

FORM 10-K

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended September 30, 1997
Commission file number: 000-21377

Rofin-Sinar Technologies Inc. <small>(Exact name of registrant as specified in its charter)</small>	
Delaware <small>(State of other jurisdiction of incorporation or organization)</small>	38-3306461 <small>(I.R.S. Employer Identification No.)</small>
45701 Mast Street, Plymouth, MI <small>(Address of principal executive offices)</small>	48170 <small>(Zip Code)</small>
Registrant's telephone number, including area code:	(734) 455-5400
Securities registered pursuant to Section 12(b) of the Act:	NONE
Securities registered pursuant to Section 12(g) of the Act:	

Title of each class

Common Stock, \$.01 par value
Rights Associated with Common Stock, par value \$.01 per Share

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

The aggregate market value of the common stock held by non-affiliates of the Registrant (based upon the closing price of the stock on the Nasdaq National Market on December 26, 1997) was approximately \$142,494,413.

APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS

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

11,514,700 shares of the Registrant's common stock, par value \$.01 per share, were outstanding as of December 26, 1997.

Documents Incorporated by Reference

Certain sections of the Company's Proxy Statement to be filed in connection with the Company's 1998 Annual Meeting of Stockholders to be held in March 1998 are incorporated by reference herein at Part III, Items 10 - 13.

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PART I

Special 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"). Such forward-looking statements involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, or achievements of the Company to be materially different from any future results, performance or achievements, expressed or implied by such forward-looking statements.

Item 1. Business

Company Overview

Rofin-Sinar Technologies Inc. ("Rofin-Sinar" or the "Company") was incorporated in Delaware on July 19, 1996. On September 30, 1996, Rofin-Sinar Technologies Inc. consummated an initial public offering of its common stock ("IPO"). Prior to the IPO, the common stock of Rofin-Sinar, a newly formed holding company, Rofin-Sinar Inc. ("RSI") and Rofin-Sinar Laser GmbH ("RSL") were each owned directly or indirectly by Siemens AG ("Siemens"). RSL includes the consolidated accounts of its 99.97% owned subsidiary, Rofin-Sinar France S.A.; its 90.65% owned subsidiary Rofin-Sinar Italiana S.r.l.; and its 51% owned subsidiary Rofin-Marubeni Laser Corporation (a Japanese corporation). Concurrent with the IPO, the stock of RSI and RSL (together, the "Rofin-Sinar Group"), including all business operations, assets and liabilities, were sold to the Company in a reorganization.

Rofin-Sinar designs, develops, engineers, manufactures and markets laser products for cutting, welding and marking a wide range of industrial materials. Lasers are a non-contact technology for material processing which have several advantages that are desirable in industrial applications. The Company believes it has a worldwide market share (based on sales volume) of approximately 20% for laser products used for cutting and welding applications and that it is among the largest suppliers of laser products used for marking applications in Europe and the Asia/Pacific region (other than Japan). Over 80% of the Company's sales in fiscal 1997 were made to existing customers. The Company has sold more than 5,000 laser sources since 1975 and currently has over 1,500 active customers (including multinational companies with multiple facilities purchasing from the Company). During both fiscal 1996 and fiscal 1997, approximately 72% of the Company's revenues were from sales and servicing of laser products for cutting and welding applications and approximately 28% were from sales and servicing of laser products for marking applications.

Through its global manufacturing, distribution and service network, the Company provides a comprehensive range of laser solutions to three principal target markets for material processing lasers: the machine tool, automotive and semiconductor & electronics industries. The Company sells directly to industrial end-users, to OEMs (principally in the machine tool industry) who integrate Rofin-Sinar's laser sources with other system components, and to distributors. Many of Rofin-Sinar's customers are among the largest global participants in their respective industries. During 1996 and 1997 fiscal years respectively, 34% and 35% of the Company's sales were in North America, and 66% and 65% in Europe/Asia.

In August 1997, Rofin-Sinar acquired 80% of the common stock of Dilas Diodenlaser GmbH ("Dilas"), a German limited liability company, based in Mainz, Germany. Dilas designs and manufactures diode lasers and components for a wide range of material processing applications and sells them to the machine tool, automotive and semiconductor and electronics industries, as well as to the research, measurement and medical instruments industries.

The Company's Laser Products

The Company currently offers a comprehensive range of laser products and related services for three principal material processing applications: (1) cutting; (2) welding; and (3) marking. Rather than offering standardized laser systems, the Company works directly with its customers to develop and customize optimal solutions for their manufacturing requirements. In developing its laser solutions, the Company offers customers its expertise in: (i) product development and manufacturing services based on over 20 years of laser technology experience and applications know-how; (ii) application and process development (i.e., developing new laser-based applications for manufacturing customers and assisting them in integrating lasers into their production processes); (iii) system engineering (i.e., advising customers on machine design, including tooling, automation and controls for customers in need of "turn-key" solutions); and (iv) 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 cutting and welding applications and of laser products used for marking applications in fiscal 1996 and 1997:

<u>Product Category*</u>	September 30,	
	Fiscal 1996	Fiscal 1997
	(in thousands)	
Lasers for cutting and welding	\$83,473	\$93,452
Laser marking products	32,430	35,941
Total sales, net	\$115,903	\$129,393

* For each product category, net sales includes sales of services (including training, maintenance and repair) and spare parts.

The Company from time to time reviews various opportunities to acquire businesses, technologies or products complementary to the Company's present business.

Laser Products for Cutting and Welding

The laser sources sold by the Company consist of a laser head (containing the lasing medium, resonator, source of excitation, resonator mirrors and cooling mechanism), power supply and microcontroller (for control and monitoring). For a more detailed discussion of the components of a laser source, see "- Laser Technology." Products are offered in different configurations and utilize different design principles according to the desired application. 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's family of CO₂ laser products for cutting and welding and their principal markets and applications are as discussed below:

<u>Laser Series</u>	<u>Power Range</u>	<u>Mode of Excitation</u>
RS DC Slab Series	1.5 kW - 2.5 kW	High Frequency
RS HF Series	4.0 kW - 8.0 kW	High Frequency
RS SM Series	700 W - 2.0 kW	Direct Current

Rofin-Sinar introduced its diffusion-cooled RS DC Slab Series laser in mid-1995 and to date has shipped over 150 units. The Company believes that it is the only laser manufacturer of diffusion-cooled slab-based lasers in the high-power range. In this laser design, a high frequency (HF) excited gas discharge occurs between two water-cooled electrodes which have a large surface area that permits maximum heat dissipation. The core diffusion-cooled technology is protected by two patents and the Company has exclusive license rights to this technology on a worldwide basis for the range above 500 W for material processing applications. The Company's current focus with respect to its Slab Series lasers is on increasing their power output and reducing their manufacturing costs in order to achieve more attractive pricing. Principal markets for the Slab Series lasers are the machine tool and automotive industries.

The Company's RS HF Series lasers combine proven cross-flow design principles with modern high-frequency (HF) discharge excitation technology. Since its introduction in fiscal 1995, the Company has shipped this product predominantly to customers in the automotive industry and their sub-suppliers in the United States and Europe, where it has been used in a significant number of welding applications, including transmissions, tailored blanks and many other car parts and components. In fiscal 1997 the Company has increased the output power of this product to 8kW. The automotive industry is the principal market for the HF Series laser.

The Company's SM Series fast-axial flow CO₂ laser is used for both cutting and welding applications. 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. Due to the potential to reduce the manufacturing cost of the Slab lasers, the Company intends over the next two years to replace the SM Series product family with the Slab Series laser. SM Series products are used primarily by the machine tool industry.

The Company's family of Nd:YAG laser products for cutting and welding and their principal markets are discussed below:

<u>Laser Series</u>	<u>Power Range</u>	<u>Mode of Excitation</u>
RS P Series	50W - 1 kW	Flash Lamp
RSY CW Series	1 kW - 2.5 kW	Flash Lamp

The Company's RSY P Series of pulsed Nd:YAG lasers are designed to meet the requirements of a wide range of welding and cutting applications. Their high peak power, flexible fiber-optic beam delivery system and the small focused beam spot size allow these lasers to be successfully applied in many cutting and welding applications. The RSY lasers' pulse shaping capability (achieved through programming of the power supply) makes these lasers particularly well suited to the processing of metallurgically difficult materials such as aluminum and its different alloys. Principal markets for these lasers are the automotive and precision welding markets.

Rofin-Sinar's RSY CW Series of continuous wave Nd:YAG lasers are designed exclusively for use with flexible fiber-optic beam delivery systems, making them particularly well suited for integration into complex production systems. The key competitive advantages of the CW Series lasers are their pulse shaping capability and multiple power output configurations. These configurations include continuous wave and pulsed power ramping modes separately or in combination with each other, which allows the Company to address a wide range of customer applications. Power ramping is particularly suited for achieving smooth welds and avoiding cracks during the welding process. In addition, several features of the CW Series laser such as the simple resonator design, easy to access power supply and highly durable ceramic pumping chambers are designed with a view to long service intervals and therefore low maintenance costs. These lasers are used principally in the automotive industry.

The Company is actively engaged in the development of diode-pumped solid-state Nd:YAG lasers through a joint research program with the Fraunhofer Institute for Laser Technology as well as through a second program sponsored by the Bavarian Government. The Company's objective is to develop diode-pumped lasers capable of performing industrial material processing applications (e.g. car body welding), more rapidly than previously possible and at reduced operating and maintenance costs. Such lasers also have potential for use in marking applications, where they could be developed in much more compact systems. See "Research and Development."

As a result of the Company's acquisition in August 1997 of Dilas, the Company's laser product offerings were extended to include a family of diode laser products for welding and soldering, the principal markets for which are discussed below:

<u>Laser Series</u>	<u>Power Range</u>	<u>Mode of Excitation</u>
Diode lasers	10W - 2000W	Direct Current

The Company's DL Series of diode lasers are designed to meet the requirements of a wide range of welding and soldering applications. The Company's high power laser diodes can be stacked into arrays achieving output powers in the multiple kilowatt range, suitable for welding and soldering of plastics and thick metals. These lasers can be integrated into a wide range of both fixed optic and fiber-optic beam delivery systems. Principal markets for these lasers, besides the automotive, machine tool and semiconductor and electronics markets, are the medical device and research markets.

Laser Marking Products

The Company's family of laser marking products is as follows:

<u>Laser Series</u>	<u>Power Range</u>	<u>Mode of Excitation</u>
PowerLine:		
CombiLine; S-Line	25W - 130W	Flash Lamp
Diode Markers	3W - 50W	Laser diodes

PowerLine - The Company's standard PowerLine laser marking product consists of a Nd:YAG laser in the range of 25 to 130W, galvo-head, personal computer with Pentium processor, and Rofin-Sinar's proprietary Laser Work Bench software. The modular design of the PowerLine marker enables customers to order the most suitable configuration for their production process or system (e.g. OEM customers may order the laser head, power supply, and laser cooling assembly plates as subassemblies without the cabinet for easier integration into the handling system specified by the end user). The PowerLine marker's Nd:YAG laser incorporates a dual lamp ceramic cavity design using "long-life" lamps (guaranteed to provide 1,200 hours usage) which results in higher output power (and therefore higher marking speeds), higher energy efficiency (and therefore reduced operating costs), high beam quality (and therefore constant and reliable marking quality), and longer service intervals. The Company's proprietary Laser Work Bench software provides operators with a user-friendly desktop publishing environment that allows them to manipulate fonts, import graphics, preview marking and control all laser parameters and job programs. Special options and accessories include a double-marking head allowing marking speeds of up to 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.

CombiLine - Built on a modular design, the CombiLine consists of a PowerLine laser marker that can be combined with a variety of parts handling systems developed by the Company. The parts handling options include motor driven positioning tables, foil handling systems for marking labels, conveyor belts and pick-and-place systems, allowing the CombiLine to be customized as a turn-key system.

S-Line - The S-Line is targeted for the low-end laser marking segment in North America and Europe currently served by a number of smaller regional competitors. This product is a lower-cost, more standardized version of the Company's PowerLine product with the same basic software but fewer features and options. The company introduced this product in June 1997.

Diode Markers - The Diode Marker products are based on the PowerLine model but utilize laser diodes, in place of flash-lamps, to pump the Nd:YAG rod. The laser diodes, with their guarantee to provide 5,000 hours usage, offer significantly higher up-time for customers. The main application is marking of plastics in the semiconductor and electronics industries. These products were introduced in June 1997.

Applications Development

In addition to manufacturing and selling laser sources for cutting and welding and laser marking products, the Company also develops in its applications centers laser-based solutions for customers seeking alternatives to conventional manufacturing techniques. More than 20 years' laser technology experience and know-how are embodied in the Company's applications groups, developed as a result of its participation in a broad range of industrial markets.

Markets and Customers

Rofin-Sinar's laser products and systems are currently sold to three principal industrial markets: the machine tool, automotive and semiconductor & electronics industries. The following table sets forth the distribution of the Company's total sales among the Company's principal markets:

<u>Principal Market</u>	Fiscal 1996	Fiscal 1997	<u>Primary Applications</u>
Machine Tool.....	31%	28%	Cutting
Automotive	27%	29%	Welding and component marking
Semiconductor & Electronics.....	15%	14%	Marking of integrated circuits
	72%	71%	

The remaining 28% and 29%, respectively, of sales in fiscal 1996 and fiscal 1997 were attributable to customers in a wide variety of other industries (including aerospace, consumer goods, medical device manufacturers, job shops, universities and institutes). No one customer accounted for over 10% of total sales in any of such periods.

Sales, Marketing and Distribution

Rofin-Sinar sells its products in approximately 25 countries through OEMs and to major end-users who have in-house engineering resources capable of integrating the Company's products into their own production systems. Laser sources for cutting applications are marketed and sold principally to OEMs in the machine tool industry who sell cutting machines incorporating the Company's laser products without any substantial involvement by the Company. Laser sources for welding applications are marketed and sold both to systems integrators and to end-users. Laser marking products are marketed and sold principally to OEMs for integration into their handling systems (mainly for integrated circuit marking applications). In the case of both welding lasers and laser marking products, since product samples are required to be run through the OEM's system, the end-user is significantly involved in the selection of the laser component and will typically specify that it desires a Rofin-Sinar device. In such cases, the Company's application engineers work directly with the end-user to optimize the application's performance and demonstrate the superiority of the Company's products.

The Company has 27 direct sales engineers operating in 12 countries, 16 persons are dedicated to marketing CO₂ and Nd:YAG lasers for cutting and welding and 11 dedicated to marketing of the laser marking products. In addition, Rofin-Sinar has 12 independent distributors and agents marketing the Company's welding and cutting laser products and laser marking products in Australia, Brazil, Denmark, Israel, the Philippines, the People's Republic of China, Portugal, Singapore, South Korea, Spain, Sweden and Taiwan.

The Company directs its worldwide sales and marketing of cutting and welding lasers from its offices in Hamburg, Germany. Worldwide sales and marketing of laser marking products is directed from the Company's offices in Gunding-Munich, Germany. U.S. sales of the Company's cutting and welding laser products are managed out of its Plymouth, Michigan facility. The sales office in Phoenix, Arizona supports the expansion of the Company's laser marking business in the North American market. In Europe, Rofin-Sinar also maintains sales and service offices in Italy, France, the United Kingdom and Belgium. A sales office is maintained in California to cover the Asia/Pacific region (other than Japan); the Company intends to open a sales office in that region in fiscal 1998. Subsequent to the end of the 1997 fiscal year, the Company closed the California sales office. In Japan, the Company's principal distributor is its joint venture with Marubeni Corporation and Nippei Toyama Corporation.

Customer Service and Replacement Parts

During both fiscal 1996 and fiscal 1997 approximately 23% of the Company's revenues were generated from sales of after-sale services and replacement parts for its laser products. The Company believes that a high level of customer support is necessary to develop successfully and maintain long-term relationships with its OEM and end-user customers in its laser products and laser marking systems business. This close relationship is maintained as customer needs change and

evolve. Recognizing the importance of its existing and growing installed base, the Company follows its customers into new geographic regions by providing local service and support. Rofin-Sinar has over 115 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 distributors also provide customer service and support.

Many of Rofin-Sinar's laser products are operated 24 hours a day in high speed, quality oriented manufacturing operations. Accordingly, in fiscal 1994 the Company successfully launched 24 hour, year-round service support to its U.S. and German customers and eight hour response time for its major customers. This support includes field service personnel who reside in close proximity to the Company's installed base. Rofin-Sinar plans to adopt similar service support elsewhere. 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-Sinar's customer service personnel, approximately 85 employees operate in the field in 40 countries. Field service personnel are also involved in the installation of the Company's systems.

Rofin-Sinar's approach to the sale of replacement parts is closely linked to the Company's strategic focus on rapid customer response. The Company has round-the-clock order entry and provides same or next day delivery of parts worldwide in order to minimize disruption to a customer's manufacturing operations. Rofin-Sinar generally agrees to provide after sale parts and service for 10 years if requested by the customer. The Company's growing base of installed laser sources and laser marking products is expected to continue to generate a stable source of parts and service sales.

Competition

Laser Products for Cutting and Welding

The market for laser products and systems is fragmented, and includes a large number of competitors, many of which are small or privately owned or which compete with Rofin-Sinar on a limited geographic, industry-specific or application-specific basis. The Company also competes in certain target markets with competitors which are part of large industrial groups and have access to substantially greater financial and other resources than the Company. Competition among laser manufacturers includes attracting and retaining qualified engineering and technical personnel. The overall competitive position of the Company will depend upon a number of factors, including product performance and reliability, customer support, manufacturing quality, the compatibility of its products with existing laser systems, and the ability to successfully develop products utilizing the emerging technologies of diode lasers and diode-pumped solid-state lasers.

Rofin-Sinar believes it is among the top three suppliers of laser sources in the worldwide market for cutting and welding applications. Companies such as Trumpf, Fanuc and PRC (for CO₂ lasers), Haas and Lumonics (for Nd:YAG lasers) and Optopower and SDL (for diode lasers) compete in certain of the markets in which Rofin-Sinar operates. However, in the Company's opinion, none of these companies competes in all of the industries, applications and geographic markets currently served by Rofin-Sinar. Only Trumpf/Haas has a product range and worldwide presence similar to those of the Company. The Company believes that it has a competitive advantage over such companies due to its exclusive access (for material applications) to the patented diffusion-cooling technology incorporated in its CO₂ Slab lasers.

Laser Marking Products

Significant competitive factors in the laser marking market 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 components required to develop and produce a laser marker are commercially available, barriers to entry into this market are low, and the Company expects new competitive product entries into this market. The Company believes that its PowerLine and CombiLine laser markers will compete favorably in this market primarily due to the performance and price characteristics of such products.

The Company's products compete in the laser marking market with conventional ink-based and acid-etching technologies, as well as with laser mask-marking. The Company believes that its principal competitors in the laser marking market include Baasel, General Scanning, Excel Technology and Lumonics.

Rofin-Sinar also competes with manufacturers of conventional non-laser products in applications such as welding, drilling, soldering, cutting and marking. The Company believes that as industries continue to modernize, seek to reduce production costs and require more precise and flexible manufacturing, the features of laser-based systems will become more desirable than systems incorporating conventional manufacturing techniques and processes. Advances in fiber-optic beam delivery systems, improvements in reliability and introduction of higher-power CO₂ lasers, diode lasers, and diode-pumped lasers capable of performing heavy industrial material processing applications, as well as marking applications, more rapidly than previously possible are expected to result in increased acceptance of laser applications by industrial users.

Manufacturing and Assembly

Rofin-Sinar manufactures and tests its CO₂ and Nd:YAG laser products for cutting and welding at its Hamburg, Germany and Plymouth, Michigan facilities. The Company's laser marking products are manufactured and tested at its facilities in Gunding-Munich, Germany. The diode laser products are manufactured and tested at the Mainz, Germany facilities. The Company's joint venture in Japan performs assembly and testing of SM Series CO₂ lasers.

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-Sinar's in-house manufacturing includes only those manufacturing operations which 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. The Company minimizes the number of suppliers and component types but, wherever practicable, it has at least two sources of supply for key items. The Company has a qualifying program for its vendors and generally seeks to build long-term relationships with such vendors. Roots blowers (used to accelerate gas flow in its SM Series fast-axial flow CO₂ lasers) and micro-optics (used in diode laser stacking technology) are the only components the Company purchases from a single supplier. The Company has no reason to believe it could not purchase such components from alternative sources of supply on comparable terms. Rofin-Sinar is not dependent on any supplier and has not experienced any difficulty in obtaining necessary materials and components.

Rofin-Sinar is committed to meeting internationally recognized manufacturing standards. In 1995, the Company's Hamburg facility received ISO 9001 certification. During fiscal 1997 both the Plymouth and Gunding-Munich facilities obtained their ISO 9001 certification.

The Company's production is controlled by production planning software. By reducing the variety of products and options, designing new products on a modular concept, reducing the number of vendors and the depth of production through outsourcing, the Company has been able to reduce its manufacturing costs significantly over the last three years and improve its production efficiency.

Research and Development

During fiscal 1995, 1996 and 1997, Rofin-Sinar spent \$6.7 million, \$9.3 million and \$9.7 million, respectively, on research and development. In addition, the Company received funding under government grants totaling \$1.4 million, \$0.8 million and \$0.9 million in fiscal 1995, 1996 and 1997, respectively.

Rofin-Sinar's research and development activities are directed at meeting customers' manufacturing needs and application processes. Core competencies include CO₂ gas lasers, Nd:YAG solid-state lasers and diode lasers, precision optics, electronic power supplies, 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 four centers in Hamburg, Gunding-Munich and Mainz, Germany and Plymouth, Michigan and are centrally coordinated and managed. Rofin-Sinar 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 Material Science in Dresden and the Laser Center in Hanover, and elsewhere around the world, including the University of Alberta in Canada. Such relationships include funding of research, joint development programs, personnel exchange programs and licensing of patents developed at such institutes.

In September 1996, the Company agreed on a research program with the Fraunhofer Institute for Laser Technology to develop a modular 5 kW diode-pumped Nd:YAG laser. Under this arrangement, the total project budget to be spent by both parties is approximately DM6.5 million. In fiscal 1997 outlays by the Company for this project totaled DM2.8 million. Under the terms of the collaboration, the Company will be granted access to technology already developed by the Fraunhofer Institute. The Company anticipates that the project's development and manufacturing scale-up efforts will occur over a five-year period. No assurance can be given that the collaboration with the Fraunhofer Institute will be successful.

Intellectual Property

Rofin-Sinar has 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 properties, Rofin-Sinar believes that its success depends to a larger extent on the innovative skills, know-how, technical competence and abilities of the Company's personnel. The Company is also an exclusive licensee on a worldwide basis of two patents, one of which expires in July 2007 (as to which the license is exclusive for five years from commercialization of products) and one of which expires in January

2005 (as to which the license is exclusive for the duration of the patent), covering the diffusion-cooled technology used in its Slab Series CO₂ lasers for industrial material processing applications. In the Company's view, the technology protected by these two patents represents a significant step forward in industrial laser technology for material processing and an important source of the Company's future growth and profitability.

Rofin-Sinar protects its intellectual property in a number of ways including, in certain circumstances, through patents. The Company has sought patent protection primarily in Germany and the United States. Some patents have also been registered in other jurisdictions including Great Britain, France, Italy and Japan. The Company currently holds 41 separate patents for inventions relating to lasers, processes and power supplies which expire from 1998 to 2016. In addition, Rofin-Sinar requires its employees and certain of its customers, suppliers, distributors, agents and consultants to enter into confidentiality agreements to further safeguard the Company's intellectual property.

The Company from time to time receives notices from third parties alleging infringement of such parties' patent or other intellectual property rights by the Company's products. While such notices are common in the Company's industry and the Company has 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 the Company would in the future prevail in any litigation seeking damages or expenses from the Company or to enjoin the Company from selling its products on the basis of such alleged infringement, or that the Company 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 the Company or its customers and a license were not made available to the Company on commercially reasonable terms, the Company would be adversely affected.

In July 1996, the Company received notice of an opposition filed by a competitor in the European Patent Office ("EPO") which challenges on a number of grounds one of the two third-party patents licensed by the Company covering certain aspects of its diffusion-cooled CO₂ Slab laser. The U.S.-issued counterpart of this patent was previously the subject of a reexamination proceeding in the U.S. Patent and Trademark Office ("PTO") at the conclusion of which the patent was upheld. While the decision of the PTO is not binding on the EPO, based on the outcome of the U.S. reexamination proceeding and management's review of the arguments made in the notice of opposition, the Company believes that such notice of opposition is without substantial merit. The Company intends to defend the EPO opposition proceeding vigorously.

In July 1996, the Company received a letter from a manufacturer of sealed-off, RF-excited CO₂ lasers for military and commercial avionics applications offering a license of its U.S. patents covering such technology in exchange for a cross-license of the Company's CO₂ Slab laser technology. Based on its review of the patents held by such manufacturer, the Company does not believe that its products infringe such patents, and it intends to defend vigorously any infringement action which such party may commence against the Company.

From time to time, the Company files notices of opposition to certain patents on laser technologies held by others, including academic institutions and competitors of the Company, which the Company believes could inhibit its ability to develop products in this area. In particular, the Company has a pending notice of opposition against a patent held by a competitor which it believes conflicts with a third-party patent licensed by the Company covering certain aspects of its diffusion-cooled CO₂ Slab laser. No assurance can be given that the Company will be able to avoid an action by such competitor or others or not be forced to initiate its own actions to protect its proprietary position.

Order Backlog

The Company's order backlog was \$35.9 million at the end of fiscal 1996 and \$29.1 million at the end of fiscal 1997. The Company's order backlog, which contains relatively little service, training and spare parts represents approximately three months of laser shipments. The decline in the Company's order backlog from September 30, 1996 to September 30, 1997 was primarily attributable to lower order entry in the fourth quarter of fiscal 1997 due to a relatively flat automotive welding market in the United States and by the introduction in such period of the second generation of the Company's Slab Series lasers, which resulted in delays in orders by European OEM customers. The strengthening of the U.S. dollar had an additional negative impact of approximately \$2 million on year to year order backlog.

An order is booked by Rofin-Sinar when an unconditional 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 8-12 weeks from the date an order is placed. During fiscal 1997, as the rate of order intake for laser marking products increased substantially, average delivery dates for such products were for a time extended by approximately four weeks, but then returned to normal delivery times. Orders in backlog are firm, but are subject to cancellation or rescheduling by the customer. The Company's backlog on any particular date is not necessarily indicative of actual sales for any future period.

The Company anticipates shipping the present backlog during fiscal 1998. In the event that the Company's marketing activities in the United States related to its laser marking systems result in additional demand for such systems, the Company will require added manufacturing capacity in the United States. If the Company is able to implement anticipated improvements in the product design and manufacturing of its diffusion-cooled CO₂ Slab lasers which would enable it to offer such lasers at more attractive prices. The Company anticipates that it will require expanded manufacturing capacity in fiscal 1999 in order to satisfy the resulting increase in demand for such products. The Company estimates that the total capital expenditures required to add such manufacturing capacity in the United States and Europe would be in the range of \$500,000 to \$750,000.

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.

Employees

At September 30, 1997, Rofin-Sinar had 500 full time employees, of which 345 were in Germany, 105 were in the United States, 13 in France, 16 in Italy and 21 in Japan.

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 Gunding-Munich facilities are represented by a seven-person and five-person works council, respectively, as well as 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 excellent.

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. Such regulations generally require a self-certification procedure pursuant to which a manufacturer must file with the CDRH with respect to each product incorporating a laser device, periodic reporting of sales and purchases and compliance with product labeling standards. The Company's laser products for cutting and welding and laser marking products can result in injury to human tissue if directed at an individual or otherwise misused. The Company believes that its laser products for cutting and welding and laser marking products are in substantial compliance with all applicable laws for the manufacture of laser devices.

RISK FACTORS

Industry Concentration and Cyclicalilty; Dependence on Sales by Third Parties

The Company's business is significantly dependent on capital expenditures by manufacturers in the machine tool, automotive and semiconductor & electronics industries. 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 the Company. For the foreseeable future, the Company's operations will continue to be dependent on capital expenditures in these industries which, in turn, are largely dependent on the market demand for their products. The Company's net sales and results of operations may be materially adversely affected if downturns or slowdowns in the machine tool, automotive and semiconductor & electronics industries occur in the future.

The Company's net sales are dependent in part upon the ability of its OEM customers to develop and sell systems that incorporate the Company's laser products. Adverse economic conditions, large inventory positions, limited marketing resources and other factors affecting these OEM customers could have a substantial impact upon the Company's financial results. No assurances can be given that the Company's OEM customers will not experience financial or other difficulties that could adversely affect their operations and, in turn, the financial condition or results of operations of the Company.

Variability and Uncertainty of Quarterly Operating Results; Potential Volatility of Stock Price

The Company has experienced and expects to continue to experience some fluctuations in its quarterly results. The Company believes that fluctuations in quarterly results may cause the market price of its common stock to fluctuate, perhaps substantially. Factors which may have an influence on the Company's operating results in a particular quarter include the timing of the receipt of orders from major customers, product mix, competitive pricing pressures, the relative proportions of domestic and international sales, the Company's ability to design, manufacture and introduce new products on a cost-effective and timely basis, the

delay between incurrence of expenses to further develop marketing and service capabilities and realization of benefits from such improved capabilities, and the introduction of new products or product enhancements by the Company and its competitors. In addition, the Company's backlog at any given time is not necessarily indicative of actual sales for any succeeding period. The Company's 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 variability from quarter to quarter. See "Business-Order Backlog."

Other factors which the Company believes may cause the market price of its common stock to fluctuate, perhaps substantially, include announcements of new products, technologies or customers by the Company or its competitors and developments with respect to intellectual property and shortfalls in the Company's 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 industry, may adversely affect the market price of the Company's common stock.

Currency Risk

Although the Company reports its results in U.S. dollars, approximately two-thirds of its sales are denominated in other currencies, including primarily German marks, as well as French francs, Italian lire and Japanese yen. Although a predominant portion of the Company's cost of goods sold, selling, general and administrative expenses and research development expenses are incurred in German marks, 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 changed from a \$5.4 million credit at September 30, 1995 to a \$2.2 million credit at September 30, 1996 and from the \$2.2 million credit at September 30, 1996 to a \$2.8 million debit at September 30, 1997. These changes arose primarily from the strengthening of the U.S. dollar against such foreign currencies during the fiscal 1995-1997 period, and reflect the fact that a high proportion of the Company's capital is invested in its German operations, whose functional currency is the German mark. The fluctuation of the German mark 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 and gross margin and selling, general and administrative expenses denominated in such foreign currencies when translated into U.S. dollars as compared to prior periods. Although historically the Company's subsidiaries have not paid dividends, a further area of currency exposure may in the future be represented by the payment of dividends by the Company's operating subsidiaries in their respective functional currencies.

The Company has implemented a policy to hedge up to 50% of its net foreign currency exposure on sales transactions utilizing forward exchange contracts. The Company has also implemented a policy to continue to borrow in each operating subsidiary's functional currency to reduce exposure to exchange gains and losses. There can be no assurance that changes in currency exchange rates will not have a material adverse effect on the Company's business, financial condition and results of operations.

Competition

The laser industry is characterized by significant price competition. The Company's current and proposed laser products 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 the Company. The Company believes that this competition will intensify in the CO₂ diode laser and Nd:YAG solid-state laser markets, as many companies have committed significant research and development resources to pursue opportunities in these markets. There can be no assurance that the Company will successfully differentiate its current and proposed products from the products of its competitors or that the marketplace will consider the Company's products to be superior to competing products. With respect to the Company's laser marking 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 the Company expects new competitive product entry in this market. To maintain its competitive position in this market, the Company believes that it 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 the Company will have sufficient resources to continue to make such investments, that the Company will be able to make the technological advances necessary to maintain its competitive position, or that its products will receive market acceptance. See "Business-Competition."

Risks Relating to Sales Growth in CO₂, Nd:YAG Lasers and Diode Lasers

In recent years, the Company has experienced a period of rapid growth, attributable in large part to the demand for its laser marking products. If the Company is to maintain or increase the rate of growth of its laser sales in the near term, such sales will have to come through increases in market share for the Company's existing products, through the development of new products or through the Company's acquisition of its competitors or their products. To date, a substantial portion of the Company's revenue has been derived from sales of high-powered CO₂ laser sources and, more recently, solid-state flash lamp-pumped laser sources. The Company intends to devote substantial resources to increasing the output power of its diffusion-cooled CO₂ Slab laser sources and to developing diode lasers and diode-pumped Nd:YAG solid-state laser products in accordance with market demand. The Company is currently focused on reducing the manufacturing costs of its diffusion-cooled CO₂ Slab lasers to achieve more attractive pricing. The Company's diode-pumped lasers, however, are currently being introduced to the

market and are not expected to generate substantial revenue in fiscal 1998. The Dilas diode lasers are currently in the process of being modified for use in industrial production environments and the redesigned products are expected to be available for shipment in the second half of fiscal 1998. A large part of the Company's growth strategy depends upon being able to increase substantially its market share for laser marking products, particularly in the United States and Japan. If the Company is unable to implement its strategy of increasing its market share for laser marking products and of expanding its product range to include higher output power diffusion-cooled CO₂ Slab lasers, diode lasers and diode-pumped Nd:YAG solid-state lasers at attractive prices, it may not be able to achieve its anticipated rate of growth, as a result of which its business, operating results and financial condition could be adversely affected. No assurance can be given that the Company will successfully expand its marking products' market share, increase the output power of its diffusion-cooled CO₂ Slab laser sources, successfully redesign diode lasers for industrial production environments or develop diode-pumped Nd:YAG solid-state laser products, or that any such products will achieve market acceptance or not be rendered obsolete or uncompetitive by products of other companies. See Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "The Company's Laser Products."

While there are currently no commitments with respect to any future acquisitions, the Company's business strategy includes the expansion of its products and services, which may be effected through acquisitions. The Company from time to time reviews various opportunities to acquire businesses, technologies or products complementary to the Company's present business. There can be no assurance that the Company will be able to integrate any acquired business effectively or that any acquisition will result in long-term benefits to the Company.

Conflicting Patents and Other Intellectual Property Rights of Third Parties; Limited Protection of Intellectual Property

The Company from time to time receives notices from third parties alleging infringement of such parties' patent or other intellectual property rights by the Company's products. While such notices are common in the Company's industry and the Company has 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 the Company would in the future prevail in any litigation seeking damages or expenses from the Company or to enjoin the Company from selling its products on the basis of such alleged infringement, or that the Company 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 the Company or its customers and a license were not made available to the Company on commercially reasonable terms, the Company would be adversely affected.

The Company's future success depends in part upon its intellectual property, including trade secrets, know-how and continuing technological innovation. There can be no assurance that the steps taken by the Company to protect its intellectual property will be adequate to prevent misappropriation or that others will not develop competitive technologies or products. The Company currently holds 41 United States and foreign patents on its laser sources which expire from 1998 to 2016. There can be no assurance that other companies are not investigating or developing other technologies that are similar to the Company's, that any patents will issue from any application filed by the Company 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 the Company will not be challenged, invalidated or circumvented, or that the rights thereunder will provide a competitive advantage to the Company. See "Business-Intellectual Property."

Risks Associated with International Operations

The Company's products are currently marketed in approximately 25 countries, with Germany, the rest of Europe, the United States and the Asia/Pacific region being the Company's principal markets. Sales in the Company's principal markets are subject to risks inherent in international business activities, including, in particular, general economic conditions in each such country, overlap of differing tax structures, management of an organization spread over various jurisdictions, unexpected changes in regulatory requirements and compliance with a variety of foreign laws and regulations. Other general risks associated with international operations include import and export licensing requirements, trade restrictions and changes in tariff and freight rates. The business and operations of the Company's principal subsidiary, RSL, are primarily subject to the changing economic and political conditions prevailing from time to time in Germany. Although productivity in Germany is generally high, labor costs, corporate taxes and employee benefit expenses are high and weekly working hours are shorter in Germany compared to the rest of the European Union, the United States and Japan.

Asia-Pacific Risk

Countries in the Asia Pacific region, including Japan, have recently experienced weaknesses in their currency, banking and equity markets. As the Asia Pacific market currently represents approximately 15% of the Company's revenue, these weaknesses could adversely affect consumer demand for the Company's product, the U.S. dollar value of the Company's foreign currency denominated sales, and ultimately the Company's consolidated results of operations.

Year 2000 Compliance

The Company has evaluated the costs necessary to make its computer systems Year 2000 compliant. The bulk of these costs are expected to be incurred during fiscal years 1998 and 1999 and are not expected to have a material impact on the Company's cash flows, results of operations or financial condition.

Item 2. Properties

The Company's manufacturing facilities include the following:

<u>Location of Facility</u>	<u>Owned or Lease</u>	<u>Size(sq. ft.)</u>	<u>Primary Activity</u>
Hamburg, Germany	Owned*	110,840	CO ₂ lasers, Nd:YAG lasers
Plymouth, Michigan	Leased	58,075	CO ₂ lasers
Gunding-Munich, Germany	Leased	40,537	Nd:YAG lasers, laser marking products
Sakai Atsugi-shi, Japan	Leased	11,100	CO ₂ lasers
Mainz, Germany	Leased	6,479	Diode lasers

* The facility is owned by RSL; the real property on which the facility is located is leased by RSL under a 99-year lease.

The Company's leases of its facilities in Plymouth, Michigan and Gunding-Munich, Germany expire in 1998 (with renewal options until 2001 and 2005, respectively). The Company intends to exercise renewal options on both facilities for the first option year. The Mainz, Germany facility lease expires in 2002. The leases on its Japanese facilities in Atsugi-shi expire in 1999 (renewable for two years) and in 1998 (renewable for three years).

The Company maintains sales, administration and research and development facilities at each of the Hamburg, Gunding-Munich, Mainz and Plymouth locations. The Company also maintains sales and service offices worldwide, all of which are leased.

Except as noted under Item 1 above under "Order Backlog," the Company believes that its existing facilities are adequate to meet its 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. The Company expects to make additional capital expenditures to support its diode laser and diode-pumped solid-state laser development activities and add manufacturing and testing capacity in North America for selected components and products, which may also require certain leasehold improvements in the Company's Plymouth, Michigan facility.

Item 3. Legal Proceedings

There are no pending material legal proceedings to which the Company is a party.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of the security holders during the fourth quarter of fiscal 1997.

PART II

Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters

The Company's common stock commenced trading under the symbol RST1 on the Nasdaq National Market on September 26, 1996. The table below sets forth the high and low closing bid prices of the Company's common stock for each quarter ended during the last year and for the last three days of the fourth quarter of fiscal 1996 as reported by the National Association of Securities Dealers, Inc.:

<u>Quarter ended</u>	<u>Common Trade Prices</u>	
	High	Low
September 30, 1996	\$11 ³ / ₄	\$10
December 31, 1996	\$14 ³ / ₈	\$10 ³ / ₄
March 31, 1997	\$16 ³ / ₄	\$10 ¹ / ₂
June 30, 1997	\$19 ⁵ / ₈	\$13 ⁷ / ₈
September 30, 1997	\$19 ³ / ₈	\$15 ³ / ₈

At December 18, 1997, the Company had approximately eight holders of record of its common stock and 11,514,700 shares outstanding. The Company has not paid dividends on its common stock and does not anticipate paying dividends in the foreseeable future.

Use of IPO Proceeds

The Company completed its initial public offering of 11,500,000 shares of its common stock on September 30, 1996 for gross proceeds of \$109.2 million pursuant to its registration statement on Form S - 1 (No. 333-09539) declared effective on September 25, 1996. The lead managers for the offering were Deutsche Morgan Grenfell/C.J. Lawrence, Inc., Alex Brown & Sons Incorporated and Lehmann Brothers Inc. Net proceeds of the offering (after deduction of \$6.6 million in underwriting discounts and commissions and \$327,000 in other offering expenses) were \$102.3 million. Of such amount approximately \$77.1 million were used to purchase all outstanding shares of RSL and RSI from the former Parent and to repay certain indebtedness owed to the former Parent. Of the remainder, \$25 million was invested in certificates of deposit, with the balance applied to working capital. Since the date of the Company's last report on its use of the proceeds of its initial public offering, the Company has used approximately \$5.2 million of the \$25 million of net proceeds invested in certificates of deposit to consummate the acquisition of Dilas, an unaffiliated entity. Accordingly, approximately \$19.8 million of the net offering proceeds remain to be applied.

Item 6. Selected Financial Data

The following table sets forth selected consolidated financial data for the five fiscal years ended September 30, 1997. The information set forth below should be read in conjunction with the consolidated financial statements and notes thereto filed as part of this annual report.

	Year ended September 30,				
	1993	1994	1995	1996	1997
	(in thousands, except share amounts)				
<i>Statement of Income Data:</i>					
Net sales	\$60,034	\$69,217	\$92,466	\$115,903	\$129,393
Cost of goods sold	47,745	46,993	57,162	72,096	82,982
Gross profit	12,289	22,224	35,304	43,807	46,411
Selling, general & administrative expenses	21,951	17,059	20,673	21,246	22,101
Research and development expenses	10,276	6,834	6,719	9,335	9,727
Special charge	—	—	—	—	1,350
Income (loss) from operations	(19,938)	(1,669)	7,912	13,226	13,233
Net interest expense (income)	1,654	1,308	1,272	1,010	(854)
Income (loss) before income taxes	(21,386)	(3,116)	6,265	12,244	14,712
Net tax expense (benefit)	(1,565)	(1,422)	3,052	4,956	5,758
Net income (loss)	(19,821)	(1,694)	3,213	7,288	8,954
Net income per common share			0.37	0.84	0.77
Shares used in computing net income per share			8,631,578	8,639,498	11,605,706
<i>Operating Data:</i>					
As percentage of sales:					
Gross profit	20.5%	32.1%	38.2%	37.8%	35.9%
Selling, general & administrative expenses	36.6%	24.6%	22.4%	18.3%	17.1%
Research and development expenses	17.1%	9.9%	7.3%	8.1%	7.5%
Income (loss) from operations	(33.2%)	(2.4%)	8.6%	11.4%	10.2%
Income (loss) before income taxes	(35.6%)	(4.5%)	6.8%	10.6%	11.4%
<i>Balance Sheet Data:</i>					
Working capital	\$7,672	\$4,927	\$14,530	\$56,138	\$55,007
Total assets	84,580	76,667	90,995	133,147	132,189
Line of credit and loans	22,196	22,380	21,805	24,780	18,569
Stockholders' equity	35,837	30,583	39,673	78,000	81,925
<i>Other Data:</i>					
Depreciation and amortization	2,803	2,527	2,364	2,449	2,142
Backlog	12,500	17,000	26,500	35,900	29,100
Sales per employee	135	184	227	256	264

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

Overview

Rofin-Sinar is a leader in the design, development, engineering, manufacture and marketing of laser-based products used for cutting, welding and marking a wide range of industrial materials. During fiscal 1997, approximately 72% of the Company's revenues were from sales and servicing of laser products for cutting and welding applications and approximately 28% were from sales and servicing of laser products for marking applications.

Dilas Acquisition

In August 1997, Rofin-Sinar acquired 80% of the common stock of Dilas Diodenlaser GmbH ("Dilas"), a German limited liability company based in Mainz, Germany, for \$5.2 million. Dilas designs and manufactures diode lasers and components for a wide range of material processing applications and sells them to the machine tool, automotive, and semiconductor and electronics market, as well as to the research, measurement and medical instruments industries. The Dilas acquisition was accounted for on a purchase accounting basis.

Through its acquisition of Dilas shares, the Company adds new technology and a new product line to its already wide range of industrial lasers. The linking of Dilas' production expertise an Rofin-Sinar's ongoing research program in cooperation with the Fraunhofer Institute for Laser Technology, in Aachen, Germany, is expected to speed up the introduction of new diode-based laser systems for material processing applications.

The Company's business strategy continues to include the expansion of its products and services, which may be effected through acquisitions. The Company from time to time reviews various opportunities to acquire businesses, technologies or products complementary to the Company's present business.

Currency Exchange Rates

Although the Company reports its Consolidated Financial Statements in U.S. dollars, approximately two-thirds of its sales are denominated in other currencies, primarily German marks, as well as French francs, Italian lire and Japanese yen. 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 United States dollars are accumulated as a separate component of equity. Due to the strengthening of the U.S. dollar against such foreign currencies during fiscal 1996 and 1997, the currency translation adjustment component of shareholders' equity changed from a \$5.4 million credit at September 30, 1995 to a \$2.8 million debit at September 30, 1997.

The fluctuation of the German mark 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 and gross margin and selling, general and administrative expenses, denominated in such foreign currencies when translated into U.S. dollars as compared to prior periods.

The following table illustrates the effect of the changes in exchange rates on the Company's fiscal 1995, 1996, and 1997 net sales, gross profit and income from operations.

	Fiscal 1995		Fiscal 1996		Fiscal 1997	
	Actual	In 1994 Exchange Rates	Actual	In 1995 Exchange Rates	Actual	In 1996 Exchange Rates
Net Sales	\$92.5	\$85.4	\$115.9	\$117.2	\$129.4	\$140.0
Gross Profit	35.3	32.2	43.8	44.3	46.4	50.6
Income from operations.....	7.9	7.2	13.2	13.4	13.2	14.4

Between fiscal 1994 and 1995, the German mark strengthened against the U.S. dollar by approximately 14%. The impact of this strengthening of the German mark was to increase net sales, gross profit and income from operations by \$7.1, \$3.1 and \$0.7 million, respectively. Between fiscal 1995 and 1996, the

German mark weakened against the U.S. dollar by approximately 1.7%. The impact of this weakening of the German mark was to decrease net sales, gross profit and income from operations by \$1.3, \$0.5 and \$0.2 million, respectively. Between fiscal 1996 and 1997, the German mark weakened against the U.S. dollar by approximately 13.2%. The impact of this weakening was to decrease net sales, gross profit and income from operations by \$10.6, \$4.2, and \$1.2 million, respectively.

The Company has implemented a policy to hedge up to 50% of its net foreign currency exposure on sales transactions utilizing forward exchange contracts. The Company has also implemented a policy to continue to borrow in each operating subsidiary's functional currency to reduce its exposure to foreign currency gains and losses. There can be no assurance, however, that changes in currency exchange rates will not have a material adverse effect on the Company's business, financial condition and results of operations.

Taxes

The Company's subsidiaries pay taxes in many jurisdictions and the provisions for income taxes in the Company's Consolidated Financial Statements are based on separate local tax computations. On a consolidated basis, this practice may result in the Company incurring income tax expense even though it may not have consolidated pre-tax income or in paying taxes in excess of pre-tax income if some of its subsidiaries are not profitable while others are. See Note 9 of the Notes to the Consolidated Financial Statements. In particular, because of the Company's substantial operations in Germany, the Company historically has had a higher effective tax rate than many of its competitors who do not have operations in Germany.

The Company currently generates taxable income, principally in Germany and the United States. German corporate tax law applies the imputation system with regard to the taxation of the income of a corporation (such as RSL). In general, retained corporate income is subject to a municipal trade tax (which for Hamburg and Gunding on a combined basis is 16.4%, and for Mainz is 18%), which is deductible for federal corporate income tax purposes, a federal corporate income tax of 45% and, effective January 1, 1995, a surcharge of 7.5% on the federal corporate income tax amount.

Profits which are distributed by a German corporate taxpayer (such as RSL) in the form of a dividend are subject to a reduced federal corporate income tax rate of 30% plus the 7.5% surcharge on the federal corporate income tax amount calculated at the reduced rate. Dividends paid by RSL to Rofin-Sinar Technologies Inc. will be subject to withholding tax at a rate of 5% pursuant to the income tax treaty currently in effect between the United States and Germany.

Restructuring

The machine tool industry experienced a significant downturn during the global recession in the early 1990's as end-users, particularly in the heavy manufacturing industries, reduced their investment in new technologies and postponed modernizing their production facilities in the face of adverse business conditions. In light of this change in market conditions, in 1993 the Company undertook a major restructuring program to reduce its manufacturing costs, fixed costs and overhead and better position the Company to benefit from improving business conditions. This restructuring was completed in fiscal 1995. The Company experienced significant financial improvement during fiscal 1994 through 1997, primarily reflecting improving economic conditions, the benefits of the restructuring undertaken in 1993 and 1994 and the implementation of the Company's current business strategy.

The growth in the Company's net sales since fiscal 1993 has allowed the Company to realize improved operating leverage by producing larger unit volumes over relatively lower costs and by negotiating more favorable terms for purchases of components and subassemblies. While the Company expects to continue to see growth in fiscal 1998 and 1999, there can be no assurance that the Company's rate of growth experienced during the period 1994 – 1997 will be maintained.

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:

	Fiscal year ended September 30,		
	1995	1996	1997
Net sales	100%	100%	100%
Cost of goods sold	62%	62%	64%
Gross profit	38%	38%	36%
Selling, general and administrative expenses	22%	19%	17%
Research and development expenses	7%	8%	8%
Special charge	0%	0%	1%
Income from operations	9%	11%	10%
Income before income taxes	7%	11%	11%
Net income	4%	6%	7%

Fiscal 1997 Compared to Fiscal 1996

Net Sales - Net sales of \$129.4 million for fiscal 1997 increased by \$13.5 million, or 12%, over the prior year. The improvement resulted from net sales increases of \$10.0 million, or 11%, in cutting and welding laser products, and \$3.5 million, or 11%, in marking and microwelding products. The increase in cutting and welding was due to strength in the OEM cutting market, sales of the Slab Series laser for welding applications, and a major welding program for a supplier to the automotive market. The increase in marking and microwelding was due primarily to the introduction of a laser system designed specifically for the dental instruments market and the demand for the Company's integrated-circuit markers in the semiconductor industry. Geographically, net sales increased \$8.5 million, or 11%, in Europe/Asia and \$5.0 million, or 13%, in the United States. The effect of currency translation was to reduce net sales by \$10.6 million, or 8%, of fiscal 1997 net sales. At 1996 exchange rates, the Company would have achieved growth in net sales of 21 %.

Cost of Goods Sold - Cost of goods sold of \$83.0 million in fiscal 1997 increased by \$10.9 million, or 15%, over the prior year, and primarily reflect the increase in net sales.

Gross Profit - Gross profit of \$46.4 million in fiscal 1997 increased by \$2.6 million, or 6%, over the prior year. As a percentage of net sales, gross profit decreased from 38% in fiscal 1996 to 36% in fiscal 1997. The decrease in margin percentage was primarily caused by the mix of products sold in fiscal 1997 being weighted more heavily towards models with lower margins. Gross profit was also negatively affected by losses related to lasers repossessed as part of legal action taken against delinquent customers. The effect of currency translation was to reduce gross profit by \$4.2 million, or 9%, of fiscal 1997 gross profit.

Selling, General and Administrative Expenses - Selling, general and administrative expenses of \$22.1 million for fiscal 1997 increased only \$0.9 million over the prior year. As a percentage of net sales, selling, general, and administrative expenses decreased from 19% in 1996 to 17% in 1997 as the Company continues its strategy of achieving economies of scale by focusing its sales growth in the core business segments.

Research and Development Expenses - Research and development expenses of \$9.7 million increased \$0.4 million, or 4%, over fiscal 1996. Research and development expenses are incurred primarily in German marks and are net of government grants. As a percentage of sales research and development expenses remained unchanged at 8%. Current year research and development spending includes a \$1.7 million outlay towards the Company's diode-pumped solid-state laser program.

Special Charge - The special charge of \$1.4 million relates to the settlement of a customer dispute arising out of the use of one of the Company's existing products in a newly developed customer application.

Income from Operations - The Company's income from operations of \$13.2 million for fiscal 1997 remained unchanged from fiscal 1996. The effect of currency translation was to reduce income from operations by \$1.2 million, or 9% of fiscal 1997 income from operations. The reduction in income from operations from 11%, in fiscal 1996, to 10%, in fiscal 1997, was due primarily to the \$1.4 million special charge. Net sales per employee increased from \$256,000 in fiscal 1996 to \$285,000 in fiscal 1997 based on 1996 exchange rates, representing a productivity increase of 11%.

Income Before Income Taxes - The Company's income before income taxes of \$14.7 million for fiscal 1997, increased \$2.5 million, or 20%, over the prior year. The increase was due primarily to interest income resulting from the \$32.6 million net IPO proceeds (after the purchase of RSL and RSI from the former Parent) and from cash generated by operating activities in fiscal 1997.

Income Tax Expense - Income tax expense was \$5.8 million in fiscal 1997 compared to \$5.0 million in fiscal 1996. The effective tax rates for fiscal 1997 and 1996 were 39% and 40%, respectively. The effective tax rates were higher than the U.S. statutory rate of 35% principally as a result of earnings taxed at higher foreign statutory rates. The slight decrease in the effective tax rate was due to certain foreign income which was not taxed due to the use of tax loss carryforwards.

Net Income - As a result of the foregoing factors, the Company's net income of \$9.0 million (\$0.77 per share) in fiscal 1997 increased by \$1.7 million over the prior year's net income of \$7.3 million (\$0.84 per share). The effect of currency translation was to reduce net income by \$0.6 million, or 7%, of fiscal 1997 net income.

Fiscal 1996 Compared to Fiscal 1995

Net Sales - Net sales of \$115.9 million for fiscal 1996 increased by \$23.4 million, or 25%, over the prior year. The improvement resulted from net sales increases of \$15.2 million, or 25%, in Europe and the Asia/Pacific region and \$8.3 million, or 26%, in the United States. The growth in Europe/Asia resulted from continuing increases in sales volume of the Company's integrated circuit laser marking application in the Asia/Pacific region, the introduction of the Company's Slab Series laser product and the recovery of the machine tool market in Japan. The increase in net sales in the United States was due principally to increased shipments to the machine tool and automotive markets, with the largest portion of growth attributable to increased sales volume of CO₂ lasers for cutting applications and spare parts and the introduction of the Company's laser marking products in the United States. The effect of currency translation on net sales was immaterial.

Cost of Goods Sold - Cost of goods sold of \$72.1 million in fiscal 1996 increased by \$14.9 million, or 26%, over the prior year, and reflected the increase in net sales.

Gross Profit - The Company's gross profit of \$43.8 million for fiscal 1996 increased by \$8.5 million, or 24%, over the prior year as a result of the increase in net sales in fiscal 1996 as compared to the prior year. As a percentage of net sales, gross profit decreased from 38% in fiscal 1995 to 37.8% in fiscal 1996, primarily due to the change in the product mix.

Selling, General and Administrative Expenses - Selling, general and administrative expenses (which include the cost of application development) of \$21.2 million for fiscal 1996 increased by 3% over the prior year due to the increase in net sales. However, as a percentage of net sales, selling, general and administrative expenses declined from 22% in fiscal 1995 to 18% in fiscal 1996, reflecting the Company's continuing control of these expenses. Cost efficiencies were gained via a higher mix of both multiple unit orders and a higher percentage of sales through the direct sales force versus independent sales representatives.

Research and Development Expenses - Research and development expenses of \$9.3 million for fiscal 1996 (which are incurred primarily in German marks and are net of government grants) increased \$2.6 million, or 39% over fiscal 1995. This represents an increase in research and development expenses as a percentage of sales from 7% in fiscal 1995 to 8% in fiscal 1996 attributable in part to the commencement of the Company's diode-pumped solid-state laser program. In 1995, research and development expenses were below average due to higher government grants.

Income from Operations - The Company's income from operations of \$13.2 million for fiscal 1996 increased by \$5.3 million, or 67%, over the prior year. As a percentage of sales, income from operations was 11% in fiscal 1996 as compared to 9% in the prior year, primarily as a result of the reduction in selling, general and administrative expenses as a percentage of net sales. The effect of currency translation on income from operations was immaterial. Net sales per employee increased from \$227,000 in fiscal 1995 to \$256,000 in fiscal 1996, a productivity increase of 13%.

Income Before Income Taxes - The Company's income before income taxes of \$12.2 million in fiscal 1996 increased by \$6 million over the prior period. As a percentage of net sales, income before income taxes was 11% in fiscal 1996, as compared to 7% in the prior period, as a result of the increase in income from operations and the decrease in interest expense accrued under the Company's intercompany lines of credit with the Company's former Parent and borrowing facilities utilized by its joint venture subsidiary in Japan due to lower interest rates.

Income Tax Expense - Income tax expense was \$5.0 million in fiscal 1996 compared to an income tax expense of \$3.1 million in the prior year. The effective tax rates for fiscal 1996 and 1995 were 41% and 49%, respectively. The effective tax rates were higher than the U.S. statutory rate of 35% principally as a result of earnings taxed at higher foreign statutory rates and foreign operating losses for which no benefit was recognized in fiscal 1995.

Net Income - As a result of the foregoing factors, the Company's net income of \$7.3 million (\$0.84 per share) in fiscal 1996 increased by \$4.1 million over the prior year's net income of \$3.2 million (\$0.37 per share).

Liquidity and Capital Resources

The Company completed its initial public offering of 11,500,000 shares of its common stock on September 30, 1996 for net proceeds of \$102.7 million (before deduction of other offering expenses borne proportionately by the Company's former Parent and the Company). Of such amount, approximately \$82 million of the gross proceeds (\$77.1 million of the net proceeds) were used to purchase all outstanding shares of RSL and RSI from the former Parent and its affiliates and to repay certain indebtedness owed to Siemens and its affiliates.

The Company's primary sources of liquidity are cash and cash equivalents of \$40.7 million at September 30, 1997. Additional sources of liquidity include the Company's \$25 million line of credit with Deutsche Bank, of which \$12.8 million is unused and available as of September 30, 1997. Subsequent to year-end, management established an additional DM12 million line of credit with Commerzbank. Management believes that cash flow from operations, cash and equivalents, short-term investments and the existing available lines of credit to be sufficient to fund operations for fiscal 1998.

Cash and cash equivalents increased by \$5.9 million during fiscal 1997. Net cash provided by operating activities of \$18.2 million was due primarily to net income of \$9 million non-cash depreciation expense, decreases in inventory and increases in taxes payable due to timing. Cash used in investing activities of \$6.8 million consisted of the \$5.1 million used to acquire 80% of the common stock of Dilas and \$1.8 million used to acquire property and equipment. Financing activities used a net of \$4.4 million in cash; \$16.6 million for repayment of debt owed to the former Parent was partially offset by net borrowings from banks of \$12.2 million.

Item 7A. Qualitative and Quantitative Disclosures about Market Risk

Not applicable.

Item 8. Financial Statements and Supplementary Data

See Item 14(a) for an index to the consolidated financial statements. No supplementary financial information is required to be presented pursuant to Item 302(a) of Regulation S-K.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information required by this Item is included in the "Election of Directors", "Directors and Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" sections of the Company's Proxy Statement to be filed in connection with the Company's 1998 Annual Meeting of Stockholders to be held in March 1998, 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 1998 Annual Meeting of Stockholders to be held in March 1998, and is incorporated by reference herein.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The 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 1998 Annual Meeting of Stockholders to be held in March 1998, and is incorporated by reference herein.

Item 13. Certain Relationships and Related Transactions

The information required by this Item is included in the "Compensation Committee", "Interlocks and Insider Participation" and "Certain Transactions" sections of the Company's Proxy Statement to be filed in connection with the Company's 1998 Annual Meeting of Stockholders to be held in March 1998, and is incorporated by reference herein.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K

a. 1. Consolidated Financial Statements

The following financial statements are filed as part of this annual report.

Independent Auditors' Report	F-1
Consolidated Balance Sheets as of September 30, 1996 and 1997	F-2
Consolidated Statements of Operations for the years ended September 30, 1995, 1996, and 1997	F-3
Consolidated Statements of Stockholders' Equity for the years ended September 30, 1995, 1996, and 1997	F-4
Consolidated Statements of Cash Flows for the years ended September 30, 1995, 1996, and 1997	F-5
Notes to Consolidated Financial Statements	F-6

2. Financial Statement Schedules

Independent Auditors' Report	F-17
Schedule II - Valuation and Qualifying Accounts	F-18

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 is filed or incorporated by reference as part of this annual report.

b. Reports on Form 8-K

The Registrant filed a report on Form 8-K on July 15, 1997, announcing the Company's plans to acquire Dilas Diodenlaser, GmbH.

c. Exhibits

The exhibits listed in the accompanying index to exhibits are filed or incorporated by reference as part of this annual report.

<u>Exhibit Number</u>	<u>Description</u>
3.1	Certificate of Incorporation of the Company and Form of Certificate of Amendment thereto (*)
3.2	By-Laws of the Company (*)
4.1	Form of Rights Agreement (*)
10.1	Form of Sale and Transfer Agreement between Siemens Aktiengesellschaft and Rofin-Sinar Technologies Inc. (*)
10.2	Form of Sale and Transfer Agreement by and among Siemens Power Corporation and Rofin-Sinar Technologies Inc. (*)
10.3	Form of Tax Allocation and Indemnification Agreement among Rofin-Sinar Technologies Inc., Rofin-Sinar Inc., Siemens Corporation and Siemens Power Corporation (*)
10.4	Joint Venture Agreement, dated as of May 27, 1992, by and among Rofin-Sinar Laser GmbH, Marubeni Corporation and Nippei Toyama Corporation (*)
10.5	Cooperation Agreement, dated as of May 27, 1992, among Nippei Toyama Corporation, Rofin-Sinar Laser GmbH and Marubeni Corporation (*)
10.6	Cooperation Agreement, dated as of May 27, 1992, among Rofin-Sinar Laser GmbH, Marubeni Corporation and Nippei Toyama Corporation (*)
10.7	Inheritable Building Right (Erbbaurecht), dated as of March 1, 1990, between Rofin-Sinar Laser GmbH and Lohss GmbH (in German, English summary provided) (*)
10.8	Lease Agreement, dated August 10, 1990, between Josef and Maria Kranz and Rofin-Sinar Laser GmbH (in German, English summary provided) (*)
10.9	Lease Agreement, dated June 14, 1989, between DR Group and Rofin-Sinar Incorporated (Mast Street property) (*)

10.11	Rofin-Sinar Laser GmbH Pension Plan (in German, English summary provided) (*)	
10.12	Form of 1996 Equity Incentive Plan (*)	
10.13	Form of 1996 Non-Employee Directors' Stock Plan (*)	
10.14	Deutsche Bank AG Commitment Letter dated August 22, 1996 (*)	
10.15	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) (*)	
10.16	Form of Employment Agreement, dated as of September 2, 1996, among Hinrich Martinen, Rofin-Sinar Laser GmbH and Rofin-Sinar Technologies Inc. (in German, English summary provided) (*)	
10.17	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) (*)	
11.1	Statement of earnings per share	F-20
21.1	List of Subsidiaries of the Registrant	F-21
27.1	Financial Data Schedule for fiscal year ended September 30, 1997	F-22

(*) 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.

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: December 29, 1997

ROFIN-SINAR TECHNOLOGIES INC.

By: /s/ Peter Wirth
Peter Wirth
Chairman of the Board,
Chief Executive Officer and President

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 of Directors, Chief Executive Officer and President	December 29, 1997
<u>/s/ Hinrich Martinen</u> Hinrich Martinen	Executive Vice President, Research and Development/ Operations, Chief Technical Officer and Director	December 29, 1997
<u>/s/ Gunther Braun</u> Gunther Braun	Executive Vice President, Finance and Administration, Chief Financial Officer, Principal Accounting Officer and Director	December 29, 1997
<u>/s/ William Hoover</u> William Hoover	Director	December 29, 1997
<u>/s/ Ralph Reins</u> Ralph Reins	Director	December 29, 1997
<u>/s/ Gary Willis</u> Gary Willis	Director	December 29, 1997

Independent Auditors' Report

The Board of Directors and Stockholders
Rofin-Sinar Technologies Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Rofin-Sinar Technologies Inc. and Subsidiaries as of September 30, 1996 and 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three-year period ended September 30, 1997. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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, 1996 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 1997, in conformity with generally accepted accounting principles.

KPMG Peat Marwick LLP
Detroit, Michigan

November 10, 1997

ROFIN-SINAR TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(dollars in thousands)

ASSETS	September 30, 1996	September 30, 1997
Current assets:		
Cash and cash equivalents	\$34,869	\$40,743
Trade accounts receivable	32,198	28,058
Less allowance for doubtful accounts	(963)	(910)
Trade accounts receivable, net.....	31,235	27,148
Accounts receivable, related party	-	721
Other accounts receivable	1,448	726
Inventories (note 2)	34,353	28,731
Prepaid expenses	247	390
Deferred income tax assets - current (note 9)	5,494	3,508
Total current assets	107,646	101,967
Property and equipment, at cost (note 3)	40,333	37,166
Less accumulated depreciation	(15,598)	(15,048)
Property and equipment, net	24,735	22,118
Deferred income tax assets - noncurrent (note 9)	624	2,769
Goodwill	-	5,054
Other assets	142	281
Total assets	\$133,147	\$132,189
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Line of credit (note 6)	\$18,426	\$12,698
Bank loans (note 5)	6,354	5,871
Accounts payable, related party	-	894
Accounts payable, trade	5,508	5,837
Income taxes payable (note 9)	3,636	5,826
Accrued liabilities (note 4)	17,086	15,834
Deferred income tax liability - current (note 9)	498	-
Total current liabilities	51,508	46,960
Pension obligations (note 8)	3,518	3,044
Deferred income tax liability - noncurrent (note 9)	95	191
Minority interests	26	69
Total liabilities	55,147	50,264
Commitments and contingencies (note 7)		
Stockholders' equity:		
Preferred stock, 5,000,000 shares authorized, none issued or outstanding	-	-
Common stock, \$0.01 par value, 50,000,000 shares authorized, 11,510,500 shares issued and outstanding	115	115
Additional paid-in capital	75,700	75,666
Retained earnings	-	8,954
Cumulative foreign currency translation adjustment	2,185	(2,810)
Total stockholders' equity	78,000	81,925
Total liabilities and stockholders' equity	\$133,147	\$132,189

See accompanying notes to consolidated financial statements

ROFIN-SINAR TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(dollars in thousands, except per share amounts)

	Years ended September 30,		
	1995	1996	1997
Net sales	\$92,466	\$ 115,903	\$129,393
Cost of goods sold	57,162	72,096	82,982
Gross profit	35,304	43,807	46,411
Selling, general, and administrative expenses	19,124	20,762	20,856
Provision for doubtful accounts	1,549	484	1,245
Research and development expenses	6,719	9,335	9,727
Special charge (note 10)	-	-	1,350
Income from operations	7,912	13,226	13,233
Other expense (income):			
Interest expense, net (notes 5 and 6)	1,272	1,010	(854)
Minority interest	9	10	13
Miscellaneous	366	(38)	(638)
Total other expense, net	1,647	982	(1,479)
Income before income taxes	6,265	12,244	14,712
Income tax expense (note 9)	3,052	4,956	5,758
Net income	\$3,213	\$7,288	\$8,954
Net income per share	\$0.37	\$0.84	\$0.77
Weighted average shares used in computing			
Net income per share	8,631,578	8,639,498	11,605,706

See accompanying notes to consolidated financial statements

ROFIN-SINAR TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years ended September 30, 1995, 1996, and 1997
(dollars in thousands)

	Common Stock Par Value	Additional Paid-in Capital	Retained Earnings	Former Parent's Capital	Foreign Currency Translation Adjustment	Total Stockholders' Equity
BALANCES at September 30, 1994	\$ —	\$ —	\$ —	\$29,114	\$1,469	\$30,583
Foreign currency translation adjustment	—	—	—	—	3,980	3,980
Capital contributions from former Parent	—	—	—	1,897	—	1,897
Net income	—	—	—	3,213	—	3,213
BALANCES at September 30, 1995	\$ —	\$ —	\$ —	\$34,224	\$5,449	\$39,673
Foreign currency translation adjustment	—	—	—	—	(3,264)	(3,264)
Capital contributions from former Parent	—	—	—	1,938	—	1,938
Net income	—	—	—	7,288	—	7,288
Public sale of common stock, net of expenses	115	75,700	—	(43,450)	—	32,365
BALANCES at September 30, 1996	\$115	\$75,700	\$ —	\$ —	\$2,185	\$78,000
Foreign currency translation adjustment	—	—	—	—	(4,995)	(4,995)
Adjustment of public offering expenses	—	(77)	—	—	—	(77)
Common stock issued	—	43	—	—	—	43
Net income	—	—	8,954	—	—	8,954
BALANCES at September 30, 1997	\$115	\$75,666	\$8,954	\$ —	\$(2,810)	\$81,925

See accompanying notes to consolidated financial statements

ROFIN-SINAR TECHNOLOGIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	Years ended September 30,		
	1995	1996	1997
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$3,213	\$7,288	\$8,954
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation and amortization	2,364	2,449	2,142
Provision for doubtful accounts	1,549	484	1,245
Loss on disposal of property and equipment	214	7	5
Deferred income taxes	2,476	1,118	(375)
Increase in minority interest	9	10	43
Change in operating assets and liabilities:			
Trade accounts receivable	(8,232)	(7,355)	(270)
Other accounts receivable	(184)	(373)	782
Inventories	(6,204)	(6,976)	2,776
Prepaid expenses and other	235	8	(166)
Accounts payable, trade	2,782	(249)	321
Income taxes payable	-	3,636	2,752
Accrued liabilities and pension obligation	1,619	6,049	(44)
Net cash provided (used) by operating activities	(159)	6,096	18,165
CASH FLOWS FROM INVESTING ACTIVITIES:			
Additions to property and equipment	(1,936)	(1,955)	(1,798)
Proceeds from the sale of property and equipment	553	91	44
Investment in subsidiaries	(19)	-	(5,092)
Net cash (used) by investing activities	(1,402)	(1,864)	(6,846)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in former Parent's capital	1,897	1,938	-
Repayment of former Parent loans	-	(7,473)	(16,586)
Public sale of common stock, net of expenses	-	102,445	-
Purchase of RSI and RSL stock	-	(70,080)	-
Borrowings from bank	-	6,318	12,209
Repayments to bank	(515)	(3,129)	-
Issuance of restricted stock	-	-	43
Other	-	-	(77)
Net cash provided (used) by financing activities:	1,382	30,019	(4,411)
Effect of foreign currency translation on cash	31	(72)	(1,033)
Net increase (decrease) in cash and cash equivalents	(148)	34,178	5,874
Cash and cash equivalents at beginning of year	839	691	34,869
Cash and cash equivalents at end of year	\$691	\$34,869	\$40,743
Cash paid during the year for interest	\$139	\$134	\$624
Cash paid during the year for income taxes	\$ -	\$ -	\$3,316

See accompanying notes to consolidated financial statements

ROFIN-SINAR TECHNOLOGIES INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
September 30, 1995, 1996, and 1997
(dollars in thousands)

1. SUMMARY OF ACCOUNTING POLICIES

(a) Description of the Company and Business

The accompanying financial statements present the historical financial information of Rofin-Sinar Technologies Inc. ("Rofin-Sinar" or "the Company") its wholly owned consolidated subsidiaries; Rofin-Sinar, Inc. (a United States company) ("RSI"), and Rofin-Sinar Laser GmbH (a Federal Republic of Germany limited liability company) ("RSL"), and the accounts of its 80 percent-owned subsidiary, Dilas Diodenlaser GmbH ("Dilas"). RSI and RSL were formerly the industrial laser businesses of Siemens AG ("Siemens" or "former Parent"). RSL includes the consolidated accounts of its 99.97 percent-owned subsidiary, Rofin-Sinar France S.A.; its 90.65 percent-owned subsidiary, Rofin-Sinar Italiana S.r.l.; and its 51 percent-owned subsidiary, Rofin Marubeni Laser Corporation (a Japanese entity). All significant intercompany balances and transactions have been eliminated in consolidation.

On September 30, 1996, Rofin-Sinar consummated an initial public offering of its common stock (IPO). Prior to the IPO the common stock of Rofin-Sinar, a newly formed holding company, RSI and RSL were each owned directly or indirectly by Siemens AG. Concurrent with the IPO the stock of RSI and RSL (together, Rofin-Sinar Group), including all business operations, assets and liabilities, were sold to the Company (reorganization). Approximately \$82,000 of the gross proceeds (\$77,080 of the net proceeds) from the public offering were used to purchase such stock of Rofin-Sinar Group from Siemens AG and its subsidiaries and to repay certain indebtedness to Siemens. The reorganization constitutes a combination of entities under common control and, for financial statements purposes, has been accounted for by combining the historical accounts of Rofin-Sinar Group and Rofin-Sinar, in a manner similar to pooling-of-interest accounting.

On August 1, 1997, the Company acquired 80% of the common stock of Dilas Diodenlaser GmbH, a German corporation, based in Mainz, Germany, for \$5.2 million. Dilas designs, manufactures and markets diode lasers and components. The transaction was accounted for on a purchase accounting basis. The excess of purchase price over the fair value of the net assets acquired was \$5.1 million and has been recorded as goodwill, which is being amortized on a straight-line basis over 15 years. The operating results of Dilas have been included in the consolidated statement of operations from the date of acquisition. On the basis of a pro forma consolidation of the results of operations as if the acquisition had taken place at the beginning of fiscal 1996, consolidated pro forma net sales would have been materially consistent with the amounts reported for fiscal 1996, and \$131,155, for fiscal 1997. Consolidated pro forma income and earnings per share would not have been materially different from the reported amounts for either fiscal year. Such pro forma amounts are not necessarily indicative of what the actual consolidated results of operations might have been if the acquisition had been effective at the beginning of fiscal 1996.

The combined financial statements for the fiscal years ended September 30, 1995 and 1996 are derived from the historical financial statements of Rofin-Sinar Group. Management believes the accompanying historical statements of operations for these fiscal periods include a reasonable allocation of all expenses the Company would have incurred as an independent company.

The primary business of Rofin-Sinar 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 year ended September 30, 1997, Rofin-Sinar generated approximately 77% of its revenues from the sale and installation of new lasers and approximately 23% from aftermarket support for the Company's existing laser products.

(b) Cash Equivalents

Cash equivalents consist of liquid instruments with an original maturity of three months or less as well as taxable and tax-exempt variable rate demand obligations ("floaters") which are redeemable upon a five day minimum notice. Interest income on taxable and tax-exempt demand obligations was \$1.5 million in fiscal 1997 and \$0 in prior years.

(c) 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.

(d) Property and Equipment

Property and equipment are recorded at cost and depreciated over their useful lives, except for leasehold improvements, which are amortized over the lesser of their 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
Machinery and equipment	3 - 10 Years
Furniture and fixtures	3 - 10 Years
Computers and software	3 - 4 Years
Leasehold improvements	5 - 15 Years

(e) Revenue Recognition

Revenues are recognized when a laser product is shipped or services are performed.

(f) Income Taxes

Income taxes are accounted for following Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (Statement 109). Under the asset and liability method of Statement 109, deferred income taxes 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. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Statement 109, the effect of deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company's results through September 30, 1996 have been included in the consolidated federal income tax return of Siemens Corporation in the U.S. and, for periods prior to October 1, 1995, Siemens AG in Germany. For periods from and after September 30, 1996 and October 1, 1995, the Company bears sole responsibility for filing tax returns in the respective jurisdictions.

(g) Accounting for Warranties

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

(h) Foreign Currency Translation

In accordance with Statement of Financial Accounting Standards No. 52, 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 translating foreign currency financial statements are recorded as a separate component of shareholders' equity. Gains or losses resulting from foreign currency transactions are included in net income.

(i) Hedging

The Company enters into foreign currency forward contracts to hedge its foreign currency risk on sales transactions. Gains and losses on transaction hedges are recognized in income and affect the foreign exchange gains and losses on the related transaction. At September 30, 1997 foreign currency forward contracts outstanding were not material.

(j) Research and Development Expenses

Research and development costs are expensed when incurred and are net of government grants of \$1,400, \$822, and \$876 received for the years ended September 30, 1995, 1996, and 1997, respectively. The Company has no future obligations under such grants.

(k) Financial Instruments

Financial instruments of the Company, consisting principally of cash, accounts receivable, accounts payable, and bank loans, are recorded at amounts which approximate estimated fair value. The estimated fair value amounts are determined by the Company using available market information and available valuation methodologies.

(l) Use of Estimates

Management of the Company makes a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from these estimates.

(m) Net Income Per Share

Net income per share is based on the weighted average number of common and common equivalent shares (stock options and preferred shares) outstanding in each period. Such shares prior to the IPO represent a pro-rata portion of the number of shares issued pursuant to the offering (8,631,578), the proceeds from which were used to purchase the shares of RSI and RSL and to repay the remaining indebtedness owed to Siemens.

(n) Reclassifications

Certain reclassifications of prior year amounts have been made for consistent presentation.

2. INVENTORIES

Inventories are summarized as follows:

	September 30,	
	1996	1997
Finished goods	\$6,586	\$2,732
Work in progress	8,027	7,944
Raw materials and supplies	8,087	6,903
Demo inventory	5,015	4,335
Service parts	6,638	6,817
Total inventories, net	\$34,353	\$28,731

3. PROPERTY AND EQUIPMENT

Property and equipment include the following:

	September 30,	
	1996	1997
Buildings	\$24,140	\$20,878
Technical machinery and equipment	5,542	5,801
Furniture and fixtures	5,998	5,867
Computers and software	3,314	3,123
Leasehold improvements	1,339	1,497
Total property and equipment, at cost	\$40,333	\$37,166

4. ACCRUED LIABILITIES

Accrued liabilities are comprised of the following:

	September 30,	
	1996	1997
Employee compensation	\$5,274	\$4,960
Warranty reserves	4,427	5,724
Deferred revenue	2,548	244
Other taxes payable	1,563	820
Customer deposits	402	2,016
Other	2,872	2,070
Total accrued liabilities	\$17,086	\$15,834

5. BANK LOANS

The Company's Japanese subsidiary had loans totaling \$6,354 and \$5,871 for the years ended September 30, 1996 and 1997, respectively. Interest on the loans is at floating market rates which approximated 0.7% at September 30, 1996 and ranged from 1.2 to 1.4% at September 30, 1997.

6. LINE OF CREDIT

The September 30, 1996 line of credit represents intercompany borrowings outstanding from the Former Parent of \$18,426. In October 1996 the Company paid off this outstanding balance and obtained an annually renewable credit line of \$25,000 with Deutsche Bank AG to support its working capital needs. As of September 30, 1997, \$12,209 was borrowed against this loan facility by RSL and Rofin-Sinar S.r.l. at a fixed interest rate of 3.9%. The Company's other foreign subsidiaries have various lines of credit with borrowings totaling \$489 at September 30, 1997.

7. LEASE COMMITMENTS

The Company leases operating facilities and equipment under operating leases which expire at various dates through 2002. The lease agreements require payment of real estate taxes, insurance, and maintenance expenses by the Company.

Minimum lease payments for future fiscal years under noncancelable operating leases as of September 30, 1997 are:

Fiscal Year Ending September 30,	Total
1998	\$1,276
1999	812
2000	613
2001	366
2002 and thereafter	941

Rent expense charged to operations for the years ended September 30, 1995, 1996, and 1997, approximates \$1,300, \$1,568, and \$1,609, respectively.

8. EMPLOYEE BENEFIT PLANS

Substantially all of the Company's U.S. and German employees participate in defined benefit pension plans. The Company's U.S. plan began in fiscal 1995 and is funded. As is the normal practice with German companies, the German plan is unfunded.

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

	September 30,	
	1996	1997
Actuarial present value of benefit obligation:		
Vested employees	\$2,389	\$2,944
Nonvested employees	1,040	567
Accumulated benefit obligation	3,429	3,511
Effects of assumed future compensation increase	987	1,181
Projected benefit obligation	4,416	4,692
Plan assets	(709)	(1,607)
Projected benefit obligation in excess of plan assets	3,707	3,085
Unrecognized net gain	403	488
Unrecognized prior service cost	(592)	(529)
Accrued pension cost	\$ 3,518	\$ 3,044

Pension costs consist of the following components:

	Years ended September 30,		
	1995	1996	1997
Service cost	\$391	\$431	\$418
Interest on projected benefit obligations	229	275	294
Amortization of unrecognized prior service cost	63	64	52
Amortization of unrecognized gain	(32)	(11)	(84)
Net pension cost	\$651	\$759	\$680

Pensions generally provide benefits based on years of service. A discount rate for the U.S. of 8% (7% for foreign plan) as of September 30, 1997 and 1996, and 7.5% (7% for foreign plan) as of September 30, 1995, is assumed. Increases in future compensation levels for the U.S. plan are projected at 6% (2% for foreign plan). Prior service costs and actuarial gains and losses are generally amortized over the average remaining service period of active employees.

The RSI accumulated benefit obligation and unrecognized prior service cost, as of September 30, 1996, were funded by Siemens Corporation into a separate trust pursuant to Section 414(l) of the Internal Revenue Code of 1986, as amended, to satisfy the pension obligation relating to the RSI participation in the Siemens Corporation Retirement Plan.

RSI has a 401(k) plan for the benefit of all eligible U.S. employees, as defined by the plan. Participating employees may contribute up to 16 percent of their qualified annual compensation. The Company matches 50 percent of the first 6 percent of the employees' compensation contributed as a salary deferral. Company contributions for the years ended September 30, 1995, 1996, and 1997 are \$115, \$119, and \$146, respectively.

9. INCOME TAXES

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

	Years ended September 30,		
	1995	1996	1997
United States	\$649	\$3,680	\$3,178
Germany	5,631	8,186	10,525
France	289	169	183
Italy	193	109	180
Japan	(497)	100	646
Total income before income taxes	\$6,265	\$12,244	\$14,712

The provision for income tax expense is comprised of the following amounts:

	Years ended September 30,		
	1995	1996	1997
Current:			
United States	\$ -	\$ -	\$1,981
Foreign	576	3,838	4,152
Total current	576	3,838	6,133
Deferred:			
United States	249	1,316	(395)
Foreign	2,227	(198)	20
Total deferred	2,476	1,118	(375)
Total income tax expense	\$3,052	\$4,956	\$5,758

Statutory tax rates in the U.S., Italy, France, and Japan approximate 35%, 53% (52% for fiscal years 1995 and 1996, and 41% since October 1997), 37%, and 51% (52% for fiscal years 1995 and 1996), respectively. German corporate tax law applies the imputation system with regard to the taxation of the income of a corporation (such as RSL). In general, retained corporate income is subject to a municipal trade tax (which for Hamburg and Guding on a combined basis is 16.4%, and for Mainz is 18%), which is deductible for federal corporate income tax purposes, a federal corporate income tax of 45% and, effective January 1, 1995, a surcharge of 7.5% on the federal corporate income tax amount.

Profits which are distributed by a German corporate taxpayer in the form of a dividend are subject to a reduced federal corporate income tax rate of 30% plus the 7.5% surcharge on the federal corporate income tax amount calculated at the reduced rate. Dividends paid by RSL to Rofin-Sinar Technologies Inc. are subject to a withholding tax at a rate of 5% pursuant to the income tax treaty currently in effect between the United States and Germany.

The difference between actual income tax expense and the amount computed by applying the U.S. federal income tax rate of 35 percent is as follows:

	Years ended September 30,		
	1995	1996	1997
Computed "expected" tax expense	\$2,193	\$4,285	\$5,149
Difference between U.S. and foreign statutory rates	446	741	1,019
Foreign operating loss for which no benefit is recognized	257	—	(286)
Use of unrecognized operating loss	—	—	(374)
Change in foreign tax rate	147	—	30
German dividend withholding tax	—	—	262
Other	9	(70)	(42)
Actual tax expense	\$3,052	\$4,956	\$5,758

The tax effects of temporary differences that give rise to the net deferred tax assets are as follows:

Deferred tax assets:		Years ended September 30,	
		1996	1997
Foreign:			
	German reorganization benefits	\$2,826	\$1,969
	Net operating loss carryforwards	1,687	1,227
	Pension accrual	247	252
	Inventory	701	480
	Other, net	198	244
		5,659	4,172
United States:			
	Net operating loss carryforwards	3,914	3,380
	Depreciation	155	180
	Warranty accrual	717	959
	Accrued liabilities	94	139
	Inventory	613	1,024
	Bad debt allowance	105	104
	Other	—	144
		5,598	5,930
	Gross deferred tax assets	11,257	10,102
	Less: Valuation allowance	(1,741)	(950)
	Net deferred tax assets	\$9,516	\$9,152

Deferred tax liabilities:		Years ended September 30,	
		1996	1997
Foreign:			
	Depreciation	(2,448)	(2,309)
	Inventory	(941)	(310)
	Bad debt allowance	(129)	(134)
	Accrued liabilities	(273)	(179)
		(3,791)	(2,932)
United States:			
	Pension accrual	(200)	(134)
	Deferred tax liabilities	(3,991)	(3,066)
	Net deferred income tax assets	\$5,525	\$6,086

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. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, 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, net of the existing valuation allowances at September 30, 1997.

At September 30, 1997, the Company has U.S. federal net operating loss carryforwards available of \$9,941, which expire in 2008, Japanese net operating loss carryforwards of \$2,316, which expire in 2000, and German net operating loss carryforwards of \$75. The annual utilization by the Company of its U.S. net operating loss carryforwards will be subject to limitation under Section 382 of the Internal Revenue Code of 1986, as amended, as a result of the occurrence of a change of ownership within the meaning of Section 382 in connection with the Company's initial public offering in September 1996.

10. SPECIAL CHARGE

The special charge of \$1.4 million relates to the settlement of a customer dispute arising out of the use of one of the Company's existing products in a newly developed application.

11. RELATED PARTY TRANSACTIONS

The Company purchases certain goods and services from Siemens AG and its affiliates, which were considered related parties through September 30, 1996, the effective date of the IPO. The amounts of such purchases, which are primarily raw material inventories, were \$2,445 and \$4,379 for the years ended September 30, 1995 and 1996, respectively. The Company also recorded sales to Siemens AG and its affiliates totaling \$1,241 and \$5,420 for the years ended September 30, 1995 and 1996, respectively.

The Company also had sales to its joint venture partners in Japan amounting to \$2,172, \$1,969, and \$3,776, in fiscal years 1995, 1996, and 1997, respectively.

The Company's purchases from and sales to related parties have generally been on terms comparable to those available in connection with purchases from or sales to unaffiliated parties.

12. GEOGRAPHIC INFORMATION

Assets, revenues, and income before taxes, by geographic region, at September 30, 1995, 1996, and 1997, and for the years then ended, are summarized below:

ASSETS	September 30,	
	1996	1997
United States	\$60,168	\$55,794
Germany	67,201	71,059
Other	13,184	11,666
Intercompany eliminations	(7,406)	(6,330)
Total Assets	\$133,147	\$132,189

REVENUES

	TOTAL BUSINESS			INTERCOMPANY REVENUES		
	Years ended September 30,			Years ended September 30,		
	1995	1996	1997	1995	1996	1997
United States	\$35,189	\$45,227	\$49,675	\$3,595	\$5,347	\$4,737
Germany	70,020	88,433	96,167	21,419	28,083	32,544
Other	12,534	16,350	21,494	263	677	662
Intercompany Eliminations	(25,277)	(34,107)	(37,943)	(25,277)	(34,107)	(37,943)
	\$92,466	\$115,903	\$129,393	\$ -	\$ -	\$ -
	EXTERNAL REVENUES			INCOME BEFORE INCOME TAXES		
	Years ended September 30,			Years ended September 30,		
	1995	1996	1997	1995	1996	1997
United States	\$31,594	\$39,880	\$44,938	\$649	\$3,680	\$3,178
Germany	48,601	60,350	63,623	5,631	8,186	10,525
Other	12,271	15,673	20,832	(15)	378	1,009
Intercompany Eliminations	-	-	-	-	-	-
	\$92,466	\$115,903	\$129,393	\$6,265	\$12,244	\$14,712

13. SELECTED QUARTERLY FINANCIAL DATA (Unaudited)

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

	Quarters Ended			
	Dec. 31, 1996	March 31, 1997	June 30, 1997	Sept. 30, 1997
Net sales	\$34.0	\$33.5	\$31.2	\$ 30.7
Gross profit	12.1	12.2	12.0	10.1
Net income	2.7	2.5	1.5	2.3
Net income per share	\$0.23	\$0.21	\$0.13	\$0.20

14. STOCK INCENTIVE PLANS

Directors' Plan

The Company has reserved 100,000 shares of common stock for the Directors' Plan, which covers non-employee members of the Board of Directors. Under this plan each member of the Board of Directors who is not an employee of the Company and who is elected or continues as a member of the Board of Directors is 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 provides 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 five equal installments on 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 Directors' Plan will continue in effect until the earlier of ten years from the date of the first grant or the termination of the Directors' Plan by the Board of Directors. A total of 10,500 shares are issued and outstanding under the plan at September 30, 1997, of which 4,500 vest in future periods.

Equity Incentive Plan

The Company has an Equity Incentive Plan, whereby incentive and nonqualified stock options, restricted stock and performance shares may be 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. There were no incentive stock options, restricted stock or performance shares granted in 1996 or 1997. On September 26, fiscal 1996 and 1997, nonqualified stock options were granted to officers and other key employees. Options will expire not later than ten years after the date on which they are granted, and become exercisable at such times and in such installments as determined by the Compensation Committee of the Board of Directors. The balance of outstanding stock options as of September 30, 1996 and 1997, and all options activity for the periods then ended are as follows:

	Number Of Shares	Price per Share	
		Price Range	Weighted Average
Granted September 26, 1996	282,000	\$9 ½	\$9 ½
Exercised	0		
Forfeited	0		
Outstanding at September 30, 1996	282,000	9 ½	9 ½
Granted September 26, 1997	193,000	16 7/8	16 7/8
Exercised	0		
Forfeited	0		
Outstanding at September 30, 1997	475,000	\$9½ - 16 7/8	\$12 ½

Outstanding Options				Exercisable Options	
Exercise Prices	Shares	Remaining Life (years)	Weighted Average Price	Shares	Weighted Average Price
\$9 ½	282,000	4	\$9 ½	56,400	\$9 ½
\$16 7/8	193,000	5	\$16 7/8	—	\$ —

The Company follows APB Opinion 25, Accounting for Stock Issued to Employees, to account for stock options. No compensation cost is recognized because the option exercise price is equal to the market price of the underlying stock on the date of grant. Had compensation cost for these plans been determined based on the Black-Scholes value at the grant dates for awards as prescribed by SFAS Statement 123, Accounting for Stock-Based Compensation, pro forma net income and earnings per share would have been:

	Year ended September 30,	
	1996	1997
Pro forma net income	\$7,288	\$8,781
Pro forma earnings per share	\$0.84	\$0.76

The pro forma disclosures above include the amortization of the fair value of all options vested during 1997 and are not necessarily representative of actual results which will be reported in future years. The weighted average Black-Scholes value of options granted under the stock option plan during 1996 and 1997 was \$5.10 and \$9.25. Value was estimated using an expected life of five years, no dividends, volatility of 56% and 53%, and risk-free interest rates of 6.6% and 6% in fiscal 1996 and 1997.

15. RECENTLY ISSUED ACCOUNTING STANDARDS

In 1997 Financial Accounting Standards No. 128 (FAS 128), "Earnings per share" was issued and is effective for both interim and annual periods ending after December 15, 1997. The future adoption of FAS 128 is not expected to have a material effect on the Company's reported earnings per share.

In 1997 Financial Accounting Standards No. 130 (FAS 130), "Reporting comprehensive income", was issued and is effective for fiscal years commencing after December 15, 1997. The Company will comply with the requirements of FAS 130 in fiscal year 1999.

In 1997 Financial Accounting Standards No. 131 (FAS 131), "Disclosures about Segments of an Enterprise and Related Information", was issued and is effective for fiscal years commencing after December 15, 1997. The Company will comply with the requirements of FAS 131 in fiscal year 1999.

Independent Auditors' Report

The Board of Directors and Stockholders
Rofin-Sinar Technologies Inc. and Subsidiaries:

Under date of November 10, 1997, we reported on the consolidated balance sheets of Rofin-Sinar Technologies Inc. and Subsidiaries as of September 30, 1996 and 1997, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the three year period ended September 30, 1997, which are included in the annual report on Form 10-K. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related financial statement schedule, Valuation and Qualifying Accounts in the annual report on Form 10-K. This financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement schedule based on our audit.

In our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG PEAT MARWICK LLP
Detroit, Michigan

November 10, 1997

ROFIN-SINAR TECHNOLOGIES INC. AND SUBSIDIARIES
 VALUATION AND QUALIFYING ACCOUNTS
 Years ended September 30, 1995, 1996, and 1997
 (dollars in thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Deductions	Balance at End of Period
September 30, 1995	\$1,005	\$1,549	(\$1,302)	\$1,252
September 30, 1996	1,252	484	(773)	963
September 30, 1997	963	1,245	(1,298)	910

INDEX TO EXHIBITS

Exhibit No.	Exhibit
11.1	Earnings per Share Table
21.1	List of Subsidiaries of Rofin-Sinar Technologies Inc.
27.1	Financial Data Schedule

EARNINGS PER SHARE TABLE

	Years ended September 30,	
	1996	1997
Net Income	\$7,288	\$8,954
Weighted average shares outstanding	8,639,498	11,605,706 ¹
Earnings per share	\$0.84	\$0.77

¹) Includes common stock outstanding and common stock equivalent stock options.

LIST OF SUBSIDIARIES OF ROFIN-SINAR TECHNOLOGIES INC.

Rofin-Sinar, Inc.
Rofin-Sinar Laser GmbH
Rofin-Sinar France S.A.
Rofin-Sinar Italiana S.r.l.
Rofin-Marubeni Laser Corporation
DILAS Diodenlaser GmbH

EXHIBIT 27.1

[Financial Data Schedule for fiscal year ended September 30, 1997 - EDGAR Version only]

Corporate information:

ROFIN-SINAR Technologies, Inc.
45701 Mast Street
Plymouth, MI 48170, USA

Tel.: +1-734-455-5400
Fax: +1-734-455 2741

Board of directors

Dr. Peter Wirth
Chairman of the Board
Chief Executive Officer
President

Hinrich Martinen
Executive Vice President
Chief Technical Officer

Gunther Braun
Executive Vice President
Chief Financial Officer

William R. Hoover
Chairman of the Board
Computer Sciences Corporation

Ralph E. Reins

Gary K. Willis
President, Chief Executive Officer and Director of
Zygo Corporation

Auditors

KPMG Peat Marwick LLP
Detroit, Michigan

Transfer agent and registrar

The Bank of New York
New York, NY

Common stock

ROFIN-SINAR Technologies, Inc.
trades on NASDAQ's National Market System under the Symbol "RSTI"

