

GSI GROUP INC
Form PRE 14A
October 12, 2010
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SCHEDULE 14A INFORMATION
Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

GSI Group Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other than Registrant)

Payment of Filing Fee (check the appropriate box):

No fee required

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(3) Filing Party:

(4) Date Filed:

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GSI GROUP INC.

125 Middlesex Turnpike

Bedford, Massachusetts 01730

(781) 266-5700

October [27], 2010

Dear Shareholder:

It is my pleasure to invite you to the annual and special meeting of shareholders of GSI Group Inc. to be held at 1:00 p.m. (EST) on Tuesday, November 23, 2010 at the offices of Latham & Watkins LLP, 885 Third Avenue, 12th Floor, New York, New York 10022.

The purposes of the meeting are to (i) ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2010, (ii) approve the GSI Group Inc. 2010 Incentive Award Plan, and (iii) approve an amendment to our Articles to effect a reverse stock split of our common shares by a ratio of 1-for-2, 1-for-3, 1-for-4 or 1-for-5, with the exact ratio to be determined by our board of directors in its discretion, and to authorize our board of directors to implement the reverse stock split at any time prior to February 23, 2011.

Information regarding the above matters is contained in the formal notice of meeting and management proxy circular on the following pages. The GSI Group Inc. Annual Report for the fiscal year ended December 31, 2009 accompanies this management proxy circular. We urge you to read the proxy materials in their entirety and to consider them carefully.

It is important that your shares be represented at the annual and special meeting, regardless of the size of your holdings. Accordingly, whether or not you expect to attend the meeting, we urge you to vote promptly by returning the enclosed proxy form. You may revoke your proxy at any time before it has been voted.

On behalf of the board of directors, I thank you for your participation.

Very truly yours,

Stephen W. Bershad
Chairman of the Board of Directors

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GSI GROUP INC.

125 Middlesex Turnpike

Bedford, Massachusetts 01730

(781) 266-5700

NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS

TO BE HELD ON TUESDAY, NOVEMBER 23, 2010

NOTICE IS HEREBY GIVEN that the annual and special meeting of shareholders of GSI Group Inc., a New Brunswick corporation, which we refer to in this notice and in the attached management proxy circular as the Company, will be held at 1:00 p.m. (EST) on Tuesday, November 23, 2010 at the offices of Latham & Watkins LLP, 885 Third Avenue, 12th Floor, New York, New York 10022, for the following purposes:

1. To ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2010 (see page 5 of the accompanying management proxy circular);
2. To approve the GSI Group Inc. 2010 Incentive Award Plan (see page 7 of the accompanying management proxy circular);
3. To approve an amendment to the Company's Articles to effect a reverse stock split of our common shares by a ratio of 1-for-2, 1-for-3, 1-for-4 or 1-for-5, with the exact ratio to be determined by our board of directors in its discretion, and to authorize our board of directors to implement the reverse stock split at any time prior to February 23, 2011 by filing an amendment to our Articles (see page 15 of the accompanying management proxy circular); and
4. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

Only shareholders of record as of the close of business on Monday, October 18, 2010 will be entitled to attend and vote at the meeting and at any adjournment or postponement thereof, provided that a subsequent transferee of shares may vote at the meeting if the transferee establishes ownership of the shares and requests not later than ten (10) days before the meeting to be added to the list of shareholders entitled to vote at the meeting.

All shareholders are requested to complete, sign, date and return the form of proxy in the enclosed envelope to Computershare Investor Services Inc., the Company's transfer agent, at 100 University Avenue, 9th Floor, Toronto, Ontario, Canada M5J 2Y1, before 1:00 p.m. (EST) on Friday, November 19, 2010, or, if the meeting is adjourned or postponed, prior to 1:00 p.m. (ET) on the last business day prior to the date fixed for the adjourned or postponed meeting. If you are a shareholder of record, you may also vote by telephone or on the Internet by following the instructions on the enclosed proxy form, no later than 1:00 p.m. (EST) on Friday, November 19, 2010, or, if the meeting is adjourned or postponed, prior to 1:00 p.m. (ET) on the last business day prior to the date fixed for the adjourned or postponed meeting. Shareholders who vote by telephone or the Internet should not return a proxy form.

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A copy of the management proxy circular and a proxy form accompany this notice. This notice, the management proxy circular, the proxy form and the Company's 2009 annual report will be forwarded on or about Thursday, October 28, 2010 to the holders of the Company's common shares as of the close of business on Monday, October 18, 2010.

All monetary amounts listed in the proxy circular are in U.S. dollars, unless otherwise indicated.

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DATED at Bedford, Massachusetts this [27th] day of October 2010.

By Order of the Board of Directors

Michael E. Katzenstein
Principal Executive Officer

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GSI GROUP INC.

125 Middlesex Turnpike

Bedford, Massachusetts 01730

(781) 266-5700

MANAGEMENT PROXY CIRCULAR

INFORMATION CONCERNING VOTING AND SOLICITATION

GSI Group Inc., a New Brunswick corporation, which we refer to in this management proxy circular as the Company, will hold its annual and special meeting at 1:00 p.m. (EST) on Tuesday, November 23, 2010 at the offices of Latham & Watkins LLP, 885 Third Avenue, 12th Floor, New York, New York 10022. This management proxy circular and the enclosed proxy form are furnished in connection with the solicitation of proxies by the board of directors of the Company for use at the meeting. The solicitation will be made by mail, but proxies may also be solicited personally by directors, officers or other employees of the Company. The cost of solicitation has been or will be borne by the Company. The Company may also pay brokers or nominees holding common shares of the Company in their names or in the names of their principals for their reasonable expenses in sending solicitation material to their principals.

The notice of the meeting, this management proxy circular, the proxy form and a copy of the Company's 2009 annual report will be forwarded on or about Thursday, October 28, 2010 to the holders of the Company's common shares as of the close of business on Monday, October 18, 2010.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS

FOR THE SHAREHOLDER MEETING TO BE HELD ON NOVEMBER 23, 2010

The Company's Proxy Circular and Annual Report are available at

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The following proxy materials are available for review at:

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the management proxy circular;
the proxy form;
the Company's annual report for the fiscal year ended December 31, 2009; and
any amendments to the foregoing materials that are required to be furnished to shareholders.

Shareholders may receive directions to attend the meeting in person by calling the Company's investor relations staff at 781-266-5137 or by emailing InvestorRelations@gsig.com.

Matters to Be Voted On

At the meeting, you will be entitled to vote on the following proposals:

1. The ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2010 (see page 5 of the management proxy circular);

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2. The approval of the GSI Group Inc. 2010 Incentive Award Plan (see page 7 of the management proxy circular);

3. The approval of the amendment to the Company's Articles to effect a reverse stock split of our common shares by a ratio of 1-for-2, 1-for-3, 1-for-4 or 1-for-5, with the exact ratio to be determined by our board of directors in its discretion, and to authorize our board of directors to implement the reverse stock split at any time prior to February 23, 2011 by filing an amendment to our Articles (see page 15 of the management proxy circular); and

4. The transaction of any other business that may properly come before the meeting, or any adjournment or postponement thereof.

No Election of Directors

On July 23, 2010 (the Effective Date), the Company and two of its United States subsidiaries, GSI Group Corporation and MES International, Inc. (collectively, the Debtors) emerged from bankruptcy pursuant to a modified chapter 11 plan, as supplemented (the Final Chapter 11 Plan), and the Final Chapter 11 Plan became effective pursuant to its terms. Pursuant to the Final Chapter 11 Plan, on the Effective Date, Richard B. Black, Garrett A. Garretson, Ph.D., Phillip A. Griffiths, Ph.D., Marina Hatsopoulos and Benjamin J. Virgilio resigned as members of the board of directors of the Company. Byron O. Pond, a member of our board of directors prior to the Effective Date, continued his service on the board of directors upon our emergence from bankruptcy.

On the Effective Date and pursuant to the Final Chapter 11 Plan, seven members were selected to serve on our board of directors, Stephen W. Bershada, Eugene I. Davis, Dennis J. Fortino, K. Peter Heiland, Michael Katzenstein, Ira J. Lamel and Byron O. Pond. Pursuant to the Final Chapter 11 Plan, unless removed for cause, these directors will serve for the first 12-month period following the Effective Date and, therefore, are not subject to the vote of our shareholders at this annual and special meeting.

Board Recommendations

The board of directors recommends that you vote your shares as follows:

FOR the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2010;

FOR the approval of the GSI Group Inc. 2010 Incentive Award Plan; and

FOR the approval of the amendment to the Company's Articles to effect a reverse stock split of our common shares by a ratio of 1-for-2, 1-for-3, 1-for-4 or 1-for-5 with the exact ratio to be determined by our board of directors in its discretion, and to authorize our board of directors to implement the reverse stock split at any time prior to February 23, 2011 by filing an amendment to our Articles.

Appointment and Revocation of Proxies

The persons named in the enclosed proxy form are officers of the Company. A shareholder may appoint a person to represent him or her at the meeting, other than the persons already named in the enclosed proxy form, by inserting the name of such other person in the blank space provided in the proxy form or by completing another proper form of proxy. Such person need not be a shareholder. The completed proxy form must be deposited with the Company at its principal executive offices at 125 Middlesex Turnpike, Bedford, Massachusetts 01730, USA, or with Computershare Investor Services Inc., 100 University Avenue, 9th Floor, Toronto, Ontario, Canada, M5J 2Y1, in either case no later than 1:00 p.m. (EST) on Friday, November 19, 2010, or, if the meeting is adjourned or postponed, prior to 1:00 p.m. (ET) on the last business day prior to the date fixed for the adjourned or postponed meeting.

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If you are a shareholder of record, you may also vote by telephone or on the Internet by following the instructions on the enclosed proxy form, no later than 1:00 p.m. (EST) on Friday, November 19, 2010, or, if the meeting is adjourned or postponed, prior to 1:00 p.m. (ET) on the last business day prior to the date fixed for the adjourned or postponed meeting. Shareholders who vote by telephone or the Internet should not return a proxy form.

The shareholder executing the proxy form may revoke it as to any matter on which a vote has not already been cast pursuant to the authority conferred by such proxy: (a) by delivering another properly executed proxy form bearing a later date and depositing it in the manner described above; (b) by delivering an instrument in writing revoking the proxy, executed by the shareholder or by the shareholder's attorney authorized in writing: (i) at the registered office of the Company, at any time up to and including the last business day preceding the date of the meeting, or at any reconvened meeting following its adjournment or postponement, or (ii) with the chairman of the meeting on the day of the meeting, or at any reconvened meeting following its adjournment or postponement; or (c) in any other manner permitted by law.

Voting of Proxies

The officers named in the proxy form enclosed with this management proxy circular will vote or withhold from voting the common shares of the Company in respect of which they are appointed proxy in accordance with the directions of the shareholder appointing them and, if a shareholder specifies a choice with respect to any matter to be acted upon, the shares will be voted accordingly. In the absence of such direction, the shares will be voted:

FOR the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2010;

FOR the approval of the GSI Group Inc. 2010 Incentive Award Plan; and

FOR the approval of the amendment to the Company's Articles to effect a reverse stock split of our common shares by a ratio of 1-for-2, 1-for-3, 1-for-4 or 1-for-5, with the exact ratio to be determined by our board of directors in its discretion, and to authorize our board of directors to implement the reverse stock split at any time prior to February 23, 2011 by filing an amendment to our Articles.

Voting and Ownership of Shares

At the close of business on the record date, the Company had [100,026,395] common shares outstanding and entitled to vote. Each share is entitled to one vote. The failure of any shareholder to receive a notice of meeting of shareholders does not deprive the shareholder of a vote at the meeting.

The following votes are required to approve each of the proposals at the meeting.

The vote for the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2010 requires the approval of a majority of the common shares represented and cast in respect of such matter to be effective.

The vote to approve the GSI Group Inc. 2010 Incentive Award Plan requires the approval of a majority of the common shares represented and cast in respect of such matter to be effective.

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The vote for the approval of the amendment to the Company's Articles to effect a reverse stock split of our common shares by a ratio of 1-for-2, 1-for-3, 1-for-4 or 1-for-5, with the exact ratio to be determined by our board of directors in its discretion, and to authorize our board of directors to implement the reverse stock split at any time prior to February 23, 2011 by filing an amendment to our Articles requires the approval of a majority of the common shares represented and cast in respect of such matter to be effective.

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No votes may be taken at the meeting, other than a vote to adjourn, unless a quorum has been constituted consisting of the representation of at least thirty-three and one-third percent (33 1/3%) of the outstanding shares as of the record date. Votes will be tabulated by the Company's transfer agent, Computershare Investor Services Inc., which is also serving as the inspectors of election for the meeting.

The enclosed proxy form confers discretionary authority on the persons named therein with respect to such other matters that may properly come before the meeting or any adjournment or postponement thereof. At the date of this management proxy circular, the management of the Company knows of no such other matters to be presented at the meeting.

Counting of Votes

For purposes of determining the presence or absence of a quorum, abstentions and broker non-votes will be counted as present. With respect to the approval of any particular proposal, abstentions and broker non-votes will not be counted in determining the number of votes cast. A broker non-vote occurs when a broker submits a proxy form with respect to common shares held in a fiduciary capacity (typically referred to as being held in street name), but declines to vote on a particular matter because the broker has not received voting instructions from the beneficial owner. Under the rules that govern brokers who are voting with respect to shares held in street name, brokers have the discretion to vote such shares on routine matters, but not on non-routine matters. Routine matters include the ratification of the independent registered public accounting firm. Non-routine matters include matters such as approval of our incentive award plan and the amendment to our Articles to effect a reverse stock split.

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**ITEM 1. - RATIFICATION OF APPOINTMENT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee of the board of directors, subject to shareholder ratification, has selected and appointed the firm of Ernst & Young LLP of Boston, Massachusetts, to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2010. Ernst & Young LLP has served as the Company's independent registered public accountants since 1993.

We expect a representative of Ernst & Young LLP to be present at the meeting to answer appropriate questions and to have an opportunity to make a statement if desired. If shareholders do not ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the current fiscal year ending December 31, 2010, the Audit Committee will evaluate what would be in the best interests of the Company and its shareholders, and consider whether to select a new independent registered public accounting firm for the current fiscal year or whether to wait until the completion of the audit for the current fiscal year before changing independent registered public accounting firms.

The board of directors recommends a vote FOR ratification of this appointment.

Independent Registered Public Accounting Firm Fees and Services

The following table sets forth the fees for professional audit services rendered by Ernst & Young LLP, the Company's independent registered public accounting firm, for the audit of the Company's consolidated annual financial statements for the years-ended December 31, 2009 and 2008, and fees for other services rendered by Ernst & Young LLP with respect to those periods.

	2009	2008
Audit Fees (1)	\$ 1,893,000	\$ 4,980,000
Audit-Related Fees (2)	-	572,000
Tax Fees (3)	40,000	423,000
All Other Fees (4)	-	2,000
Total	\$ 1,933,000	\$ 5,977,000

- (1) Consists of fees billed for professional services rendered for the audit of the Company's annual consolidated financial statements and review of the Company's interim consolidated financial statements included in quarterly reports, audit of the Company's effectiveness of internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002 as of December 31, 2008 and services that are normally provided by Ernst & Young LLP in connection with statutory and regulatory filings or engagements. Additional audit fees were incurred for the 2008 audit as the result of the change of the audit scope due to revenue recognition errors discussed in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008.
- (2) Consists of fees billed for assurance and related services that are reasonably related to the performance of the audit and review of the Company's consolidated financial statements and are not reported under Audit Fees. In 2008, such fees related to services performed by Ernst & Young LLP in connection with the Company's acquisition of Excel Technology, Inc.
- (3) Consists of fees billed for professional services rendered for tax compliance, tax advice and tax planning.

- (4) Represents fees billed for Ernst & Young LLP's online research tool.

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Pre-Approval Policies and Procedures

The Audit Committee has adopted policies and procedures relating to the approval of all audit and non-audit services that are to be performed by the Company's independent registered public accounting firm. This policy generally provides that the Company will not engage its independent registered public accounting firm to render audit or non-audit services unless the Audit Committee specifically approves the service in advance, or the engagement is entered into pursuant to the pre-approval procedure described below.

From time to time, the Audit Committee may pre-approve specified types of services that are expected to be provided to the Company by its independent registered public accounting firm during the next twelve months. An example of pre-approved services would be assistance to the Company in filing foreign statutory accounts or preparing foreign tax returns. Any such pre-approval is detailed as to the particular service or type of services to be provided and is also generally subject to a maximum dollar amount. Additionally, de minimis non-audit services may instead be approved in accordance with applicable rules of the Securities and Exchange Commission (SEC). The prior approval of the Audit Committee was obtained for all services provided by Ernst & Young LLP in fiscal 2009.

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ITEM 2. - APPROVAL OF THE GSI GROUP INC. 2010 INCENTIVE AWARD PLAN

Our board of directors is submitting for shareholder approval the GSI Group Inc. 2010 Incentive Award Plan (the "2010 Incentive Plan"). There are 8,695,841 shares available for future grants under the 2010 Incentive Plan, subject to adjustment as described below.

The 2010 Incentive Plan provides equity compensation to our board of directors, employees and consultants and is necessary in order to maintain competitive compensation practices and to align the interests of our board of directors, employees and consultants with our shareholders, in accordance with our executive compensation philosophy. Pursuant to the Final Chapter 11 Plan, the Company's previous equity incentive plans were cancelled upon the Company's emergence from bankruptcy on July 23, 2010. The Final Chapter 11 Plan requires the Company to establish and implement a new management incentive plan under which shares in an amount not to exceed 8% of the fully-diluted common stock will be reserved for issuance thereunder, and the 2010 Incentive Plan has been approved by the board of directors to satisfy this requirement. If the 2010 Incentive Plan is not approved, we will be limited in the ability to use equity compensation as a tool for aligning our board of directors', employees' and consultants' interests with our shareholders' interests.

We believe the 2010 Incentive Plan properly balances its compensatory design with shareholder interests by having the following characteristics:

Grants of options or stock appreciation rights ("SARs") with an exercise or base price that is less than fair market value on the grant date are generally prohibited;

Repricing of options or SARs to reduce price per share is prohibited without prior shareholder approval;

No dividends or dividend equivalents are paid on unvested performance awards; and

Shares used to pay option exercise prices or to satisfy tax withholdings are not recycled back into the 2010 Incentive Plan, and the 2010 Incentive Plan does not have other liberal share counting practices as defined by RiskMetrics.

On October [], 2010, the board of directors approved and adopted the 2010 Incentive Plan, subject to approval by our shareholders. The principal features of the 2010 Incentive Plan are summarized below, but the summary is qualified in its entirety by reference to the 2010 Incentive Plan itself, which is included as Appendix A.

The 2010 Incentive Plan provides for the grant of incentive stock options ("ISOs"), as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), non-qualified stock options, restricted stock, restricted stock units, SARs, deferred stock, deferred stock units, dividend equivalents, performance awards and stock payments (collectively referred to as "Awards") to employees, consultants and directors.

Shares Subject to the 2010 Incentive Plan

Under the 2010 Incentive Plan, the aggregate number of common shares that may be granted is 8,695,841, subject to adjustment as described below. This number of common shares is equal to approximately 8% of the outstanding common stock of the Company as of the Effective Date. The 2010 Incentive Plan provides for specific limits on the number of shares that may be subject to different types of Awards and the amount of cash that can be paid with respect to different types of Awards:

No more than 3,260,940 shares, subject to adjustment as described below, may be granted as Awards to any one individual during any calendar year;

No more than \$2,500,000 may be paid in cash with respect to one or more Awards to any one individual during any calendar year.

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The shares subject to the 2010 Incentive Plan, the limitations on the number of shares that may be awarded under the 2010 Incentive Plan and the amount of cash paid with respect to one or more Awards under the 2010 Incentive Plan, and shares and option prices subject to Awards outstanding under the 2010 Incentive Plan, will be adjusted as the 2010 Incentive Plan administrator (the Administrator) deems appropriate to reflect stock dividends, stock splits (including, without limitation, the reverse stock split proposed for shareholder approval at this meeting (see Item 3 Approval of Amendment to our Articles to Effect a Reverse Stock Split below), if approved by the shareholders and implemented by the board of directors), combinations or exchanges of shares, merger, consolidation, or other distribution (other than normal cash dividends) of Company assets to shareholders, or any other change affecting the common shares or the price per share of the common shares other than an equity restructuring.

Notwithstanding any provision in the 2010 Incentive Plan to the contrary, no option may be awarded to reduce the per share exercise price of the shares subject to the option below the exercise price as of the date the option is granted, and no option may be granted in exchange for, or in connection with, the cancellation or surrender of an option having a higher per share exercise price (other than an option awarded in connection with an Award granted under the 2010 Incentive Plan upon the assumption of, or in substitution for, outstanding equity awards previously granted by a company or other entity in connection with a corporate transaction, such as a merger, combination, consolidation or acquisition of property or stock (a Substitute Award)).

Shares subject to Awards that have expired, been forfeited or settled in cash, or repurchased by the Company by reason of a forfeiture provision may be added back to the 2010 Incentive Plan and may be granted as new Awards. Shares that are used to pay the exercise price for an option, shares withheld to pay taxes, shares subject to an SAR that are not issued in connection with the stock settlement of the SAR on exercise thereof, and shares purchased on the open market with the cash proceeds from the exercise of options will be cancelled and will not be added back to the number of shares available for grant under the 2010 Incentive Plan. Shares granted under the 2010 Incentive Plan may be previously authorized but unissued shares or shares bought on the open market or otherwise.

On October 6, 2010, the closing price of a common share on the Pink OTC Markets Inc. was \$2.50.

Administration

Generally, the Compensation Committee of our board of directors (the Committee) will act as Administrator. Unless otherwise determined by our board of directors, the Committee will consist of at least two members of the board of directors who are non-employee directors for purposes of Section 16(b) of the Securities Exchange Act of 1934, as amended (the Exchange Act), independent directors under the rules of any securities exchange or automated quotation system on which the shares are listed, and outside directors under Section 162(m) of the Code. The Administrator has the authority to, among other things:

select the individuals who will receive Awards;

determine the type or types of Awards to be granted;

determine the number of Awards to be granted and the number of shares to which the Award relates;

determine the terms and conditions of any Award, including the exercise price and vesting;

determine the terms of settlement of any Award;

prescribe the form of Award agreement;

establish, adopt or revise rules for administration of the 2010 Incentive Plan;

interpret the terms of, and any matters arising pursuant to, the 2010 Incentive Plan, any Award and any related programs; and

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make all other decisions and determinations that may be required pursuant to the 2010 Incentive Plan or as the Administrator deems necessary or advisable to administer the 2010 Incentive Plan.

The Committee may delegate its authority to grant or amend Awards with respect to participants other than individuals who are subject to Section 16 of the Exchange Act, employees who are, or could be, covered by Section 162(m) of the Code or the officers to whom the authority to grant or amend Awards has been delegated, subject to any limitations under Section 162(m) of the Code, applicable securities laws or rules of any securities exchange or automated system on which the shares are listed, quoted or traded. In addition, the full board of directors, acting by majority, will conduct the general administration of the 2010 Incentive Plan with respect to Awards granted to directors who are not employees of the Company.

The Committee or the board of directors may also amend the 2010 Incentive Plan. Amendments to the 2010 Incentive Plan are subject to shareholder approval to the extent required by law, or the rules of any securities exchange or automated system on which the shares are listed, quoted or traded. Additionally, shareholder approval will be specifically required to increase the number of shares available for issuance under the 2010 Incentive Plan, allow for the grant of options or stock appreciation rights with an exercise price that is below fair market value on the date of grant, extend the term of an option or a stock appreciation right beyond ten years, or cancel any option or SAR in exchange for cash or another Award when such option or SAR price per share exceeds the fair market value of the underlying shares.

The board of directors may exercise the rights and duties of the Committee, except with respect to matters which are required to be determined in the sole discretion of the Committee under Rule 16b-3 of the Exchange Act, Section 162(m) of the Code, or the rules of any securities exchange or automated quotation system on which the shares are listed, quoted or traded.

Eligibility

Awards under the 2010 Incentive Plan may be granted to individuals who are our employees or employees of our affiliates, our directors and our consultants or consultants of our affiliates. However, options which are intended to qualify as ISOs may only be granted to employees.

Awards

The following will briefly describe the principal features of the various Awards that may be granted under the 2010 Incentive Plan.

Options. Options provide for the right to purchase common shares at a specified price, and usually will become exercisable in the discretion of the Administrator in one or more installments after the grant date. The option exercise price may be paid in cash, by check, shares of common shares which have been held by the option holder for such period of time as may be required by the Administrator to avoid adverse accounting consequences, through a broker-assisted cash-less exercise, a loan, provided such loan does not otherwise violate Section 13(k) of the Exchange Act, or such other methods as the Administrator may accept from time to time. The Administrator may substitute SARs for options granted under the 2010 Incentive Plan at anytime prior to or upon exercise of such options.

Options may be granted for any term specified by the Administrator, but shall not exceed ten years. Options may not be granted at an exercise price that is less than the fair market value of our common shares on the date of grant (other than in connection with Substitute Awards). For purposes of the 2010 Incentive Plan, fair market value is defined as the closing price for our common shares on the securities exchange or automated quotation system on which the shares are listed, quoted or traded on the applicable date (or if no sale occurred on such date, then on the first immediately preceding date during which a sale occurred), as reported in the *Wall Street Journal* (or another similar reliable source). Additionally, the Administrator may not, without shareholder approval, re-price any options, including the cancellation of options in exchange for options with a lower exercise price.

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Options may take two forms, non-qualified stock options (NSOs) and ISOs.

ISOs will be designed to comply with the provisions of the Code and will be subject to certain restrictions contained in the Code in order to qualify as ISOs. Among such restrictions, ISOs must:

have an exercise price not less than the fair market value of common stock on the date of grant, or if granted to certain individuals who own or are deemed to own at least 10% of the total combined voting power of all of our classes of stock (10% shareholders), then such exercise price may not be less than 110% of the fair market value of common stock on the date of grant;

be granted only to our employees and employees of our subsidiary corporations;

expire within a specified time following the option holder's termination of employment;

be exercised within ten years after the date of grant, or with respect to 10% shareholders, no more than five years after the date of grant; and

not be first exercisable for more than \$100,000 worth of value, determined based on the exercise price.

If an Award purported to be an ISO fails to meet the requirements of the Code, then the Award will instead be considered to be an NSO.

Restricted Stock. A restricted stock award is the grant of common shares at a price determined by the Administrator (which price may be zero), is generally nontransferable and unless otherwise determined by the Administrator at the time of award, may be forfeited upon termination of employment or service during a restricted period. The Administrator also determines in the Award agreement whether the participant will be entitled to vote the shares of restricted stock and/or receive dividends on such shares.

Stock Appreciation Rights. SARs provide for the payment to the holder based upon increases in the price of common shares over a set base price, which may not be less than the fair market value of a common share on the date of grant (other than with respect to Substitute Awards). Payment for SARs may be made in cash, common shares or any combination of the two. The Administrator may not without shareholder approval re-price any SARs, including the cancellation of SARs in exchange for options or SARs with a lower exercise price. SARs become exercisable in the discretion of the Administrator. SARs may be granted for any term specified by the Administrator, but shall not exceed ten years.

Restricted Stock Units. Restricted stock units represent the right to receive common shares (or the fair market value of such shares in cash) at a specified date in the future, subject to forfeiture of such right. If the restricted stock unit has not been forfeited, then on the date specified in the restricted stock unit award we shall deliver to the holder of the restricted stock unit, unrestricted common shares, which will be freely transferable (or the fair market value of such shares in cash). The Administrator will specify the purchase price, if any, to be paid by the holder for the common shares.

Dividend Equivalents. Dividend equivalents represent the value of the dividends per common share paid by the Company, calculated with reference to the number of shares covered by an Award (other than a dividend equivalent award) held by the participant. No dividends or dividend equivalent awards will be paid on unvested performance awards. No dividend equivalents shall be payable with respect to options or SARs.

Stock Payments. Payments to participants of bonuses or other compensation may be made under the 2010 Incentive Plan in the form of common shares. The number of shares will be determined by the Administrator, and may be based upon performance criteria, including the Performance Criteria (as defined in the 2010 Incentive Plan).

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Deferred Stock. Deferred stock typically is awarded without payment of consideration and may be subject to vesting or other conditions, including satisfaction of performance criteria, including the Performance Criteria. Like restricted stock, deferred stock generally may not be sold or otherwise transferred until the vesting and/or other conditions are removed or expire. Unlike restricted stock, deferred stock is not actually issued until the deferred stock award (or portion thereof) has vested and is no longer subject to any other conditions, as applicable. Unless otherwise determined by the Administrator, recipients of deferred stock have no voting or dividend rights prior to the time when the vesting or other conditions are met and the deferred stock is delivered.

Deferred Stock Units. Deferred stock units typically are awarded without payment of consideration and may be subject to vesting or other conditions, including satisfaction of performance criteria, including the Performance Criteria. A deferred stock unit shall entitle the recipient thereof to receive one share of common stock on the date such deferred stock unit becomes vested (and other conditions are removed or expire, if applicable) or upon a specified settlement date thereafter (which settlement date may (but is not required to be) be the date of the recipient's termination of service at the Company or its affiliates). Deferred stock units generally may not be sold or otherwise transferred until the vesting and/or other conditions are removed or expire and/or following a specified settlement date thereafter. Unless otherwise determined by the Administrator, recipients of deferred stock units have no voting or dividend rights prior to the time when the vesting and/or other conditions are met and the deferred stock units are delivered.

Performance Award. Performance awards are payable in cash, stock or a combination of both, and may be linked to satisfaction of performance criteria, including the Performance Criteria. The Committee has the authority to reduce the amount otherwise payable under a performance award upon attainment of the Performance Criteria.

Change in Control

In the event of a Change in Control (as defined in the 2010 Incentive Plan), the Administrator is authorized to, among other things, provide that the Awards granted under the 2010 Incentive Plan are assumed by a successor in such Change in Control or provide that the Awards are exercisable or payable or fully vested with respect to all shares covered thereby, notwithstanding anything to the contrary in the 2010 Incentive Plan or an applicable Award agreement.

Adjustments Upon Certain Events

The number and kind of securities subject to an Award, terms and conditions (including performance targets or criteria) and the exercise price or base price of outstanding Awards will be proportionately adjusted as the Administrator deems appropriate, in its discretion, to reflect any stock dividends, stock split (including, without limitation, the reverse stock split proposed for shareholder approval at this meeting (see

Item 3 Approval of Amendment to our Articles to Effect a Reverse Stock Split below), if approved by the shareholders and implemented by the board of directors), combination or exchange of shares, merger, consolidation, or other distribution (other than normal cash dividends) of Company assets to shareholders, or any other change affecting the common shares or the share price of the common shares other than an equity restructuring. In the event of any other change in the capitalization of the Company, including an equity restructuring, the Administrator will make proportionate and equitable adjustments in the number and class of shares and the per share grant or exercise price for outstanding Awards as the Administrator deems appropriate in its discretion to prevent dilution or enlargement of rights. In the event of any pending stock dividend, stock split (including, without limitation, the reverse stock split proposed for shareholder approval at this meeting (see Item 3 Approval of Amendment to our Articles to Effect a Reverse Stock Split below), if approved by the shareholders and implemented by the board of directors), combination or exchange of shares, merger, consolidation or other distribution (other than normal cash dividends) of Company assets to shareholders, or any other change affecting the shares or share price of common shares, including an equity restructuring, the Company may in its sole discretion refuse to permit the exercise of any Award for a period of 30 days prior to the consummation of any such transaction.

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Awards Not Transferable

Generally, the Awards may not be pledged, assigned or otherwise transferred other than by will or by laws of descent and distribution or pursuant to beneficiary designation procedures approved by the Administrator. The Administrator may allow Awards other than ISOs to be transferred for estate or tax planning purposes to members of the holder's family or trusts for the benefit of family members.

Miscellaneous

As a condition to the issuance or delivery of stock or payment of other compensation pursuant to the exercise or lapse of restrictions on any Award, the Company requires participants to discharge all applicable withholding tax obligations. Shares held by or to be issued to a participant may also be used to discharge minimum statutory tax withholding obligations, subject to the discretion of the Administrator to disapprove of such use.

The 2010 Incentive Plan will expire and no further Awards may be granted after November 23, 2020, the tenth anniversary of its approval by shareholders.

Certain United States Federal Income Tax Consequences

The United States Federal income tax consequences of the 2010 Incentive Plan under current Federal income tax law are summarized in the following discussion which deals with the general tax principles applicable to the 2010 Incentive Plan, and is intended for general information only. In addition, the tax consequences described below are subject to the limitations of Section 162(m) of the Code, as discussed in further detail below. Alternative minimum tax and other Federal taxes and foreign, state and local income taxes are not discussed, and may vary depending on individual circumstances and from locality to locality.

Non-Qualified Stock Options. For Federal income tax purposes, the recipient of NSOs granted under the 2010 Incentive Plan will not have taxable income upon the grant of the option, nor will the Company then be entitled to any deduction. Generally, upon exercise of NSOs the optionee will realize ordinary income, and the Company will be entitled to a deduction, in an amount equal to the difference between the option exercise price and the fair market value of the common shares at the date of exercise.

Incentive Stock Options. An optionee generally will not recognize taxable income upon either the grant or exercise of an ISO. However, the amount by which the fair market value of the shares at the time of exercise exceeds the exercise price will be an item of tax preference for the optionee. Generally, upon the sale or other taxable disposition of the common shares acquired upon exercise of an ISO, the optionee will recognize income taxable as capital gains in an amount equal to the excess, if any, of the amount realized in such disposition over the option exercise price, provided that no disposition of the shares has taken place within either (a) two years from the date of grant of the ISO or (b) one year from the date of exercise. If the common shares are sold or otherwise disposed of before the end of the one-year and two-year periods specified above, the difference between the Award exercise price and the fair market value of the shares on the date of exercise generally will be taxable as ordinary income; the balance of the amount realized from such disposition, if any, generally will be taxed as capital gain. If the common shares are disposed of before the expiration of the one-year and two-year periods and the amount realized is less than the fair market value of the shares at the date of exercise, the optionee's ordinary income generally is limited to the excess, if any, of the amount realized in such disposition over the option exercise price paid. The Company (or other employer corporation) generally will be entitled to a tax deduction only to the extent the optionee has ordinary income upon sale or other disposition of the common shares.

Restricted Stock. Generally, a participant will not be taxed upon the grant or purchase of restricted stock that is subject to a substantial risk of forfeiture, within the meaning of Section 83 of the Code, until such time

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as the restricted stock is no longer subject to the substantial risk of forfeiture. At that time, the participant will be taxed on the difference between the fair market value of the common shares and the amount the participant paid, if any, for such restricted stock. However, the recipient of restricted stock under the 2010 Incentive Plan may make an election under Section 83(b) of the Code to be taxed with respect to the restricted stock as of the date of transfer of the restricted stock rather than the date or dates upon which the restricted stock is no longer subject to a substantial risk of forfeiture.

Stock Appreciation Rights. No taxable income is generally recognized upon the receipt of a SAR. Upon exercise of a SAR, the cash or the fair market value of the shares received generally will be taxable as ordinary income in the year of such exercise. The Company generally will be entitled to a compensation deduction for the same amount which the recipient recognizes as ordinary income.

Restricted Stock Units. A participant will generally not recognize taxable income upon grant of a restricted stock unit. However, when the shares (or the fair market value of such shares in cash) are delivered to the participant, then the value of such shares (or cash) at that time will be taxable to the participant as ordinary income. Generally the Company will be entitled to a deduction for an amount equal to the amount of ordinary income recognized by the participant.

Dividend Equivalents. A participant will recognize taxable ordinary income on dividend equivalents as they are paid and the Company generally will be entitled a corresponding deduction.

Stock Payments. A participant will recognize taxable ordinary income on the fair market value of the common shares delivered as payment of bonuses or other compensation under the 2010 Incentive Plan and generally the Company will be entitled to a corresponding deduction.

Deferred Stock. A participant will recognize taxable ordinary income on the fair market value of the shares on the date shares are delivered under a deferred stock award, and generally the Company will be entitled to a corresponding deduction.

Deferred Stock Units. A participant will recognize taxable ordinary income on the fair market value of the shares on the date shares are delivered under a deferred stock unit award, and generally the Company will be entitled to a corresponding deduction.

Performance Awards. A participant will recognize taxable ordinary income on the amount of cash paid (or value of stock received) under the performance award, and generally the Company will be entitled to a corresponding deduction.

Section 409A of the Code. Certain Awards under the 2010 Incentive Plan, depending in part on particular Award terms and conditions, may be considered non-qualified deferred compensation subject to the requirements of Section 409A of the Code. If the terms of such Awards do not meet the requirements of Section 409A of the Code, then the violation may result in an additional 20% tax obligation, plus penalties and interest for such participant.

Section 162(m) of the Code

Under Section 162(m) of the Code, in general, income tax deductions of publicly traded companies may be limited to the extent total compensation (including base salary, annual bonus, stock option exercises) for certain executive officers exceeds \$1 million in any one taxable year. However, under Section 162(m) of the Code, the deduction limit does not apply to certain performance-based compensation established by an independent compensation committee which conforms to certain restrictive conditions stated under the Code and related regulations. The 2010 Incentive Plan has been structured with the intent that Awards granted under the 2010 Incentive Plan may meet the requirements for performance-based compensation and Section 162(m) of

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the Code. To the extent granted at an exercise price not less than the value of our common shares, options and SARs granted under the 2010 Incentive Plan are intended to qualify as performance-based under Section 162(m) of the Code. Restricted stock, restricted stock units, deferred stock and deferred stock units under the 2010 Incentive Plan may qualify as performance-based under Section 162(m) of the Code if they vest or become payable based solely upon attainment of pre-established goals based on the Performance Criteria. Performance awards may qualify as performance-based under Section 162(m) of the Code to the extent payable based solely on attainment of pre-established goals based on the Performance Criteria.

We have attempted to structure the 2010 Incentive Plan in such a manner that the Committee can determine the terms and conditions of Awards granted thereunder in order to determine whether the remuneration attributable to such Awards will be subject to the \$1 million limitation. We have not, however, requested a ruling from the IRS or an opinion of counsel regarding this issue. This discussion will neither bind the IRS nor preclude the IRS from taking a contrary position with respect to the 2010 Incentive Plan.

Equity Compensation Plans

The following table sets forth information regarding the common stock that may be issued upon the exercise of options and rights under all of our equity compensation plans existing as of December 31, 2009.

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options	Weighted- Average Exercise Price of Outstanding Options	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in First Column)
Equity Compensation Plans approved by security holders (1)	263,500 (2)	\$ 9.82	4,246,784

(1) Options outstanding as of December 31, 2009 were originally issued pursuant to the 1995 Award Plan, which was approved by the Company's shareholders. In May 2006, the Company's shareholders approved the adoption of the 2006 Equity Incentive Plan. Pursuant to the terms of the 2006 Equity Incentive Plan, any shares reserved for issuance under the 1995 Award Plan related to options would return to the 2006 Equity Incentive Plan pool to the extent the associated options expire unexercised. Accordingly, the securities available for future issuance at December 31, 2009 relate exclusively to the 2006 Equity Incentive Plan. The Company's 2006 Equity Incentive Plan was cancelled upon the Company's emergence from Chapter 11 on July 23, 2010, and as of such date no shares remain available for future issuance under the 2006 Equity Incentive Plan.

(2) Excludes 410,051 shares of unvested restricted common stock issued under the 2006 Equity Incentive Plan.

All of the equity compensation plans listed above or described in the table have been approved by the Company's shareholders. Please refer to Note 10 of the Notes to Consolidated Financial Statements in the accompanying Annual Report for the year ended December 31, 2009 for further discussion regarding the Company's equity compensation plans.

The board of directors recommends a vote FOR approval of the 2010 Incentive Plan.

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ITEM 3. - APPROVAL OF AMENDMENT TO OUR ARTICLES TO EFFECT A REVERSE STOCK SPLIT

General

Our board of directors is hereby soliciting shareholder approval of an amendment to our Articles to effect a reverse stock split at a ratio of 1-for-2, 1-for-3, 1-for-4 or 1-for-5, with the exact ratio to be determined by our board of directors in its discretion (the Reverse Stock Split), and to authorize our board of directors to implement the Reverse Stock Split at any time prior to February 23, 2011 by filing an amendment to our Articles (the Reverse Stock Split Amendment). A copy of the proposed Reverse Stock Split Amendment is attached as Appendix B to this management proxy circular. A vote FOR this Item 3 will constitute approval of the Reverse Stock Split providing for the combination of 2, 3, 4 or 5 of our common shares into 1 common share and will grant our board of directors the authority to select which of the approved exchange ratios will be implemented. If shareholders approve this proposal, our board of directors will have the authority, but not the obligation, in its sole discretion and without further action on the part of the shareholders, to select one of the approved reverse split ratios and to effect the approved reverse stock split by filing the Reverse Stock Split Amendment with the New Brunswick Director of Corporations at any time after the approval of the Reverse Stock Split Amendment. If the Reverse Stock Split Amendment has not been filed with the New Brunswick Director of Corporations by February 23, 2011, shareholder approval would again be required prior to implementing any reverse stock split.

Our board of directors believes that shareholder approval of several potential exchange ratios (rather than an exact exchange ratio) provides the board with maximum flexibility to achieve the purposes of the Reverse Stock Split in a manner that is consistent with New Brunswick law. The Reverse Stock Split will be effected, if at all, only upon a determination by the board of directors that the Reverse Stock Split is in the Company's and the shareholders' best interests at that time. In connection with any determination to effect the Reverse Stock Split, the board of directors will set the time for such a split and select the specific ratio from among those ratios approved by shareholders. These determinations will be made by the board of directors with the intention of best achieving the purposes set forth below under Purpose of the Reverse Stock Split.

If the Reverse Stock Split is approved by shareholders and effected by the Company, shareholders will not receive fractional post-reverse stock split shares in connection with the Reverse Stock Split. Shareholders of record who otherwise would hold fractional shares will be entitled to round up such fractional share to a full share. For more information about the treatment of fractional shares, please see the discussion below under Fractional Shares.

Purpose of the Reverse Stock Split

The primary purpose for implementing the proposed Reverse Stock Split is to decrease the number of outstanding common shares in order to increase the per share trading price of our common shares. Our board of directors believes it is in the best interests of the Company and its shareholders to seek to increase the per share trading price of our common shares by means of the Reverse Stock Split for the following purposes:

Satisfy the minimum bid price requirements in connection with attempting to qualify our common shares for re-listing on a major securities exchange, such as The NASDAQ Global Market;

Attract investment from certain institutional investors and investment funds who are presently prevented under their guidelines from investing in our shares at its current price levels; and

Increase interest from analysts and brokers who have policies that may discourage them from following or recommending companies with low share prices.

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Listing on a National Securities Exchange

The Company intends to seek to list our common shares on a national securities exchange, such as The NASDAQ Global Market, as soon as practicable after we become current in our reporting obligations under the Exchange Act and otherwise meet the applicable listing requirements. Our common shares, which currently trade on the Pink OTC Markets Inc. under the symbol `LASR.PK`, could not presently qualify for re-listing on NASDAQ because, among other reasons, its trading price is below the minimum requirements of NASDAQ. NASDAQ has several quantitative listing criteria that companies must satisfy in order for their shares to be listed on The NASDAQ Global Market, including a minimum bid price per share of \$4.00. By increasing the trading price of our common shares, the Reverse Stock Split is intended to remove this minimum bid price impediment to listing with NASDAQ. Under NASDAQ's listing rules, the Company is permitted to effect a reverse stock split to help meet this requirement, subject to certain conditions, including meeting the minimum bid price for a minimum of five to ten consecutive trading days, but may need to trade at or above \$4.00 for as long as 90 consecutive trading days, if the Company must rely on the market value listing standard.

If we are successful in listing on NASDAQ it should increase the liquidity of our common shares, both in terms of the number of shares that are bought and sold and by reducing delays in the timing of transactions. Between July 26, 2010, the next trading day after our emergence from bankruptcy, and October 6, 2010, the daily trading volume of our common shares on the Pink OTC Markets Inc. ranged from a low of 2,869 shares to a high of 417,480 shares, with an average daily trading volume of approximately 67,688 shares during this period. Further, we believe that a listing on NASDAQ would make our shares a more attractive investment for institutional investors and would also improve the perception of the Company by persons with whom we do business.

We believe that the proposed Reverse Stock Split may make it possible for our common shares to satisfy the consecutive trading day price requirements for listing on The NASDAQ Global Market. NASDAQ also requires that listed companies meet other quantitative criteria, including a minimum number of round lot holders and, in some instances, a minimum aggregate market value, a minimum net worth, and a minimum number of market makers, as well as qualitative criteria, including those regarding composition of the board of directors, committees composed of independent directors, and other corporate governance requirements. While we expect that the proposed Reverse Stock Split, together with other actions required to meet applicable listing standards, will enable our shares to qualify for listing with NASDAQ and that we will be able to continue to meet on-going quantitative and qualitative listing requirements, we cannot be sure that this will be the case. Negative financial results or market conditions could adversely affect the market price of our common shares and jeopardize our ability to meet or maintain applicable NASDAQ listing requirements. Furthermore, in addition to its enumerated listing and maintenance standards, NASDAQ has broad discretionary authority over the initial and continued listing of securities, which it could exercise with respect to our shares.

Investment from Institutional Investors

We considered that, as a matter of policy, many institutional investors will not purchase shares trading below certain minimum price levels, and brokers often discourage their customers from purchasing such shares. We believe that these concerns would be reduced if the price per share of our common shares increases.

Interest from Analysts

The Reverse Stock Split could increase analyst and broker interest in the common shares as their policies can discourage them from following or recommending companies with low share prices. Because of the trading volatility often associated with low-priced stocks, many investment banks, investment advisors and brokerage houses have adopted internal policies and practices that either prohibit or discourage them from following low-priced shares or recommending low-priced shares to their customers.

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Other Considerations

The Reverse Stock Split may also reduce the relatively high transaction costs and commissions incurred by our shareholders due to our currently low per share trading price. The structure of trading commissions, when they are set at a fixed price per share, can have an adverse impact on holders of lower-priced securities because the brokerage commissions generally represent a higher percentage of the sales prices of lower-priced securities than they do on higher-priced securities, which may discourage trading in such lower-priced securities. If the price of our shares is higher, then the adverse impact of these commissions could be reduced.

Determination of Reverse Split Ratio

If our shareholders approve the Reverse Stock Split, our board of directors, in its sole discretion, may elect to effect any one (but not more than one) of the reverse split ratios indicated in this proposal after receipt of shareholder approval, or none of them if our board of directors determines in its sole discretion not to proceed with the Reverse Stock Split. We believe that the availability of the alternative reverse split ratios will provide the board of directors with the flexibility to implement the Reverse Stock Split in a manner designed to maximize the anticipated benefits for the Company and its shareholders.

The board of director s selection of the specific reverse split ratio will be based primarily on the price level of our common shares at that time and the expected stability of that price level. In selecting the specific reverse split ratio, the board of directors will be mindful of the listing requirements of The NASDAQ Global Market, which requires, among other things, a minimum bid price of at least \$4.00 per share. Between July 26, 2010 and October 6, 2010, our stock has traded at a low of \$2.06 per share to a high of \$2.54 per share. The board of directors expects to select a reverse split ratio that is likely to cause the immediate post reverse split market price for the common shares to be well above \$4.00 per share, and to result in a post-split share price that is more typical of NASDAQ-listed companies.

In addition, we expect that the board will select a ratio that it believes is likely to result in increased marketability and liquidity of our common shares and to encourage interest and trading in our common shares. Many institutional investors and mutual funds, for example, have rules that prohibit them from buying into companies whose stock is less than \$5 per share, and in some cases, \$10 per share, and many brokers tend to be discouraged from recommending low-priced stocks to their customers.

The board of directors will also consider whether investors and certain other parties, such as our customers, would expect our share price to be in line with other major widely held companies, including our competitors. We expect that the board of directors will consider the recent volatility of our common shares and will take this into account in determining a reverse split ratio, so that even if our share price remains volatile, it would have a chance at remaining at a price at which the board feels our shares are attractive to investors.

Reducing the number of outstanding common shares through the Reverse Stock Split is intended, absent other factors, to increase the market price of our common shares. However, other factors, such as our financial results, market conditions and the market perception of our business may adversely affect the market price of our common shares. As a result, there can be no assurance that the Reverse Stock Split, if completed, will result in the intended benefits described above, that the market price of our common shares will increase following the Reverse Stock Split or that the market price of our common shares will not decrease in the future. Additionally, we cannot assure you that the market price per share of our common shares after a Reverse Stock Split will increase in proportion to the reduction in the number of shares of our common shares outstanding before the Reverse Stock Split. The board of directors reserves its right to elect to abandon the Reverse Stock Split if it determines, in its sole discretion, that this proposal is no longer in the best interests of the Company and its shareholders.

Table of Contents**Effects of the Reverse Stock Split***Reduction in Number of Outstanding Shares*

If we receive the required shareholder approval of the Reverse Stock Split proposal and the Reverse Stock Split is effected, each shareholder will own fewer common shares. Depending on the ratio for the reverse stock split selected by our board of directors, each 2, 3, 4 or 5 shares of our common shares owned by a shareholder as determined by the board of directors, will be combined into 1 new common share. The Reverse Stock Split will be realized simultaneously and in the same ratio for all of our common shares. Therefore, the Reverse Stock Split will affect all holders of our common shares uniformly and will not affect any shareholder's percentage ownership interest in the Company (subject to the treatment of fractional shares). As described below, holders of common shares otherwise entitled to a fractional share as a result of the Reverse Stock Split will be entitled to round up such fractional share to a full share. In addition, the Reverse Stock Split will not affect any shareholder's proportionate voting power (subject to the treatment of fractional shares). For example, a holder of 2% of the voting power of the outstanding common shares immediately prior to the Reverse Stock Split would continue to hold 2% of the voting power of the outstanding common shares immediately after the Reverse Stock Split.

Based on [100,026,395] common shares outstanding as of October 18, 2010, and ignoring the effects of the treatment of fractional shares, the approximate number of outstanding shares following the Reverse Stock Split would be as follows:

Reverse Split Ratios	Approximate Number of Outstanding Common Shares after Reverse Stock Split
1-for-2	[50,013,198]
1-for-3	[33,342,132]
1-for-4	[25,006,599]
1-for-5	[20,005,279]

Because the Company has an unlimited number of authorized common shares, the number of authorized common shares available for future issuance by the Company will not be affected by any proposed Reverse Stock Split. In addition, the par value of the common shares would remain unchanged at no par value per share following the Reverse Stock Split.

Change in Number and Exercise Price of Employee and Director Equity Awards

If shareholders approve both the 2010 Incentive Award Plan and the Reverse Stock Split proposal, then the proposed Reverse Stock Split will reduce the number of common shares available for future issuance under the 2010 Incentive Plan in proportion to the reverse split ratio determined by the board of directors within the limits set forth in the Reverse Stock Split proposal. In addition, the proposed Reverse Stock Split will similarly reduce the maximum aggregate number of common shares that may be granted under the 2010 Incentive Plan to any one person during any calendar year in proportion to the reverse split ratio determined by the board of directors within the limits set forth in the Reverse Stock Split proposal. Under the terms of the Company's outstanding equity awards, the Reverse Stock Split would cause an appropriate and proportionate adjustment to (a) the number of common shares subject to such awards, and/or (b) the exercise price for each share subject to then outstanding stock options (without change in the aggregate purchase price as to which such options remain exercisable). The number of common shares issuable upon exercise or vesting of outstanding equity awards will be rounded down to the nearest whole share and no cash payment will be made in respect of such rounding.

Regulatory Effects

The Company's common shares are currently registered under Section 12(g) of the Exchange Act, and the Company is subject to the periodic reporting and other requirements of the Exchange Act. The proposed Reverse

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Stock Split will not affect the registration of the common shares under the Exchange Act or the Company's obligation to publicly file financial and other information with the Securities and Exchange Commission. If the proposed Reverse Stock Split is implemented, the Company's common shares will continue to be quoted on the Pink OTC Markets Inc. and trade under the symbol "LASR.PK".

No Going Private Transaction

Notwithstanding the decrease in the number of outstanding shares following the proposed Reverse Stock Split, the board of directors does not intend for this transaction to be the first step in a series of plans or proposals of a going private transaction within the meaning of Rule 13e-3 of the Exchange Act. Following the Reverse Stock Split, we intend for our common shares to remain registered under the Exchange Act and to continue to be subject to the reporting requirements of such Act.

No Anti-Takeover Effect

The Company is authorized to issue an unlimited number of common shares without par value. As a result, the Reverse Stock Split will neither increase nor decrease the number of authorized common shares that the Company has available for issuance. Therefore, the Reverse Stock Split proposal does not have, and is not intended to have, an anti-takeover effect.

Because the Company is authorized to issue an unlimited number of common shares, it is possible that management could issue additional shares to resist or frustrate a third-party transaction providing an above-market premium that is favored by a majority of the independent shareholders. However, the Company has no plans to authorize the issuance of additional shares as an anti-takeover device, or to finance transactions or working capital. If we do issue additional common shares, the percentage ownership interest of holders of our common shares will be diluted.

Certain Risks Associated with the Reverse Stock Split

There are risks associated with the Reverse Stock Split including the following:

There can be no assurance that we would be able to meet all of NASDAQ's requirements necessary to successfully get our common shares listed on The NASDAQ Global Market or otherwise meet the continued listing standards of NASDAQ if we are successful in obtaining the listing;

If the Reverse Stock Split is effected and the market price of our common shares declines, the percentage decline may be greater than would occur in the absence of a reverse stock split. The market price of our common shares will, however, also be based on performance and other factors, which are unrelated to the number of shares outstanding;

There can be no assurance that the Reverse Stock Split will result in any particular price for our common shares. As a result, the trading liquidity of our common shares may not necessarily improve or improve to a level required to achieve the purposes of the Reverse Stock Split, as outlined above;

There can be no assurance that the market price per share of our common shares after a reverse stock split will increase in proportion to the reduction in the number of our common shares outstanding before the Reverse Stock Split. For example, based on the closing price of our common shares on September 30, 2010 of \$2.51 per share, if the Reverse Stock Split were implemented and approved for a reverse split ratio of 1-for-2, there can be no assurance that the post-split market price of our common shares would be \$5.02 or greater. Accordingly, the total market capitalization of our common shares after the Reverse Stock Split may be lower than the total market capitalization before the Reverse Stock Split. Moreover, in the future, the market price of our common shares following the Reverse Stock Split may not exceed or remain higher than the market price prior to the Reverse Stock Split;

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There can be no assurance the Reverse Stock Split would result in a price per share that will attract brokers and investors that do not trade in lower priced shares;

The liquidity of our common shares could be adversely affected by the reduced number of shares that would be outstanding after the Reverse Stock Split; and

The Reverse Stock Split may result in some shareholders owning odd lots of less than 100 common shares. Odd lot shares may be more difficult to sell, and brokerage commissions and other costs of transactions in odd lots are generally somewhat higher than the costs of transactions in round lots of even multiples of 100 shares.

After considering the foregoing factors, the board of directors determined that submitting this proposal for approval by shareholders is in our best interests and that of our shareholders. Our board of directors intends to effect the Reverse Stock Split only if it believes that a decrease in the number of shares is likely to improve the trading price of our common shares and if the implementation of the Reverse Stock Split is determined by the board of directors to be in the best interests of the Company and its shareholders.

Board Discretion to Implement the Reverse Stock Split

If the Reverse Stock Split is approved by our shareholders, it will be effected, if at all, only upon a determination by our board of directors that a Reverse Stock Split (at a ratio determined by the board of directors as described above) is in the best interests of the Company and its shareholders. The board of director's determination as to whether the Reverse Stock Split will be effected will be based primarily upon the board's judgment with respect to the existing and expected marketability and liquidity of our common shares, prevailing market conditions and the likely effect of such reverse split on the market price of our common shares. See the discussion in "Determination of Reverse Split Ratio" above for a discussion of the factors the board will consider in selecting the ratio of the Reverse Stock Split.

If the board of directors does not implement the Reverse Stock Split prior to February 23, 2011, shareholder approval would be required again prior to implementing any reverse stock split.

Effective Time

If approved by the shareholders, the Reverse Stock Split will become effective as of 11:59 p.m., Eastern Time (the "Effective Time"), on the date of filing the Reverse Stock Split Amendment with the New Brunswick Director of Corporations. Except as explained below with respect to fractional shares, on the Effective Time, our common shares issued and outstanding immediately prior thereto will be combined, automatically and without any action on the part of the shareholders, into one common share in accordance with the reverse split ratio determined by our board of directors. Following the Reverse Stock Split, each certificate representing common shares will be deemed for all corporate purposes to evidence ownership of the number of whole shares into which the shares previously represented by the certificate were combined pursuant to the Reverse Stock Split.

After the Effective Time, our common shares will each have new committee on uniform securities identification procedures ("CUSIP") numbers, which is a number used to identify our equity securities, and share certificates with the older CUSIP numbers will need to be exchanged for share certificates with the new CUSIP numbers by following the procedures described below.

After the Effective Time, we will continue to be subject to periodic reporting and other requirements of the Exchange Act and applicable Canadian securities laws. In addition, subject to any potential listing on an exchange, such as The NASDAQ Global Market, we expect that our common shares will continue to be reported on the Pink OTC Markets Inc. under the symbol "LASR.PK".

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Fractional Shares

If the Reverse Stock Split is approved by shareholders and effected by the Company, shareholders will not receive fractional post-reverse stock split shares in connection with the Reverse Stock Split. Shareholders of record who otherwise would hold fractional shares will be entitled to round up such fractional share to a full share.

Interest of Certain Persons in the Proposal

Certain of the Company's officers, directors and 5% shareholders have an interest in this Reverse Stock Split proposal as a result of their ownership of our common shares, as set forth in the section entitled Security Ownership of Certain Beneficial Owners and Management. However, the Company does not believe that its officers, directors or 5% shareholders have interests in the Reverse Stock Split that are different from or greater than those of any other shareholder of the Company.

Effect on Beneficial Holders of Common Shares

Upon the Reverse Stock Split, we intend to treat shares held by shareholders in street name, through a bank, broker or other nominee, in the same manner as registered shareholders whose shares are registered in their names. Banks, brokers or other nominees will be instructed to effect the Reverse Stock Split for their beneficial holders holding our common shares in street name. However, these banks, brokers or other nominees may have different procedures than registered shareholders for processing the Reverse Stock Split. If a shareholder holds shares of our common shares with a bank, broker or other nominee and has any questions in this regard, shareholders are encouraged to contact their bank, broker or other nominee.

Effect on Registered Book-Entry Holders of Common Shares

Certain of our registered holders of common shares may hold some or all of their shares electronically in book-entry form with our transfer agent in the direct registration system. These shareholders do not have share certificates evidencing their ownership of the common shares. They are, however, provided with a statement reflecting the number of shares registered in their accounts.

If a shareholder holds registered shares in book-entry form with the transfer agent, no action needs to be taken to receive post-reverse stock split shares. A transaction statement called DRS Advices will automatically be sent to the shareholder's address of record indicating the number of common shares held following the Reverse Stock Split.

Effect on Certificated Shares

Some registered shareholders may hold their common shares in certificate form or a combination of certificate and book-entry form. If any of your shares are held in certificate form, you will receive a transmittal letter from the Company's transfer agent as soon as practicable after the Effective Time of the Reverse Stock Split. The transmittal letter will contain instructions on how to surrender your certificate(s) representing your pre-split shares to the transfer agent. Upon receipt of your properly completed and executed letter of transmittal and your stock certificate(s), you will be issued the appropriate number of post-split shares. These shares will be issued electronically in book-entry form under the direct registration system. This means that, instead of receiving a new stock certificate, you will receive a transaction statement called DRS Advices that indicates the number of post-split shares you own in book-entry form. At any time after receipt of your DRS Advices statement, you may request a stock certificate representing your post-split ownership interest. No service charge will be payable by shareholders in connection with the exchange of certificates, which costs will be borne and paid by the Company. No new shares in book-entry form will be issued until you surrender your outstanding certificate(s), together with the properly completed and executed letter of transmittal, to the transfer agent.

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Shareholders should not destroy any share certificate(s) and should not submit any share certificate(s) until requested to do so.

No Appraisal Rights

Under the New Brunswick Business Corporations Act, shareholders are not entitled to dissent and appraisal rights with respect to the Reverse Stock Split, and we will not independently provide shareholders with any such right.

Material U.S. Federal Income Tax Considerations

To ensure compliance with Treasury Department Circular 230, each holder of common shares is hereby notified that: (a) any discussion of U.S. federal tax issues in this management proxy circular is not intended or written to be used, and cannot be used, by such holder for the purpose of (i) avoiding penalties that may be imposed on such holder under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed in this communication; (b) any such discussion has been included to support the marketing or promotion of the Reverse Stock Split on the terms described herein; and (c) each such holder should seek advice based on his, her or its particular circumstances from an independent tax advisor.

The following is a summary of certain material United States federal income tax consequences of the Reverse Stock Split and does not purport to be a complete discussion of all of the possible federal income tax consequences of the Reverse Stock Split. This summary is included for general information only. Further, it does not address any state, local or foreign income or other tax consequences. Also, it does not address the tax consequences to holders that are subject to special tax rules, including, but not limited to, banks and other financial institutions, insurance companies, regulated investment companies, personal holding companies, broker-dealers and tax-exempt entities. The discussion is based on the provisions of the Code and regulations, rulings and judicial decisions thereunder, all as of the date hereof, and all of which are subject to change (which change could have retroactive effect). We have not sought any ruling from the Internal Revenue Service with respect to the statements made and the conclusions reached in the following summary, and there can be no assurance that the Internal Revenue Service will agree with such statements and conclusions. This summary also assumes that the pre-reverse stock split shares were, and the post-reverse split shares will be, held as a capital asset, as that term is defined in the Code (generally, property held for investment). The tax treatment of a shareholder may vary depending upon the particular facts and circumstances of such shareholder. **Each shareholder is urged to consult with such shareholder's own tax advisor with respect to the tax consequences of the Reverse Stock Split.** As used herein, the term holder means a beneficial owner of shares.

No gain or loss should be recognized by a holder upon such holder's exchange of pre-reverse stock split shares for post-reverse stock split shares pursuant to the Reverse Stock Split.

Following the Reverse Stock Split, a holder's aggregate tax basis in its post-reverse stock split shares will be the same as the holder's aggregate tax basis in the pre-reverse stock split shares exchanged therefor. A holder's holding period for the post-reverse stock split shares will include the period during which the holder held the pre-reverse stock split shares surrendered in the Reverse Stock Split.

The foregoing summary regarding the tax consequences of the Reverse Stock Split is not binding on the Internal Revenue Service. Accordingly, each shareholder should consult with its own tax advisor with respect to all of the potential tax consequences of the Reverse Stock Split.

Material Canadian Income Tax Consequences

The following is a summary of the principal Canadian federal income tax consequences generally applicable to a shareholder who, for purposes of the Income Tax Act (Canada) (the Tax Act) and at all relevant

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times, holds common shares as capital property and who is not affiliated with, and deals at arm's length with, the Company. Generally, the common shares will be considered to be capital property of a shareholder provided that they are not held in the course of carrying on a business or in connection with an adventure or concern in the nature of trade. Certain shareholders who are residents in Canada, for purposes of the Tax Act, and who might not otherwise be considered to hold their common shares as capital property may, in certain circumstances, be entitled to have the common shares and all other Canadian securities, as defined in the Tax Act, treated as capital property by making the irrevocable election permitted by subsection 39(4) of the Tax Act. This summary does not apply to a shareholder that is a financial institution for the purposes of mark-to-market rules, to a shareholder that is a non-resident insurer that carries on an insurance business in Canada and elsewhere, to a shareholder, an interest in which would be a tax shelter investment, or to a shareholder to whom the functional currency reporting rules apply, each as defined in the Tax Act. Such shareholders are advised to consult their own tax advisors. This summary also does not address any tax considerations relevant to the acquisition, holding or disposition of common shares, other than those Canadian federal income tax issues that are directly the consequence of the proposed Reverse Stock Split.

The summary is based on the current provisions of the Tax Act and the regulations thereunder, which we refer to as the Regulations, and the current administrative practices and assessing policies of the Canada Revenue Agency (CRA) published in writing prior to the date hereof including Interpretation Bulletin IT-65. This summary takes into account all specific proposals to amend the Tax Act and the Regulations publicly announced by or on behalf of the Minister of Finance (Canada) prior to the date hereof and assumes that all such proposed amendments will be enacted in their present form. This summary does not otherwise take into account or anticipate any change in law, or administrative practices and assessing policies, whether by legislative, government or judicial decision or action.

This summary is of a general nature only and is not intended to be, and should not be construed as, legal or tax advice to any particular shareholder. This summary is not exhaustive of all Canadian federal income tax considerations and does not take into account provincial, territorial or foreign tax considerations, which may vary from the Canadian federal income tax considerations described herein. Shareholders are advised to consult their own tax advisors with regard to their particular circumstances.

Under the current administrative practices and assessing policies of the CRA, no disposition or acquisition will be considered to have occurred for Canadian federal income tax purposes solely as a result of the Reverse Stock Split. Consequently, the Reverse Stock Split will not result in the realization of any income, gain or loss by a shareholder. In general, for a shareholder that holds common shares of the Company as capital property, the aggregate adjusted cost base of the common shares of the Company held by such shareholder immediately after the Reverse Stock Split will be the same as the aggregate adjusted cost base of the common shares of the Company held by such shareholder immediately before the Reverse Stock Split.

The board of directors recommends a vote FOR the approval of an amendment to our Articles to effect a reverse stock split as described above.

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COMPENSATION DISCUSSION AND ANALYSIS

The following discussion and analysis contains statements regarding future individual and Company performance targets and goals. These targets and goals are disclosed in the limited context of the Company's compensation programs and should not be understood to be statements of management's expectations or estimates of results or other guidance. The Company specifically cautions investors not to apply these statements to other contexts.

The following details the Company's philosophy and policies regarding executive compensation, the process that is used to set executive compensation within the Company, the elements of the executive compensation program, and the role of the Compensation Committee of the board of directors of GSI Group Inc. (the Committee) and the executive staff in setting executive compensation. In light of the Company's emergence from Chapter 11 proceedings on July 23, 2010, and the establishment of a new Compensation Committee as described below in

Committee Members and Independence, the Committee is in the process of reviewing the Company's executive compensation programs as described in this Compensation Discussion and Analysis. This review may result in future changes to our executive compensation structure and the elements of our executive compensation.

In this section, the use of the terms, we, our, us and the Committee refers to the Compensation Committee unless otherwise specified.

Committee Members and Independence

In 2009, the Committee was comprised of four independent directors with only three (3) serving at any one (1) time: Marina Hatsopoulos (Chair), Byron O. Pond and Phillip A. Griffiths, Ph.D. served on the Committee through July 2009 and Marina Hatsopoulos (Chair), Byron O. Pond and Garrett Garretson, Ph.D. served on the Committee from August 2009 through December 31, 2009. Pursuant to the Final Chapter 11 Plan, upon the Company's emergence from Chapter 11 proceedings on July 23, 2010, Ms. Hatsopoulos and Messrs. Pond and Garretson resigned as members of the Compensation Committee. They were subsequently replaced by Stephen W. Bershad (Chair), Dennis J. Fortino and K. Peter Heiland. None of the past or current members were, at any time, officers or employees of the Company or its subsidiaries. In October 2009, following an annual independence review by the Company's Nominating and Governance Committee, members of the board of directors determined that each member of the Committee was an independent director under the applicable rules of NASDAQ.

Role of the Committee

The Committee is responsible for setting, implementing and monitoring the Company's executive compensation policy. The Committee reviews and determines the compensation to be paid to the Company's executive officers (these executive officers, together with the CEO are referred to herein as the Named Executive Officers or NEOs), which also includes the implementation and administration of the Company's stock plans, cash bonus plans and similar programs.

The Committee receives advice and input from the CEO and, where appropriate, outside consultants and legal counsel on compensation issues. The Compensation Committee also solicits input from the CEO and VP, Corporate Resources regarding general compensation policies, including the appropriate level and mix of compensation for other executive officers.

The Committee operates pursuant to a written charter (the Charter). The Charter sets forth the Committee's purpose, authority, responsibilities, and procedures. The Charter is reviewed and approved by the Compensation Committee and is available at the Investor Relations page of the Company's website (<http://www.gsig.com/investors/>). In summary, the Committee has been established by the Board to determine

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the appropriate compensation of the Company's senior management. The Committee meets as often as the chair of the Committee deems appropriate, but not less than four times per year. In 2009, the Committee met five times, including two telephonic meetings. The Committee reports its actions and recommendations to the full board of directors at each quarterly meeting of the board of directors. The Committee meets in executive session, and, where appropriate, with members of management, including the CEO, outside consultants, HR representatives and the Company's outside legal counsel.

The Committee establishes all elements of compensation paid to the CEO and reviews and approves all elements of compensation paid to the other executive officers, including all of the other executive officers named in the Summary Compensation Table. The CEO is authorized by the Committee to evaluate senior executive performance against annual goals and then report his findings to the Committee, together with his recommendations for senior executive compensation for the coming year. The Committee then meets with the CEO to discuss his evaluations and recommendations; however, the Committee retains responsibility and authority for executive officer compensation.

The Compensation Committee meets annually to review the salary, bonus and stock option award compensation given to the Named Executive Officers. In addition, the Program provides for bonuses based on corporate, business unit, and individual performance as applicable, and each year the Compensation Committee will adjust targets obtainable pursuant to the Program. For Named Executive Officers, the Compensation Committee determines whether GSI's financial performance for the preceding year justifies adjustments to base salaries, bonuses and granting of share-based compensation as part of its annual review. In addition, from time to time, the Compensation Committee may consider discretionary bonuses for performance exceeding expectations. The Compensation Committee then recommends its compensation proposal to the full Board for its approval.

Each year, the Compensation Committee reviews and approves proposed grants of awards for equity incentive plan participants. Common stock-based awards are viewed as an important component of total executive pay, aligning compensation with increasing shareholder value and, thus, providing an important benefit to shareholders.

Executive Compensation Philosophy

The Company's compensation policy seeks to build long-term shareholder value by targeting compensation to financial performance and important Company goals, and by incentivizing and retaining a highly qualified executive team. To that end, the Committee believes executive compensation packages provided by the Company to its named executive officers should include both cash and stock-based compensation that reward performance as measured against established goals.

The following principles guide the Company's executive compensation program.

1. Executives who perform should expect to receive a salary that is commensurate with market conditions. Historically, the Company has looked to establish salary structures around the mean of the Company's peers.
2. Bonuses and equity grants are intended to reflect, in large part, a pay-for-performance culture. The Company uses equity grants to provide an appropriate balance between long-term incentives that are focused on performance and retention.
3. Performance should be measured against a mix of absolute measures (e.g., profitability goals) and relative measures (e.g., market share, performance relative to peers, etc.), as well as individual performance against MBOs, where applicable (as defined below).
4. Equity grant metrics should not be revised after the grant date.

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5. Equity grant metrics should fairly account for the effects of non-recurring events such as individual acquisitions and reorganizations.
6. Total compensation is a function of individual responsibility within the Company, and the ability to contribute meaningfully to the Company's success.
7. Total compensation should allow the Company to attract the best possible candidates and to motivate them to meet or exceed performance metrics that will build long-term shareholder value.
8. Equity-based performance metrics should not target short-term goals or short-term financial enhancements unless those goals are also congruent with building long-term shareholder value.

Executive Compensation Benchmarking

Generally, each year, the Committee reviews each named executive officer's total compensation and benchmarks it against market data for similar positions at other public companies, market data and other relevant sources.

The Committee works directly with the GSI human resources organization, which evaluates and presents the Committee with information gathered from public sources for officers at other public companies. The Committee ensures that the total compensation paid to the named executive officers is fair, reasonable and competitive. Generally, the types of compensation and benefits provided to the named executive officers are similar to those provided to executive officers at other public companies.

The Committee does not believe it is appropriate to set executive compensation levels based exclusively on compensation surveys and benchmarking. Rather, the Committee uses these surveys and benchmarking as tools for internally confirming that the Company's executive compensation program is, in the aggregate, reasonable in scope, market-competitive, and consistent from year to year. Other important factors that drive compensation decisions include individual qualifications and expertise, responsibility, annual individual performance, particular industry and market conditions of a business segment (e.g. Semiconductor Systems, Precision Technology or Excel Technology, Inc.).

The Committee also considers the performance of the Company's NEOs on an individual basis before determining the compensation arrangement for each of them.

The Committee may retain the services of advisors and it has the budgetary authority to hire such advisors as it deems necessary. In order to determine the competitiveness of the Company's overall compensation for executive officers, the Company reviews the compensation for comparable positions within its industry, the historical compensation levels of the executive officers and the individual performance of executive officers evaluated against their individual objectives established for the preceding year.

On February 23, 2009, as a result of the impact of the world-wide economic downturn on the Company's business and the internal review by the Company's Audit Committee of potential errors in the recognition of revenue related to sales to customers in the Company's Semiconductor Systems segment, the Committee approved a temporary reduction in the base salaries of all NEOs to be effective April 1, 2009. In addition, the cash bonus program for non-operating executives was postponed for 2009 and equity awards for all employees were postponed for 2009. As a result, the Committee did not engage an outside consultant to conduct a peer review in 2009.

Executive Compensation Program Elements

Executive compensation at the Company includes base salary, annual cash bonus incentive compensation, equity-based compensation and, depending on the individual, perquisites and severance benefits. Compensation

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benefits vary between executives based on the Committee's determination as to what is appropriate under the policies set forth above. Each year, the Committee reviews each named executive officer's total compensation and compares it with market data for similar positions at other public companies, market data and other relevant sources.

Base Salary

Base salary is compensation for services rendered in the job that the executive was hired to perform. In setting base salary, the Committee considers qualifications and experience, prior employment (including historical compensation), industry knowledge, scope of responsibilities (including potential growth in responsibilities), individual performance, quality of leadership, internal pay equity, survey data, and tax deductibility. No specific weighting is applied to the factors. Salaries are set once per year as part of the compensation review process. Annual increases to salaries, when approved and implemented, are based on individual performance, peer group data and cost of living adjustments.

Cash Bonus Incentive

For 2009, the Committee approved a 2009 Annual Management Bonus Program (MBP) for Operating Business Unit General Managers, including Stephen Webb and Philippe Brak. The MBP pays quarterly bonuses based upon the profits contributed by an operating business unit and other factors such as: strategic initiatives, new product introductions, and the potential of the team and of the business unit. The MBP is generally designed to incentivize management to drive short-term operating results. The Committee has delegated authority to the CEO to administer the 2009 Annual Management Bonus Program taking into account various discretionary factors. The general parameters of the 2009 Annual Management Bonus Program are as follows:

Bonuses are payable to the business units that generate and contribute profits for a particular business quarter;

Between 1.5% and 5% of the business unit's profits will be allocated to a bonus pool for that business unit to be paid to that business unit's key managers/contributors, including the General Manager. Between 25% and 60% of the amount allocated to the bonus pool is to be paid to the General Manager at the discretion of the Company's CEO based on the size and nature of the division's business, the amount of contributed profits for that quarter, consistency of the business unit in achieving quarterly profitability and positive cash flow from operations;

The actual bonuses paid to the managers and key contributors of each business unit will vary by business unit and by quarter since they take into account the strategic role and complexity of each business unit, the growth potential of the business unit, the progress made on new product development and team building, the role of each business unit president/general manager and his impact on the business unit as well as prior bonus payments and other factors; and

Target bonus pool amounts for each business unit are determined mostly from historical performance results. When a division has sustained a consistent level of profitability, a similar percentage of profits may be allocated for bonus payouts. In the case of a business unit that has not participated in this program in the past, the CEO will apply the factors mentioned above to determine an appropriate level of bonus pool to allocate to the business unit.

Annual cash bonuses for executives in non-operating business unit positions are intended to reward executive officers for the achievement of Company financial performance.

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Equity-Based Compensation

The Company uses equity-based compensation to align executive compensation with long-term goals that enhance shareholder value. Equity grants are also intended to promote executive retention with the Company by extending vesting periods over several years.

It is the Company's practice to make an initial equity-based grant to all executives at the time they commence employment in an amount that is consistent with those granted to executive officers within the Company and in the industry at similar levels of seniority using information obtained from sources such as the Radford Executive Compensation Survey, Culpepper Executive Compensation benchmark data and Equilar. In addition, the Company typically makes an annual grant of equity-based compensation to executives during the first fiscal quarter of each year.

Perquisites and Retirement Benefits

In addition to the elements of compensation discussed above, the Company offers the executive officers contributions towards health, dental, life, accidental death and dismemberment, and disability insurance premiums. The Company does not offer a deferred compensation program, nor does it offer retirement benefits other than a 401(k) defined contribution plan for US-based executives and comparable local country competitive retirement savings benefits for non-US-based executives. This plan provides for Company matching contributions of 50% of the first six percent of compensation up to the maximum amount allowed under the Internal Revenue Code.

In 2009, the Company matched 100% of contributions made by executive officers to the retirement savings benefits plan in the United Kingdom up to a maximum of 8% of the executive officer's earnings as defined in the associated plan document. Executives may also receive perquisites including, in various cases, a car allowance, tax preparation fee reimbursement, supplemental disability insurance, and other benefits, all of which are detailed in the Summary Compensation Table below.

2009 Executive Compensation

In October 2008, management presented a preliminary 2009 operating plan to the board of directors that included a stretch financial goal based upon achieving a level of operating profit that was approximately equal to the annual interest expense on the \$210 million of 11% Senior Notes issued in August 2008 in connection with the Company's acquisition of Excel Technology, Inc.

At the December 2008 Board meeting, in light of the world-wide economic slowdown and its unfolding impact on the Company's operating results and the Audit Committee's review of potential errors in the recognition of revenue related to sales to customers in the Semiconductor Systems segment, it was apparent that the Company's fiscal 2009 operating results would be highly unpredictable. Consequently, the Board decided to postpone approval of financial and strategic objectives and compensation plans for 2009 until after the Audit Committee completed its review and the fiscal 2008 financial statements were filed.

On February 2009, the board of directors decided to postpone the consideration and approval of a 2009 budget until the Audit Committee completed its review and the fiscal 2008 financial statements were filed with the SEC. Accordingly, on February 23, 2009, the Committee approved the following actions:

Postpone consideration and approval of a 2009 executive bonus plan until after the Audit Committee has completed its review and the fiscal 2008 financials have been filed;

Approve a 2009 Annual Management Bonus Program for the managers and key contributors of the Company's business units. Such program would be focused on short-term operating results and

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provide for quarterly payouts based on contributed profits. Under this Program, failure to generate operating profit or meet a minimum level of performance as determined by the Chief Executive Officer would result in no bonus earned or paid out pursuant to the 2009 Management Bonus Program; and

For non-operating executives, consolidated operating income would be used as a measure of overall financial performance. Discretionary factors would also be considered including executives' efforts to meet current extraordinary challenges.

By March 2009, the global economic recession was having a major adverse effect on GSI's businesses. In addition, the Company had announced that its previously issued interim and annual financial statements for fiscal years 2006 and 2007 and its interim financial statements for the first two quarters of fiscal 2008 could not be relied upon. As a result, management recommended a 20% temporary reduction in the base salaries of certain officers, including Messrs. Edelstein, Bellantuoni, Webb and Brak for one year. The Committee approved management's recommendation and the members of the board of directors decided to reduce their retainers, meeting fees and annual stock awards by 20% until the Company was current with its SEC filings. In May 2009, the Nominating and Corporate Governance Committee deferred the implementation of the director compensation changes until after the July 2009 board of directors meeting.

Following is a description of the 2009 Annual Management Bonus Program as it applied to Mr. Brak and Mr. Webb who were NEOs for the year-ended December 31, 2009 and were eligible to participate in this Program.

Amounts earned pursuant to the 2009 Annual Management Bonus Program are determined based on the actual financial performance of the respective business unit. However, the determination of the bonus pool and amount allocated to the business unit manager were at the discretion of the Chief Executive Officer. Accordingly, individuals were to receive no cash payouts to the extent the financial performance of the business unit was deemed inadequate. Pursuant to the terms of the 2009 Annual Management Bonus Program, an overall bonus pool for the respective business unit was determined by the Chief Executive Officer based on actual operating profit earned by the business unit. Amounts earned by the business unit managers under the 2009 Annual Management Bonus Program were determined by the Chief Executive Officer based on an allocation of the overall bonus pool. Within the terms of the 2009 Annual Management Bonus Program, there were certain parameters defining a possible range of a business unit's operating profits that could be allocated to an overall bonus pool and a possible range of the established bonus pool that could be allocated to the respective business unit managers; however, the determination of the overall bonus pool and business unit manager allocation was purely discretionary since neither a threshold financial or performance metric nor a maximum payout was outlined. The actual amount earned is reported under the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table.

In 2009, Mr. Webb received \$7,830, which represents 17.0% of the Q4 2009 quarterly bonus pool established for the business unit that Mr. Webb managed, pursuant to the 2009 Annual Management Bonus Program. Mr. Brak did not receive a cash bonus pursuant to the 2009 Annual Management Bonus Program in 2009.

There was no bonus incentive plan pertaining to Dr. Edelstein or Mr. Bellantuoni during the year-ended December 31, 2009. Due to the Company's unaudited 2009 financial results reflecting an operating loss, the Committee did not recommend a cash bonus payable to Dr. Edelstein or Mr. Bellantuoni for 2009.

The amounts paid to NEOs in the fiscal year ended December 31, 2009 are detailed in the compensation tables that follow this section. This section should be read in conjunction with the Executive Compensation Program Elements section above.

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The significant impact of the economic downturn on the Company and the Company's bankruptcy filing in November 2009 made it inappropriate to continue the equity-based component of the annual and long-term incentive awards.

Additionally, as a result of our Chapter 11 restructuring and the fact that a registration statement was not in effect for our 2006 Equity Incentive Plan, we have not had the ability to make any equity-based awards to our named executive officers. The 2006 Equity Incentive Plan was terminated upon our emergence from Chapter 11 as contemplated by the Final Chapter 11 Plan. Also, pursuant to the Final Chapter 11 Plan, our board of directors has been authorized to establish a new management incentive plan covering up to 8% of our fully-diluted common shares. The Company intends to adopt such a management incentive plan, subject to the approval of our board of directors and our shareholders.

The Company's current principal executive officer is serving in an interim role and is compensated pursuant to an engagement letter with FTI Consulting Inc. for interim management services and not pursuant to the overall philosophies expressed in this Compensation Discussion and Analysis. The Company's overall review of performance and compensation process will not be performed until a permanent CEO is hired.

Executive Severance Agreements

The board of directors and the Committee approved and implemented, effective February 3, 2009, a Termination and Change-In-Control Agreement for Dr. Edelstein which contained terms aimed at providing Dr. Edelstein with a severance package similar to that of his peers. In establishing Dr. Edelstein's revised severance arrangement, the Committee approximated the midrange of the parameters from the consulting firm's competitive report.

2009 CEO Compensation

On February 23, 2009, the Committee approved a temporary one-year reduction of base salary effective April 1, 2009. As a result of the adverse effect the world-wide economic downturn was having on the Company's business and the Company's status as a delinquent filer, no formal cash incentive plan was developed for the CEO in 2009 and no equity grants were awarded to him in 2009. Based on the Company's expected fiscal 2009 operating loss, the Committee deemed it appropriate that Dr. Edelstein would receive no cash bonus for the Company's fiscal 2009 performance.

CEO Separation and Release Agreement

On May 24, 2010, the Company entered into a Separation and Release Agreement with Dr. Edelstein in which the terms and conditions related to his resignation from employment effective May 25, 2010 were specified. In exchange for a set of comprehensive releases from Dr. Edelstein, the Company agreed to provide Dr. Edelstein with: 12 months of base salary in the form of salary continuance, a lump sum payment of \$259,123.48 and immediate vesting of all outstanding unvested shares of restricted stock which were issued to him upon our emergence from bankruptcy.

The Compensation Calendar

The standard compensation cycle calls for the CEO to present a draft strategic plan presentation to the Committee at the October Committee meeting. The presentation includes a draft three-year strategic plan and long-term incentive plan (LTIP). Based on Committee feedback, a final strategic plan and LTIP proposal is submitted for approval at the December board of directors meeting. Starting in January, the Committee solicits private CEO performance feedback from each Board member with respect to the CEO's performance evaluation for the prior year. The CEO submits a self evaluation which is circulated and discussed by the Committee members. At the February Committee meeting, the CEO provides the Committee with a detailed executive team

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compensation proposal, including performance reviews for the prior year, proposed bonus payouts based on performance, new objectives for the coming year and proposed LTIP grants. In advance of the meeting, the Committee is provided with individual compensation information, individual performance reviews, and annual compensation survey data. Based on Committee approval and recommendation, individual compensation packages for the coming year are then approved and presented at the February board of directors meeting. As part of this process, management completes individual performance reviews in January, which are used to calculate bonus and incentive compensation payments. Those recommendations are presented to the Committee in February for approval. In the event that payments are contingent upon meeting a financial goal, payments are made only after the audited year-end financial results are released in March.

Tax and Accounting Implications

In 2009, the Company's compensation programs were affected by each of the following:

Accounting for Stock-Based Compensation: The Company accounts for stock-based compensation in accordance with the requirements of Accounting Standard Codification (ASC) 718, Stock Compensation (formerly Statement of Financial Accounting Standards No. 123 (Revised 2004)), Share-Based Payment (SFAS No. 123 (R)). The Company also takes into consideration ASC 718 and other generally accepted accounting principles in determining changes to policies and practices for its stock-based compensation programs; and

Section 162(m) of the Internal Revenue Code (IRC): This section generally limits the deductibility of compensation for a public company's chief executive officer and its four other most highly compensated named executive officers unless the compensation is less than \$1 million during any fiscal year or is performance-based under Section 162(m). The Company periodically reviews the potential consequences of IRC Section 162(m), and it generally intends to structure the performance-based portion of executive compensation, where feasible, to comply with exemptions in IRC Section 162(m) so that the compensation remains tax deductible to the Company. The Committee in its judgment may, however, authorize compensation payments that do not comply with the exemptions in IRC Section 162(m) when it believes that such compensation is appropriate and in the best interests of the shareholders after taking various factors into consideration, including business conditions and the performance of such executive officer.

Compensation Committee Report

The Compensation Committee has reviewed and discussed with management the Company's Compensation Discussion and Analysis, and based on such review and discussions, has recommended to the board of directors that the Compensation Discussion and Analysis be included in the Company's 2010 Management Proxy Circular.

Mr. Stephen Bershad (Chairperson)

Mr. Dennis Fortino

Mr. Peter Heiland

Table of Contents**EXECUTIVE OFFICER COMPENSATION****Summary Compensation Table**

The following table sets forth information regarding the compensation earned during the fiscal years-ended December 31, 2009, 2008 and 2007 by each of the Company's NEOs. For the year-ended December 31, 2009, the Company's NEOs consisted of: (i) the individual who served as the Chief Executive Officer (S. Edelstein) during the year-ended December 31, 2009 and (ii) the three most highly compensated executive officers other than the Chief Executive Officer who were serving as of December 31, 2009 (A. Bellantuoni, P. Brak and S. Webb). The Company did not employ any other executives that would qualify as NEOs (including any Principal Financial Officer) for the year-ended December 31, 2009.

Name and Principal Position (a)	Year (b)	Salary (\$) (c)	Bonus \$(1) (d)	Stock Awards \$(2) (e)	Non-Equity Incentive Plan Compensation \$(3) (g)	All Other Compensation \$(4) (i)	Total \$(j)
Sergio Edelstein, Ph.D. <i>President and Chief Executive Officer</i>	2009	442,400	-	-	-	18,174	460,574
	2008	514,000	-	607,500 (5)	176,800	21,997	1,320,297
	2007	495,385	-	1,404,360 (6)	333,937	141,445	2,375,127
Philippe Brak <i>Vice President and General Manager</i>	2009	212,692	-	-	-	546,836	759,528
	2008	250,962	25,000	202,500 (7)	37,500	461,855	977,817
Stephen Webb <i>Managing</i>	2009	177,375	-	-	7,830 (9)	32,684	217,889