	\$ 13,430
Income taxes payable	1,177	518
Accrued compensation and benefits	7,752	5,084
Deferred revenue	16,124	55,755
Deferred tax liabilities	826	831
Other accrued expenses	27,101	14,234
Total current liabilities	79,706	89,852
Deferred revenue	244	
Deferred tax liabilities	25,868	25,848
Accrued restructuring, net of current portion	788	1,256
Income taxes payable	6,210	6,088
Accrued pension liability	4,422	4,838

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Other liabilities	2,806	4,039
Total long term liabilities	40,338	42,069
Liabilities subject to compromise	219,252	220,560
Total liabilities	339,296	352,481
Commitments and contingencies (Note 12)		
Stockholders' Equity:		
Common shares, no par value; Authorized shares: unlimited; Issued and outstanding: 47,901,978 and 47,843,229 respectively	330,896	330,896
Additional paid-in capital	13,470	12,610
Accumulated deficit	(255,112)	(256,046)
Accumulated other comprehensive loss	(6,119)	(3,430)
Total GSI Group Inc. stockholders' equity	83,135	84,030
Noncontrolling interest	333	281
Total stockholders' equity	83,468	84,311
Total Liabilities and Stockholders' Equity	\$ 422,764	\$ 436,792

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

Table of Contents**GSI GROUP INC.****(DEBTORS-IN-POSSESSION)****CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands of U.S. dollars, except share and per share amounts)****(Unaudited)**

	Three Months Ended		Six Months Ended	
	July 2, 2010	July 3, 2009	July 2, 2010	July 3, 2009
Sales	\$ 85,737	\$ 62,904	\$ 200,352	\$ 126,812
Cost of goods sold	47,681	38,451	113,258	78,760
Gross profit	38,056	24,453	87,094	48,052
Operating expenses:				
Research and development and engineering	7,399	6,870	14,764	15,001
Selling, general and administrative	17,573	14,601	35,145	29,439
Amortization of purchased intangible assets	1,126	1,600	2,254	3,220
Restructuring, restatement related costs and other	1,011	3,090	1,679	11,390
Pre-petition professional fees		1,280		1,950
Total operating expenses	27,109	27,441	53,842	61,000
Income (loss) from operations	10,947	(2,988)	33,252	(12,948)
Interest income	25	89	50	229
Interest expense	(5,747)	(7,055)	(11,555)	(14,231)
Foreign exchange transaction gains (losses)	(106)	(1,382)	263	(1,341)
Other income	1,081	889	1,686	162
Income (loss) from continuing operations before reorganization items and income taxes	6,200	(10,447)	23,696	(28,129)
Reorganization items	(10,617)		(20,247)	
Income (loss) from continuing operations before income taxes	(4,417)	(10,447)	3,449	(28,129)
Income tax provision (benefit)	638	(734)	2,463	(1,656)
Income (loss) from continuing operations	(5,055)	(9,713)	986	(26,473)
Loss from discontinued operations, net of tax		(132)		(132)
Consolidated net income (loss)	(5,055)	(9,845)	986	(26,605)
Less: Net (income) loss attributable to noncontrolling interest	(11)	(14)	(52)	5
Net income (loss) attributable to GSI Group Inc.	\$ (5,066)	\$ (9,859)	\$ 934	\$ (26,600)
Income (loss) from continuing operations attributable to GSI Group Inc. per common share:				
Basic	\$ (0.11)	\$ (0.20)	\$ 0.02	\$ (0.56)
Diluted	\$ (0.11)	\$ (0.20)	\$ 0.02	\$ (0.56)
Loss from discontinued operations attributable to GSI Group, Inc. per common share:				
Basic	\$	\$	\$	\$

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Diluted	\$	\$	\$	\$
Net income (loss) attributable to GSI Group Inc. per common share:				
Basic	\$ (0.11)	\$ (0.21)	\$ 0.02	\$ (0.56)
Diluted	\$ (0.11)	\$ (0.21)	\$ 0.02	\$ (0.56)
Weighted average common shares outstanding basic	47,902	47,733	47,879	47,662
Weighted average common shares outstanding diluted	47,902	47,733	47,943	47,662
Amounts attributable to GSI Group Inc.:				
Income (loss) from continuing operations	\$ (5,066)	\$ (9,727)	\$ 934	\$ (26,468)
Loss from discontinued operations		(132)		(132)
Net income (loss)	\$ (5,066)	\$ (9,859)	\$ 934	\$ (26,600)

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

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GSI GROUP INC.
(DEBTORS-IN-POSSESSION)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands of U.S. dollars)
(Unaudited)

	Six Months Ended	
	July 2, 2010	July 3, 2009
Cash flows from operating activities:		
Consolidated net income (loss)	\$ 986	\$ (26,605)
Adjustments to reconcile net income (loss) to net cash from operating activities:		
Loss from operations of discontinued operations		132
Depreciation and amortization	7,505	9,265
Provision for uncollectible receivables	(591)	240
Provision for inventory obsolescence	3,414	847
Step-up value of acquired inventory sold		139
Share based compensation	1,090	1,326
Deferred income taxes	149	(177)
Earnings from equity investment	(622)	(235)
Loss (gain) on sale of property and assets	40	(207)
Gain on sale of auction rate securities	(988)	(1,749)
Non-cash interest expense		2,569
Non-cash restructuring charges	40	25
Changes in operating assets and liabilities:		
Accounts receivable	(5,044)	8,721
Inventories	(2,074)	1,752
Deferred cost of goods sold	23,753	11,105
Prepaid expenses and other current assets	471	2,100
Deferred revenue	(39,387)	(23,436)
Deferred rent	(250)	(160)
Accounts payable, accrued expenses and income taxes receivable and payable	26,136	(5,189)
Changes in other non-current assets and liabilities	(83)	(1,555)
Cash provided by (used in) operating activities of discontinued operations		(132)
Cash used in operating activities	14,545	(21,224)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(1,196)	(536)
Proceeds from the sale of auction rate securities	11,408	13,264
Proceeds from the sale of property, plant and equipment		492
Cash provided by investing activities	10,212	13,220
Cash flows from financing activities:		
Payments for debt issuance costs	(513)	
Cash used in financing activities	(513)	
Effect of exchange rates on cash and cash equivalents	(199)	38
Increase (decrease) in cash and cash equivalents	24,045	(7,966)
Cash and cash equivalents, beginning of period	63,328	69,001

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Cash and cash equivalents, end of period	\$ 87,373	\$ 61,035
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Supplemental disclosure of cash flow information:

Cash paid for reorganization items	\$ 13,486	\$
Cash paid for interest	\$	\$ 11,250
Cash paid for income taxes	\$ 857	\$ 454
Income tax refunds received	\$ 1,753	\$ 7,442

Supplemental disclosure of non cash investing activity:

Auction rate securities	\$	\$ 764
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Supplemental disclosure of non cash financing activity:

Debt issuance costs	\$ 460	\$
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The accompanying notes are an integral part of these consolidated financial statements.

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GSI GROUP INC.

(DEBTORS-IN-POSSESSION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Organization, Presentation and Significant Events

GSI Group Inc. (*GSIG*) and its subsidiaries (collectively *the Company*) designs, develops, manufactures and sells photonics-based solutions (consisting of lasers, laser systems and electro-optical components), precision motion devices, associated precision motion control technology and systems. The Company's customers incorporate its technology into their products or manufacturing processes, for a wide range of applications in a variety of markets, including: industrial, scientific, electronics, semiconductor, medical and aerospace. The Company operates in three segments: Precision Technology, Semiconductor Systems, and Excel. The Excel segment was established in August 2008 following the Company's acquisition of Excel Technology, Inc. (*Excel*), a designer, manufacturer and marketer of photonics-based solutions. The Company's principal markets are in North America, Europe, Japan and Asia-Pacific. The Company exists under the laws of New Brunswick, Canada.

Chapter 11 Bankruptcy Filing

On November 20, 2009 (the *Petition Date*), *GSIG* and two of its wholly-owned United States subsidiaries, *GSI Group Corporation* (*GSI US*) and *MES International, Inc.* (*MES*) and, collectively with *GSIG* and *GSI US*, the *Debtors*), filed voluntary petitions for relief (the *Chapter 11 Petitions*) under Chapter 11 of the United States Bankruptcy Code (the *Bankruptcy Code*) in the United States Bankruptcy Court for the District of Delaware (the *Bankruptcy Court*) (the *Chapter 11 Cases*).

Following the *Petition Date*, the *Debtors* continued to operate their business as *debtors-in-possession* under the jurisdiction of the *Bankruptcy Court* and in accordance with the applicable provisions of the *Bankruptcy Code* and orders of the *Bankruptcy Court*.

On May 24, 2010, the *Debtors* filed with the *Bankruptcy Court* a modified joint Chapter 11 plan of reorganization for the *Debtors*, which was further supplemented on May 27, 2010 (as supplemented, the *Final Chapter 11 Plan*). On May 27, 2010, the *Bankruptcy Court* entered an order confirming and approving the *Final Chapter 11 Plan* and the plan documents.

On July 23, 2010 (the *Effective Date*) the *Debtors* consummated their reorganization through a series of transactions contemplated by the *Final Chapter 11 Plan*, and the *Final Chapter 11 Plan* became effective pursuant to its terms. Refer to Note 15 to Consolidated Financial Statements for additional information concerning the *Chapter 11 Cases* including a description of material agreements the *Company* entered into on the *Effective Date* pursuant to the terms of the *Final Chapter 11 Plan*.

Listing of Common Shares

Prior to November 4, 2009, the *Company*'s common shares were traded on the NASDAQ Global Select Market under the symbol *GSIG* . From November 5, 2009 through November 19, 2009, the *Company*'s common shares were quoted on Pink OTC Markets, Inc., under the trading symbol *GSIG* . Following the *Company*'s filing of the *Chapter 11 Petitions* on November 20, 2009, its common shares were quoted on Pink OTC Markets, Inc. under the trading symbol *GSIGQ* . Following the *Company*'s emergence from bankruptcy on July 23, 2010, its common shares have been quoted on Pink OTC Markets Inc., under the trading symbol *LASR.PK* .

Going Concern

On November 20, 2009, *GSIG*, together with two of its wholly-owned United States subsidiaries, voluntarily filed petitions for relief under Chapter 11 of the United States Bankruptcy Code. Under the *Bankruptcy Code*, the *Company*'s status as a bankruptcy debtor automatically accelerated the payment of the debt arising under the \$210.0 million of 11% unsecured senior notes due 2013 (the *2008 Senior Notes*). Accordingly, this debt has been classified as part of liabilities subject to compromise as of July 2, 2010 and December 31, 2009 in the *Company*'s accompanying consolidated balance sheets. Operating in bankruptcy imposed significant risks and uncertainties on the *Company*'s business.

However, the *Company* emerged from bankruptcy on July 23, 2010 and, in connection therewith, completed a rights offering (the *Rights Offering*) pursuant to which it sold common shares for approximately \$64.9 million in cash proceeds (the *Cash Proceeds*). The proceeds from

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the Rights Offering were used to pay down a portion of the obligations due with respect to the 2008 Senior Notes. The remaining obligations due with respect to the 2008 Senior Notes for unpaid principal and accrued interest were satisfied through the issuance of the Company's common shares, the payment of cash and the issuance of the new 12.25% Senior Secured PIK Election Notes (the New Notes) which mature in July 2014. As a result of the Company's emergence from bankruptcy and the associated restructuring of its debt obligations, the Company believes it has sufficient liquidity to fund its operations through at least July 2011.

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GSI GROUP INC.

(DEBTORS-IN-POSSESSION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

2. Bankruptcy Disclosures

As discussed in Note 1 to Consolidated Financial Statements, GSIG and two of its United States subsidiaries filed voluntary petitions for relief under Chapter 11 of the Bankruptcy Code. On May 27, 2010, the Bankruptcy Court entered an order confirming and approving the Final Chapter 11 Plan for the Debtors and the Final Chapter 11 Plan became effective and the transactions contemplated under the Final Chapter 11 Plan were consummated on July 23, 2010. Presented below are condensed combined financial statements of the Debtors and information concerning liabilities subject to compromise under the Final Chapter 11 Plan, pre-petition professional fees and reorganization items.

The Company has prepared the accompanying consolidated financial statements in accordance with Accounting Standard Codification (ASC) 852, Reorganizations and on a going-concern basis, which assumes continuity of operations, realization of assets and satisfaction of liabilities in the ordinary course of business.

ASC 852 requires that the financial statements for periods subsequent to a Chapter 11 filing separate transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, all transactions (including, but not limited to, all professional fees, realized gains and losses and provisions for losses) directly associated with the reorganization and restructuring of the businesses are reported separately in the financial statements. All such costs are reported in reorganization items in the accompanying consolidated statements of operations for the three and six months ended July 2, 2010.

Condensed Combined Financial Statements

Since the consolidated financial statements of the Company include entities not in Chapter 11 reorganization proceedings, the following presents condensed combined financial information of the entities in Chapter 11 reorganization proceedings. The condensed combined financial information has been prepared, in all material aspects, on the same basis as the consolidated financial statements of the Company.

Basis of Presentation

The financial statements contained within this note represent the condensed combined financial statements for the Debtors only. The Company's non-Debtor subsidiaries are treated as non-consolidated subsidiaries in these financial statements and as such their net income (loss) is included as Equity income (loss) from non-Debtor subsidiaries, net of tax in the statement of operations and their net assets are included as Investments in non-Debtor subsidiaries in the balance sheets.

Intercompany Transactions

Intercompany transactions between Debtors have been eliminated in the financial statements contained herein. Intercompany transactions with the Debtor's non-Debtor subsidiaries have not been eliminated in the financial statements and are reflected as Liabilities to non-Debtor subsidiaries, net .

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	July 2, 2010	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 23,147	\$ 10,809
Accounts receivable, net	13,272	8,788
Income taxes receivable	24,612	26,071
Inventories	15,848	19,105
Deferred cost of goods sold	3,293	27,485
Other current assets	1,484	2,424
Total current assets	81,656	94,682
Property, plant and equipment, net of accumulated depreciation and amortization	12,454	13,727
Investments in non-Debtor subsidiaries	289,609	291,300
Other assets	17,927	17,599
Total assets	\$ 401,646	\$ 417,308
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities		
Liabilities to non-Debtor subsidiaries, net	\$ 3,526	\$ 6,611
Accounts payable	15,327	3,643
Accrued compensation and benefits	1,924	1,191
Deferred revenue	8,689	50,104
Other accrued expenses	19,647	6,892
Total current liabilities	49,113	68,441
Liabilities to non-Debtor subsidiaries, net	40,968	34,671
Other liabilities	8,845	9,325
Liabilities subject to compromise	219,252	220,560
Total liabilities	318,178	332,997
Stockholders' equity:	83,468	84,311

Total liabilities and stockholders' equity	\$ 401,646	\$ 417,308
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GSI Group Inc.

CONDENSED COMBINED DEBTORS-IN-POSSESSION STATEMENT OF OPERATIONS

(In thousands of U.S. dollars)

(Unaudited)

	For the period from April 3, 2010 through July 2, 2010	For the period from January 1, 2010 through July 2, 2010
Sales	\$ 25,897	\$ 85,613
Cost of goods sold	13,964	48,670
Gross profit	11,933	36,943
Operating expenses:		
Research and development and engineering	2,834	5,544
Selling, general and administrative	7,990	14,732
Amortization of purchased intangible assets	132	264
Restructuring, restatement related costs and other	993	1,680
Total operating expenses	11,949	22,220
Income (loss) from operations	(16)	14,723
Interest expense, net	(5,739)	(11,542)
Other income, net	18,794	18,400
Equity income (loss) from non-Debtor subsidiaries, net of tax	(7,503)	(399)
Income from continuing operations before reorganization items and income taxes	5,536	21,182
Reorganization items	(10,616)	(20,246)
Income (loss) from continuing operations before income taxes	(5,080)	936
Income tax benefit	(25)	(50)
Net income (loss)	\$ (5,055)	\$ 986

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	For the period from January 1, 2010 through July 2, 2010
Cash flows from operating activities:	
Net income	\$ 986
Adjustments to reconcile net income to net cash from operating activities	4,172
Changes in assets and liabilities	7,748
Cash provided by operating activities	12,906
Cash flows from investing activities:	
Cash provided by (used in) investing activities	(55)
Cash flows from financing activities:	
Payments for debt issuance costs	(513)
Cash used in financing activities	(513)
Increase in cash and cash equivalents	12,338
Cash and cash equivalents, beginning of period	10,809
Cash and cash equivalents, end of period	\$ 23,147

Liabilities Subject to Compromise

As a result of the Chapter 11 filing, the payment of pre-petition indebtedness may be subject to compromise or other treatment under the Final Chapter 11 Plan as described in more detail below. Generally, actions to enforce or otherwise affect payment of pre-petition liabilities are stayed. Although pre-petition claims are generally stayed, at a hearing held on November 24, 2009, the Bankruptcy Court approved the Debtors' first day motions generally designed to stabilize the Debtors' operations and cover, among other things, human capital obligations, supplier relations, customer relations, business operations, tax matters, cash management, utilities, case management and retention of professionals.

The Company's undisputed post-petition claims are being paid in the ordinary course of business. In addition, the Debtors may reject pre-petition executory contracts and unexpired leases with respect to the Debtors' operations, with the approval of the Bankruptcy Court. Damages resulting from rejection of executory contracts and unexpired leases are treated as general unsecured claims and are classified as liabilities subject to compromise upon rejection. On January 20, 2010, the Bankruptcy Court established February 24, 2010 as the bar date for non-governmental units and May 19, 2010 as the bar date for governmental units. The bar date is the date by which claims against the Debtors arising prior to the Debtors' Chapter 11 filings must be filed if the claimants wish to receive any distribution in the Chapter 11 Cases. On January 25, 2010, the

Debtors commenced notification, including publication, to