

GSI LUMONICS INC  
Form DEF 14A  
April 23, 2004

**Table of Contents**

**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 LUMONICS INC.**

*(Name of Registrant as Specified In Its Charter)*

*(Name of Person(s) Filing Proxy Statement, if other than  
the 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.
    - 1) Title of each class of securities to which transaction applies:
  
    - 2) Aggregate number of securities to which transaction applies:
  
    - 3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
    - 4) Proposed maximum aggregate value of transaction:
  
    - 5) Total fee paid:
  - Fee paid previously with preliminary materials.
  - Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.
    - 1) Amount Previously Paid:
  
    - 2) Form, Schedule or Registration Statement No.:
  
    - 3) Filing Party:
  
    - 4) Date Filed:
- 
-

**TABLE OF CONTENTS**

MANAGEMENT PROXY CIRCULAR  
ELECTION OF DIRECTORS  
RATIFICATION OF APPOINTMENT OF AUDITORS  
APPROVAL OF THE SECOND RESTATEMENT OF THE 1995 OPTION PLAN FOR EMPLOYEES AND DIRECTORS  
EXECUTIVE COMPENSATION  
STOCK OPTION PLANS  
EQUITY COMPENSATION PLANS  
OPTION GRANTS DURING FISCAL 2003  
OPTIONS EXERCISED DURING FISCAL 2003 AND YEAR-END OPTION VALUES  
EMPLOYMENT CONTRACTS AND TERMINATION OF EMPLOYMENT/CHANGE-IN-CONTROL ARRANGEMENTS  
COMPENSATION OF DIRECTORS  
DIRECTORS AND OFFICERS LIABILITY INSURANCE  
SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE  
CORPORATE GOVERNANCE  
COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION  
INDEBTEDNESS OF DIRECTORS AND OFFICERS  
INTEREST OF INSIDERS IN MATERIAL TRANSACTIONS  
COMPARISON OF CUMULATIVE TOTAL SHAREHOLDER RETURN  
COMPARE 5-YEAR CUMULATIVE TOTAL RETURN AMONG GSI LUMONICS INC. AND S&P/TSX COMPOSITE (1)(2)  
COMPARE 5-YEAR CUMULATIVE TOTAL RETURN AMONG GSI LUMONICS INC., NASDAQ COMPOSITE INDEX AND S&P ELECTRONIC EQUIPMENT INDEX (1)(2)  
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT  
OTHER BUSINESS  
CODE OF ETHICS  
PROPOSALS  
HOUSEHOLDING  
DIRECTORS APPROVAL  
SCHEDULE A  
SCHEDULE B  
SCHEDULE C  
SCHEDULE D

---

**Table of Contents**

39 Manning Road

Billerica, Massachusetts 01821  
(978) 439-5511

**NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS**

**To Be Held on Thursday, May 20, 2004**

NOTICE IS HEREBY GIVEN that the annual and special meeting of shareholders of GSI Lumonics 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 2:00 p.m. (EDT) on Thursday, May 20, 2004 at the Wyndham Hotel, 2 Van De Graaff Drive, Burlington, Massachusetts, for the following purposes:

(a) to elect directors;

(b) to ratify the appointment of Ernst & Young LLP as auditors for the fiscal year ending December 31, 2004;

(c) to approve a second restatement of the Company's 1995 Stock Option Plan (the Restated Plan) which will allow for the grant of incentive stock options, non-qualified stock options, restricted common shares and stock appreciation rights (the Awards) and an increase of 2,000,000 in the number of common shares for which Awards may be granted under the Restated Plan, from 4,906,000 to 6,906,000; and

(d) to transact such further or 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 Thursday, April 8, 2004 will be entitled to 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.

Shareholders who do not expect to attend the meeting in person are requested to complete, sign, date and return the form of proxy in the enclosed envelope to Computershare Trust Company of Canada, the Company's transfer agent, at 100 University Avenue, 9th Floor, Toronto, Ontario, Canada M5J 2Y1, before 5:00 p.m. (EDT) on Wednesday, May 19, 2004, or, in the event that the meeting is adjourned or postponed, prior to 5:00 p.m. (EDT) on the last business day prior to the date fixed for the adjourned or postponed meeting.

A copy of the management proxy circular and a form of proxy accompany this notice. This notice, the management proxy circular, the form of proxy and the Company's annual report will be forwarded on or about Friday, April 23, 2004 to the holders of the Company's common shares as of the close of business on Thursday, April 8, 2004.

DATED at Billerica, Massachusetts this 23rd day of April, 2004.

By Order of the Board of Directors of  
GSI Lumonics Inc.

WILLIAM O. FLANNERY,  
*Secretary*

---

**Table of Contents**

**MANAGEMENT PROXY CIRCULAR**

**Solicitation of Proxies**

This management proxy circular is furnished in connection with the solicitation of proxies by the management of the Company for use at the annual and special meeting of shareholders to be held at 2:00 p.m. (EDT) on Thursday, May 20, 2004 at the Wyndham Hotel, 2 Van De Graaff Drive, Burlington, Massachusetts. The solicitation will be made by mail but proxies may also be solicited personally by 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 form of proxy and a copy of the Company's annual report will be forwarded on or about Friday, April 23, 2004 to the Company's shareholders as of the close of business on Thursday, April 8, 2004.

**Appointment and Revocation of Proxies**

The persons named in the enclosed form of proxy 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 attached form of proxy, by inserting the name of such other person in the blank space provided in the form of proxy or by completing another proper form of proxy. Such person need not be a shareholder.** The completed form of proxy must be deposited with the Company at its principal executive offices at 39 Manning Road, Billerica, Massachusetts 01821 or with Computershare Trust Company of Canada, 100 University Avenue, 9th Floor, Toronto, Ontario, Canada, M5J 2Y1, in either case no later than 5:00 p.m. (EDT) on Wednesday, May 19, 2004, or, if the meeting is adjourned or postponed, the day before commencement of the reconvened meeting.

The shareholder executing the form of proxy may revoke it as to any manner on which a vote has not already been cast pursuant to the authority conferred by such proxy (a) by delivering another properly executed form of proxy 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.

All monetary amounts listed below are in U.S. dollars, unless otherwise indicated.

**Voting of Proxies**

The officers named in the form of proxy attached to 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 **in favor** of the election as directors of the nominees named in this management proxy circular, **in favor** of the ratification of the appointment of Ernst & Young LLP as auditors and **in favor** of the approval of the Restated Plan.

The board of directors of the Company has fixed the close of business on Thursday, April 8, 2004 as the record date for the determination of shareholders entitled to vote at the meeting. At the close of business on that date there were outstanding and entitled to vote 40,976,318 common shares of the Company. Each share is entitled to one vote, which may be cast as follows:

the vote for the election as directors of the nominees named in this management proxy circular is cumulative and is described in more detail below;

**Table of Contents**

the vote for the ratification of the appointment of auditors requires the approval of a majority of the common shares represented and cast in respect of such matter to be effective; and

the vote for the approval of the Restated Plan requires the approval of a majority of the common shares represented and cast in respect of such matter, other than votes attached to common shares held by insiders of the Company, to be effective.

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 20% of the outstanding shares as of the record date. Votes will be tabulated by the Company's transfer agent subject to the supervision of persons designated by the board of directors of the Company as inspectors.

*Voting for the Election of Directors.* Section 65(1) of the *Business Corporations Act* (New Brunswick) provides for cumulative voting for the election of directors so that each shareholder entitled to vote at an election of directors has the right to cast an aggregate number of votes equal to the number of votes attached to the shares held by such shareholder multiplied by the number of directors to be elected, and may cast all such votes in favor of one candidate or distribute them among the candidates in any manner the shareholder decides. The statute further provides, in section 65(2), that a separate vote of shareholders shall be taken with respect to each candidate nominated for director unless a resolution of the shareholders is passed unanimously permitting two or more persons to be elected by a single resolution. Where a shareholder has voted for more than one candidate without specifying the distribution of votes among such candidates, the shareholder shall be deemed to have divided the votes equally among the candidates for whom such shareholder voted. If a shareholder desires to distribute votes otherwise than equally among the nominees for whom such shareholder has directed the persons in the enclosed form of proxy to vote, such shareholder must do so personally at the meeting or by another form of proxy. **On any ballot that may be called for the election of directors, the persons named in the enclosed form of proxy intend to cast the votes to which the shares represented by such proxy are entitled equally among all the proposed nominees whose names are set forth in the table under Election of Directors below, except those, if any, excluded by the shareholder in the proxy, or unless the shareholder who has given such proxy has directed that the shares be withheld from voting in the election of directors.**

*Ownership of Directors and Executive Officers.* As of the close of business Thursday April 8, 2004, the directors and executive officers of the Company and their respective affiliates, as a group, may be deemed to be the beneficial owners of 1,919,747 common shares, representing approximately 4.68% of the outstanding common shares. The directors and executive officers of the Company have indicated that they intend to vote their respective common shares **in favor** of the election as directors of the nominees named in this management proxy circular and **in favor** of the ratification of the appointment of Ernst & Young LLP as the Company's auditors. The votes attached to the shares owned by the executive officers and directors of the Company shall not be counted with respect to approval of the Restated Plan.

The enclosed form of proxy confers discretionary authority on the person named therein with respect to amendments to or variations of matters identified in the notice of meeting and other matters that may properly come before the meeting. At the date of this management proxy circular, the management of the Company knows of no such amendments, variations or other matters.

**Voting and Ownership of Shares**

As of the record date the Company had 40,976,318 common shares outstanding. Each shareholder of record, as of the close of business on Thursday, April 8, 2004, is entitled to one vote for each common share held, except to the extent that such shareholder has transferred the ownership of any shares after such date and the transferee of such shares establishes proper ownership thereof and demands not later than ten (10) days before the meeting to be added to the list of shareholders entitled to vote at the meeting in which case such transferee will be entitled to vote such shares. The failure of any shareholder to receive a notice of meeting of shareholders does not deprive the shareholder of a vote at the meeting.

**ELECTION OF DIRECTORS**

The articles of continuance of the Company provide that its board of directors is to be comprised of between five (5) and fifteen (15) directors, as determined from time to time by resolution of the board of

**Table of Contents**

directors. Within these minimum and maximum numbers of directors, the board of directors has resolved that the entire board of directors will consist of six (6) directors. Below are the names of the persons for whom it is intended that votes be cast for their election as directors pursuant to the proxy that is hereby solicited unless the shareholder directs therein that his, her or its shares be withheld from voting. Each director will hold office until the next annual meeting, until his successor is elected or appointed, or until his earlier death, resignation or removal.

Management does not contemplate that any of the nominees named below will be unable to serve as a director, but if that should occur for any reason prior to the meeting, where the proxy is granted to the management nominees, the management nominees reserve the right to vote for other nominees in their discretion unless directed to withhold from voting. The following table states, with respect to each person nominated for election as a director, the name, age, position held with the Company (where applicable), the year first elected or appointed as a director, committee memberships and the person's principal occupation and employment during the past five (5) years.

The board of directors recommends a vote **FOR** the election as the directors of the nominees named below.

Name, Principal Occupation and Municipality of Residence(6)	Age	Year Became Director
Richard B. Black(1)(2), President and Chief Executive Officer, ECRM, Inc. Tewksbury, Massachusetts, U.S.A.	70	1999
Paul F. Ferrari(4)(5), Independent Consultant Former Vice President & Treasurer, Thermo Electron Corporation Hobe Sound, Florida, U.S.A.	73	1999
Phillip A. Griffiths, Ph.D.(3)(4) Director, Institute for Advanced Study Princeton, New Jersey, U.S.A.	65	2001
Byron O. Pond(1)(2)(4) Chairman Amcast Industrial Corp. Dayton, Ohio, U.S.A.	67	2000
Benjamin J. Virgilio(1)(2), President & Chief Executive Officer, BKJR, Inc. Toronto, Ontario, Canada	64	1998
Charles D. Winston(3), President & Chief Executive Officer, GSI Lumonics Inc. Burlington, Massachusetts, U.S.A.	63	1999

(1) Member, Audit Committee

(2) Member, Compensation Committee

(3) Member, Technology Committee

(4) Member, Nominating and Corporate Governance Committee

(5) Chairman of the Board

(6) The mailing address of each of Messrs. Black, Ferrari, Griffiths, Pond, Virgilio and Winston is c/o GSI Lumonics Inc. at 39 Manning Road, Billerica, Massachusetts 01821, Telephone: (978) 439-5511.





**Table of Contents**

*Richard B. Black* is the President and Chief Executive Officer of ECRM, Inc., a manufacturer of laser systems equipment for the printing and publishing industry. He served as Chairman of ECRM from August 1983 until March 2002. Mr. Black also serves as a General Partner for OpNet Partners, L.P., a technology investment fund. He served as Vice Chairman of Oak Technology, Inc. from March 1999 until the company was merged with Zeran Corporation in August 2003. He served as President of Oak Technology from January 1998 to March 1999, and was a director at Oak Technology from 1988 to 2003. From 1987 to 1997, Mr. Black served as a General Partner for KBA Partners, L.P., a technology venture capital fund. Prior to that time, he served as president and CEO of AM International, Inc., Alusuisse of America, Inc. and Maremont Corporation. In addition to ECRM, he currently serves as a director of the following companies: Alliance Fiber Optic Products, Inc., Altigen Communications Inc., Applied Optoelectronics, Inc., Trex Enterprises Corporation and Benedetto Gartland, Inc.

*Paul F. Ferrari* has been an independent consultant since 1991. Previously, he was Vice President of Thermo Electron Corporation from 1988 to 1991 and was Treasurer of Thermo Electron Corporation from 1967 to 1988. He also served as a director of Thermedics Inc. and ThermoTrex Inc.

*Phillip A. Griffiths, Ph.D.* is Director Emeritus of the Institute for Advanced Study in Princeton, New Jersey. Prior to joining the Institute in 1991, Dr. Griffiths was Provost and James B. Duke Professor of Mathematics at Duke University for eight years. He has also taught at Harvard University, Princeton University and the University of California, Berkeley. He currently serves as a director of Oppenheimer Funds, Inc., and Reveo, Inc. He is Senior Distinguished Advisor to the Andrew W. Mellon Foundation.

*Byron O. Pond* has been serving as Chairman of Amcast Industrial Corp. since July 2003. He joined Amcast in February 2001 as President and CEO. Prior to that time and since 1990, Mr. Pond was a senior executive with Arvin Industries, Inc. serving as its President and Chief Executive Officer from 1993 to 1996 and as its Chairman and Chief Executive Officer from 1996 to 1998. He retired as Chairman of Arvin Industries, Inc. in 1999. He currently serves as a director of Cooper Tire and Rubber Company and Precision Castparts Corporation.

*Benjamin J. Virgilio* is currently the President and Chief Executive Officer of BKJR, Inc. of Toronto, Canada and was previously, from July 2000 until February 2001, the Chairman of Robotic Technology Systems, Inc. Mr. Virgilio was the President and Chief Executive Officer of Rea International Inc., an automotive fuel systems manufacturer, from May 1995 to July 2000. Prior to May 1995, Mr. Virgilio was a business consultant. Prior to November 1993, he was President and Chief Executive Officer of A.G. Simpson Limited.

*Charles D. Winston* became the President, Chief Executive Officer and a member of the board of directors of the Company following the merger of General Scanning, Inc. and Lumonics Inc. in 1999. Mr. Winston served as President and Chief Executive Officer of General Scanning, Inc. beginning in September 1988 and became a member of its board of directors in 1989. Prior to joining General Scanning, Inc., from 1986 to 1988, Mr. Winston was a management consultant. In 1986, Mr. Winston was an officer of Savin Corporation. From 1981 to 1985, he served as a Senior Vice President of Federal Express Corporation.

**RATIFICATION OF APPOINTMENT OF AUDITORS**

The audit committee, with the board of director's ratification, has selected and appointed the firm of Ernst & Young LLP, independent accountants, to serve as independent auditors for the fiscal year ending December 31, 2004. Ernst & Young LLP, independent accountants, served as independent accountants of the Company for the fiscal year ended December 31, 2003. This firm has audited the accounts and records of the Company since 1993. A representative of Ernst & Young LLP will be present at the meeting to answer appropriate questions and will 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 accountants for the current fiscal year ending December 31, 2004, the Company's audit committee of the board of directors will evaluate what would be in the best interests of the Company and its shareholders and consider whether to select new independent accountants for the current fiscal year or whether to wait until the completion of the audit for the current fiscal year before changing independent accountants.

**Table of Contents**

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

*Audit Fees.* Fees of Ernst & Young LLP for the audit of the Company's financial statements, statutory audits for the fiscal year ended December 31, 2003, the reviews of quarterly reports on Form 10-Q and review and consent for other filings with the U.S. Securities and Exchange Commission filed during fiscal 2003 were \$654,000, of which an aggregate amount of \$364,000 had been billed through December 31, 2003. Fees of Ernst & Young LLP for the audit of the Company's financial statements, 401(k) plan and statutory audits for the fiscal year ended December 31, 2002 and the reviews of quarterly reports on Form 10-Q filed during fiscal 2002 were \$409,000, of which an aggregate amount of \$150,000 had been billed through December 31, 2002.

*Audit-Related Fees.* The aggregate fees of Ernst & Young LLP for assurance and related services that were reasonably related to the performance of the audit or review of the Company's financial statements and are not disclosed under "Audit Fees" above were \$16,000 during fiscal 2003 and \$38,000 in fiscal 2002.

*Financial Information Systems Design and Implementations Fees.* Ernst & Young LLP assessed the Company no fees for any financial information systems design or implementation during the fiscal years ended December 31, 2003 and December 31, 2002.

*Tax Fees.* Aggregate fees billed by Ernst & Young LLP for tax compliance, tax advice and tax planning were approximately \$434,000 in fiscal 2003 and \$105,000 in fiscal 2002.

*All Other Fees.* Aggregate fees for all other services rendered by Ernst & Young LLP during fiscal 2003 were approximately \$46,000. These services in fiscal 2003 included primarily payroll and miscellaneous services in foreign locations. Aggregate fees for all other services rendered by Ernst & Young LLP during fiscal 2002 were approximately \$30,000. These services in fiscal 2002 included primarily legal and payroll services in foreign locations.

The audit committee will pre-approve all services provided to the Company by the independent accountants and will review all non-audit-related services to ensure they are permitted under current laws and regulations. The audit committee has adopted a policy that it will pre-approve non-audit-related services to be performed by the Company's independent accountants.

All audit and non-audit services provided by Ernst & Young LLP were approved by the audit committee of the board of directors of the Company, which considered whether the provision of non-audit services was compatible with maintaining auditor independence.

**APPROVAL OF THE SECOND RESTATEMENT OF THE 1995 OPTION PLAN FOR  
EMPLOYEES AND DIRECTORS**

The board of directors of the Company has approved and recommended to the shareholders that they approve a second restatement to the Restatement of GSI Lumonics Inc. 1995 Stock Option Plan for Employees and Directors (the "Plan," and, the second restatement, the "Restated Plan") to allow for the grant of incentive stock options and non-qualified stock options, restricted common shares and stock appreciation rights (collectively, "Awards") and to increase the number of shares for which Awards may be granted under the Plan by 2,000,000, or from 4,906,000 to 6,906,000. A copy of the proposed Restated Plan is attached to this Proxy Statement as Schedule A and the description of the Restated Plan is qualified in its entirety by reference to Schedule A.

Although shareholder approval of the Restated Plan is not required under New Brunswick law, such approval is required (1) to meet the rules of The Toronto Stock Exchange and of The Nasdaq Stock Market and (2) under the U.S. Internal Revenue Code of 1986, as amended (the "Internal Revenue Code") to allow certain Awards granted under the Restated Plan to qualify as incentive stock options under the Internal Revenue Code, and permit Awards granted under the Restated Plan to qualify as "performance based compensation" for purposes of Section 162(m) of the Internal Revenue Code. In addition, as of April 9, 2004, the Restated Plan is subject to regulatory approval by the Toronto Stock Exchange.

The Plan is intended to retain key employees (including contract employees), consultants and directors and thereby provide additional incentive for them to promote the success of the Company in a highly competitive business environment. Under the Plan, the maximum number of common shares which may be



## **Table of Contents**

issued is 4,906,000. Options have been in the past granted under the Plan and the Company anticipates that in the future Awards will be granted under the Restated Plan to certain key employees (including contract employees), consultants and directors of the Company or its subsidiaries who are in a position to contribute substantially to the growth and success of the Company and its subsidiaries. However, the Company has not at the present time determined who specifically will receive the common shares that will be authorized for issuance under the Restated Plan if the proposed Restated Plan is approved. Certain key features of the Plan are more fully described in this Proxy Statement under the heading Stock Option Plans.

In the view of the board of directors, amending and restating the Plan to allow for the grant of incentive stock options, non-qualified stock options, restricted common shares and stock appreciation rights is necessary to provide the compensation committee the ability to offer incentive packages to employees (including contract employees), consultants and directors that are more conducive to long term ownership of the Company's common shares. The board of directors believes the increase in the number of shares for which Awards may be granted under the Restated Plan is necessary and appropriate in order to permit the continued grant of Awards to attract and retain talented individuals in accordance with the purposes of the Plan. Accordingly, the board of directors has determined that the total maximum number of common shares reserved for issuance under the Restated Plan should be increased by 2,000,000 to 6,906,000. The proposed 2,000,000 share increase in the Plan represents approximately 4.88% of the issued and outstanding common shares as of April 8, 2004. The Toronto Stock Exchange Policy requires a specified maximum number of shares issuable under the Restated Plan to be stated therein. The Toronto Stock Exchange Policy also requires a shareholder vote to be taken where, among other matters, the maximum number of shares reserved for issuance pursuant to stock options may exceed 10% of the outstanding shares. The rules of The Nasdaq Stock Market require shareholder approval for any material amendment to a stock option plan pursuant to which stock may be acquired by officers, directors, employees or consultants. The Restated Plan will only become effective upon shareholder approval. If shareholder approval is not received, the prior version of the Plan will remain effective until further amended.

### **Summary of the Restated Plan**

The Restated Plan permits the granting of any or all of the following types of awards:

incentive stock options;

non-qualified stock options;

restricted common shares; and

stock appreciation rights ( SARs ).

### **Incentive Stock Options and Non Qualified Stock Options**

Incentive stock options (which will be designated as such) and non-qualified stock options may be granted under the Restated Plan. The exercise price per share purchasable under an award shall be determined at the time of grant by the compensation committee and shall be at least the fair market value on the grant date.

The incentive stock options eligible to be granted under the Restated Plan are designed to meet the requirements of the Internal Revenue Code, including but not limited to a requirement that the exercise price be at least 100% of the fair market value of the Company's common shares on the date the option is granted and that the option have a term no longer than ten years. No person who owns, directly or indirectly, more than 10% of the total combined voting power of the Company's common shares may receive incentive stock options unless the exercise price is at least 110% of the fair market value of the Company's common shares on the grant date and the term is no longer than five years. Incentive stock options granted under the Restated Plan are not transferable by the participant, other than by will or by the laws of descent and distribution.

The exercise price of options must be equal to the closing price of the Company's common shares on the Toronto Stock Exchange, or in lieu thereof, The Nasdaq Stock Market, on the date of grant. Unless otherwise specifically approved by the compensation committee, options will vest and be exercisable by a participant at a rate of twenty-five percent (25%) per year on the first, second, third and fourth anniversaries of the date of

## **Table of Contents**

grant of such options. The exercise period of each option is determined by the compensation committee but may not exceed ten (10) years from the date of grant. The purchase price will be paid in cash or certified check. Only full shares are to be issued under the Restated Plan. Unless otherwise determined by the Chief Executive Officer of the Company, if a participant's employment with the Company is terminated for cause, a stock option will terminate as of such termination. Unless otherwise determined by the Chief Executive Officer of the Company, if a participant's employment with the Company is terminated other than by death, or dismissal for cause, a stock option that has vested may generally be exercised for sixty days after termination. In the event of death of a participant, a stock option that has vested may be exercised for six months after such death by the legal personal representative of the participant.

### **Restricted Shares**

The Restated Plan permits the compensation committee to make awards of restricted shares. Restricted shares are an award of common shares whose vesting and forfeiture restrictions are related to the participant's continued service with the Company for a specified period of time. The purchase price of restricted shares shall be the Market Price as of the date of grant of the restricted shares. Unless otherwise specifically approved by the compensation committee, restricted shares will vest at a rate of twenty-five percent (25%) per year on the first, second, third and fourth anniversaries of the date of purchase of such restricted shares. The purchase price will be paid in cash or certified check. Unless otherwise determined by the Chief Executive Officer of the Company, if a participant's employment with the Company is terminated for any reason, all vesting of restricted shares shall cease as of such termination and the Company may repurchase any of the unvested restricted shares in accordance with the terms and conditions of such restricted shares. Subject to the Restated Plan, the compensation committee will determine the time or times when such awards will be subject to forfeiture, and all of the other terms and conditions of such grants. Restricted common shares may not be sold, transferred, pledged or otherwise encumbered by the recipient during the forfeiture period determined by the compensation committee. The participant will have, with respect to such share awards, all of the rights of a shareholder of the Company, including the right to vote such shares. Notwithstanding the foregoing, the right to receive dividends with respect to the restricted common shares may be paid directly to the participant, withheld by the Company subject to vesting of the restricted common shares or reinvested in additional restricted common shares, as determined by the compensation committee in its sole discretion. Subject to certain exceptions described in the Restated Plan, on termination of employment during the restriction period, the participant forfeits all shares still subject to restriction.

### **Stock Appreciation Rights**

The compensation committee has the right to grant SARs alone or in tandem with other awards. The exercise price per common share of a SAR will be an amount determined by the compensation committee but in no event may such amount be less than the closing price of the common shares on The Toronto Stock Exchange (or if the common shares are not then listed or posted for trading on such exchange, on such stock exchange in Canada on which such shares are listed and posted for trading as may be selected for such purpose by the compensation committee) on the date of grant (the "Market Price"). In the event that the common shares are not listed and posted for trading on any stock exchange in Canada, the market price shall be the last trading price of the common shares on The Nasdaq Stock Market on the trading day immediately preceding the date of grant; provided, however, that, notwithstanding the foregoing, in the case of a SAR granted in conjunction with an option, or a portion thereof, the exercise price may not be less than the exercise price of the related option. Each SAR granted independent of an option will entitle a participant upon exercise to an amount equal to (i) the excess of (A) the Market Price per common share on the exercise date over (B) the exercise price per common share, times (ii) the number of common shares covered by the SAR. Each SAR granted in conjunction with an option, or a portion thereof, will entitle a participant to surrender to the Company the unexercised option, or any portion thereof, and to receive from the Company in exchange therefor an amount equal to (I) the excess of (x) the Market Price per common share on the exercise date of one common share over (y) the exercise price, times (II) the number of common shares covered by the option, or portion thereof, which is surrendered. Payment will be made in common shares or in cash, or partly in common shares and partly in cash. If a participant's employment with the Company is terminated for cause, a SAR that has vested may generally be exercised for thirty days thereafter. Unless otherwise determined by

## **Table of Contents**

the Chief Executive Officer of the Company, if a participant's employment with the Company is terminated other than by death or dismissal for cause, a SAR that has vested may generally be exercised for sixty days after termination. In the event of death of a participant, a SAR that has vested may be exercised for six months after such death by the legal personal representative of the participant.

### **United States Income Tax Consequences**

The following summary of tax consequences with respect to the awards granted under the Restated Plan is not comprehensive and is based upon laws and regulations in effect on January 1, 2004. Such laws and regulations are subject to change. The summary is intended for the information of shareholders considering how to vote and not as tax guidance to participants in the Restated Plan. Participants in the Restated Plan should consult their own tax advisors as to the tax consequences of participation.

*Stock Options.* Stock options granted under the Restated Plan may be either incentive stock options or non-qualified stock options. There are generally no federal income tax consequences either to the option holder or to the Company upon the grant of a stock option.

On exercise of an incentive stock option, the option holder will not recognize any income and the Company will not be entitled to a deduction for tax purposes, although such exercise may give rise to liability for the option holder under the alternative minimum tax provisions of the Internal Revenue Code. Generally, if the option holder disposes of shares acquired upon exercise of an incentive stock option within two years of the date of grant or one year of the date of exercise, the option holder will recognize compensation income and the Company will be entitled to a deduction for tax purposes in the amount of the excess of the fair market value of the shares on the date of exercise over the exercise price (or the gain on sale, if less). Any further gain realized will be taxed as capital gain and will not result in any deduction by the Company. Otherwise, the Company will not be entitled to any deduction for tax purposes upon disposition of such shares, and the entire gain for the option holder will be treated as a capital gain. Special rules apply when all or a portion of the exercise price is paid by tendering shares of the Company's stock.

On exercise of a non-qualified stock option, the amount by which the fair market value of the shares on the date of exercise exceeds the exercise price will generally be taxable to the option holder as compensation subject to income and payroll taxes, and will generally be deductible for tax purposes by the Company. The disposition of shares of stock acquired upon exercise of a non-qualified stock option will generally result in a capital gain or loss for the option holder with the holding period commencing on the date of the exercise, but will have no consequences for the Company.

*Other Awards.* With respect to other Awards (excluding stock options) granted under the Restated Plan that result in the payment or issuance of cash or common shares or other property that is either not restricted as to transferability or not subject to a substantial risk of forfeiture, the participant must generally recognize ordinary income equal to the cash or the fair market value of common shares or other property received on the date any such restrictions lapse. Thus, deferral of the time of payment or issuance generally will result in the deferral of the time the participant will be liable for income taxes with respect to such payment or issuance. The Company generally will be entitled to a deduction in an amount equal to the ordinary income received by the participant.

With respect to other Awards (excluding stock options) involving the issuance of common shares or other property that is restricted as to transferability and subject to a substantial risk of forfeiture, the participant generally must recognize ordinary income equal to the fair market value of the common shares or other property received as of the first time the shares or other property become transferable or not subject to a substantial risk of forfeiture, whichever occurs earlier. The Company generally will be entitled to a deduction in an amount equal to ordinary income received by the participant. A participant may elect to be taxed at the time of the earlier receipt of common shares or other property rather than upon lapse of restrictions on transferability or the substantial risk of forfeiture, but if the participant subsequently forfeits such shares or property he or she would not be entitled to any tax deduction, including as a capital loss, for the value of the shares or property on which the participant previously paid tax. The participant must file such election with the Internal Revenue Service within 30 days of the receipt of the common shares or other restricted property.

## **Table of Contents**

Generally to the extent that a participant realizes compensation income with respect to an Award, the Company should be entitled to a corresponding tax deduction, subject to certain limits such as those set forth in Section 162(m) of the Internal Revenue Code as described below.

*Parachute Payments.* In the event any payments or rights accruing to a participant upon a change in control, or any other payments awarded under the Restated Plan, constitute parachute payments under Section 280G of the Internal Revenue Code, depending upon the amount of such payments accruing and the other income of the participant from the Company, the participant may be subject to a 20% excise tax (in addition to ordinary income tax) on the amount of the payment that exceeds a base amount (an excess parachute payment) and the Company may be disallowed a deduction for the excess parachute payment.

*Alternative Minimum Tax.* In addition to the tax consequences described above, the exercise of an incentive stock option may result in additional tax liability to the participant under the alternative minimum tax rules. The Internal Revenue Code provides that an alternative minimum tax will be applied against a taxable base which is equal to alternative minimum taxable income, reduced by a statutory exemption. In general, the amount by which the value of the common shares received upon exercise of the incentive stock option exceeds the exercise price is included in the participant's alternative minimum taxable income. A taxpayer is required to pay the higher of his or her regular tax liability or the alternative minimum tax.

*Section 162(m) of the Internal Revenue Code.* Section 162(m) of the Internal Revenue Code generally disallows a public company's tax deduction for compensation to a named executive officer in excess of \$1,000,000 in any tax year. Compensation that qualifies as performance-based compensation is excluded from the \$1,000,000 deductibility cap, and therefore can be fully deductible.

The board of directors is also seeking shareholder approval of the Restated Plan to permit the Company to deduct for tax purposes compensation paid to certain executive officers under Awards that qualify as performance-based compensation.

## **Nontransferability**

Any participant's rights to an Award are not assignable or transferable by the participant during the participant's life time and any rights with respect to Awards are exercisable during the participant's lifetime only by the participant.

## **Change of Control**

Unless otherwise determined by the compensation committee, all outstanding options will immediately vest and become exercisable by a participant upon a change in control (as determined by the board of directors) of the Company.

The board of directors recommends a vote **FOR** the adoption of the Restated Plan. In order to be effective, the Restated Plan must be approved by a majority of votes cast at the meeting, other than those attached to common shares held by insiders of the Company. As of March 26, 2004 insiders of the Company may be deemed to be the beneficial owners of 1,919,747 common shares, representing approximately 4.68% of the outstanding common shares. This number includes 1,740,742 common shares subject to options and warrants, which may be exercised by the holders, but which are not entitled to vote unless exercised by the holder and converted to common shares.

## **Repricings**

The exercise or purchase price of Awards previously granted under the Restated Plan may not be reduced, nor may any Awards be canceled and reissued at a lower exercise price or purchase price, unless such action is approved by the shareholders of the Company, unless such reduction is made pursuant to a recapitalization or reorganization in accordance with the Restated Plan.

## **BOARD OF DIRECTORS AND COMMITTEE MEETINGS**

During fiscal 2003, the board of directors of the Company held nine (9) meetings. Each incumbent director attended at least 75% of the aggregate number of meetings of the board of directors held during fiscal 2003 and the meetings of the committees of the board of directors on which he served. Company policies do

**Table of Contents**

not require members of the board of directors to attend the Company's annual meetings of shareholders. At the Company's 2003 annual meeting of shareholders, only Mr. Winston was in attendance.

The board of directors has an Audit Committee; Compensation Committee; Nominating and Corporate Governance Committee and Technology Committee.

*Audit Committee.* The audit committee oversees the financial reporting process and the internal controls of the Company, reviews the financial statements of the Company and oversees the appointment and activities of the Company's independent auditors. The audit committee is currently composed of three (3) members, each of whom is independent or unrelated as defined by The Nasdaq Stock Market's Marketplace Rules and the Toronto Stock Exchange Corporate Governance guidelines, as appropriate. The directors currently serving on the audit committee are Messrs. Black, Pond and Virgilio. The audit committee, with the board of directors' ratification, has selected and appointed Ernst & Young LLP to serve as the Company's independent auditors for the fiscal year ending December 31, 2004. The board of directors has determined that Richard B. Black is an audit committee financial expert, as that term is defined in Item 401(h) of Regulation S-K of the United States Securities Act of 1933, as amended, serving on its audit committee. The audit committee operates under a written charter which is reviewed and updated regularly and approved by the board of directors, and is attached hereto as Schedule B. The audit committee held six (6) meetings (including two meetings by telephone) during fiscal 2003.

*Compensation Committee.* The compensation committee reviews and recommends to the board of directors the compensation and benefits of all executive officers of the Company and reviews general policy relating to compensation and benefits of employees of the Company. The compensation committee also administers the issuance of stock options. The directors currently serving on the compensation committee are Messrs. Black, Pond and Virgilio. The compensation committee held four (4) meetings during fiscal 2003.

*Nominating and Corporate Governance Committee.* The nominating and corporate governance committee is responsible for the following: (a) identifying individuals qualified to become board members and recommending to the board the director nominees; (b) developing and recommending to the board a set of corporate governance principles applicable to the Company; and (c) reviewing the qualifications of directors eligible to become members of the different committees of the board, and recommending to the board director nominees for each committee. The directors currently serving on the nominating and corporate governance committee are Messrs. Pond, Ferrari and Griffiths. The nominating and corporate governance committee was established on February 25, 2004 and did not meet or take action by unanimous written consent during fiscal 2003. The board of directors has determined that the members of the nominating committee are independent as defined by The Nasdaq Stock Market's Marketplace Rules and the Toronto Stock Exchange Corporate Governance guidelines. The nominating and corporate governance committee operates under a written charter, which will be reviewed and updated periodically and is approved by the board of directors. A copy of the charter is available to shareholders on the Company's Web site at [www.gsilumonics.com](http://www.gsilumonics.com) and is attached hereto as Schedule C.

The nominating and corporate governance committee and the board of directors have not established a formal process with regard to any director candidates recommended by shareholders due to the limited number of such recommendations, the need to evaluate such recommendations on a case-by-case basis, and the expectation that recommendations from shareholders probably would be considered generally in the same manner as recommendations by a director or an officer of the Company. Under the Company's by-law no. 1, a shareholder may recommend a director nominee if the recommendation is signed by one or more holders of shares representing in the aggregate not less than 5% of the common shares of the Company entitled to vote at the shareholder's meeting to which the nomination is to be presented. Any shareholder, as described in the preceding sentence, wishing to recommend candidates for consideration by the nominating and corporate governance committee and the full board of directors may do so by writing to the Secretary of the Company and providing the candidate's name, biographical data and qualifications.

The criteria that the nominating and corporate governance committee has established regarding the minimum qualifications for committee-recommended nominees are available on the Company's Web site at [www.gsilumonics.com](http://www.gsilumonics.com), under the title of Director Selection and Board Composition. These criteria center on finding candidates who have the highest level of integrity, are financially literate, have motivation and



## **Table of Contents**

sufficient time to devote themselves to Company matters and who have skills that complement the skills and knowledge of current directors. The nominees named in this management proxy circular are all incumbent directors and have been selected and recommended by the current board of directors, including the President and Chief Executive Officer. In addition, the Company has engaged Christian & Timbers, a professional executive placement firm, to identify new candidates for positions as director, using such approved criteria. Such candidates would be identified for planning purposes only, as the Company has no present intention to replace incumbent directors.

*Technology Committee.* The technology committee is responsible for the review and recommendation to the board of directors of technology investments, and for developing and periodically reevaluating the Company's technology strategy. The directors currently serving on the technology committee are Messrs. Griffiths and Winston. Mr. Pelsue, the Company's Chief Technology Officer, also serves on the technology committee.

## **COMMUNICATIONS WITH DIRECTORS**

The board of directors has not established a formal process for shareholders to send communications to the board of directors and individual directors. However, the names of all directors are available to shareholders in this management proxy circular. If the Company receives any shareholder communication intended for the full board of directors or any individual director, the Company will forward such communication to the full board of directors or such individual director, unless the communication is clearly of a marketing nature or is unduly hostile, threatening, illegal, or similarly inappropriate, in which case the Company has the authority to discard the communication or take appropriate legal action regarding the communication. The Company has also established a confidential hotline for communication between Company employees and members of the audit committee.

## **Report of the Audit Committee**

The audit committee assists the board of directors by overseeing the audit coverage and monitoring the accounting, financial reporting, data processing, regulatory and internal control environments and oversees the appointment and activities of the Company's independent auditors, including the audit. Management has the primary responsibility for the financial statements and the reporting process, including the systems of internal controls. The primary duties and responsibilities of the audit committee are to do the following:

Serve as an independent and objective party to monitor the Company's financial reporting process and internal control systems on behalf of the board of directors and to report the results of the committee's activities to the board of directors;

Appoint, evaluate and retain the Company's independent auditors each fiscal year;

Maintain direct responsibility for the compensation, termination and oversight of the auditors' performance and evaluate the auditor's qualifications and performance;

Review and evaluate the audit efforts of the Company's independent auditors;

Evaluate the Company's quarterly financial performance, reporting and compliance with applicable laws and regulations;

Oversee management's establishment and enforcement of financial policies; and

Provide an open avenue of communication among the independent auditors, financial and senior management, and the board of directors.

The audit committee has:

Reviewed and discussed the audited financial statements of the Company for the fiscal year ended December 31, 2003 with management and Ernst & Young LLP, the Company's independent auditors, including a discussion of the quality and effect of the Company's accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements;

Discussed the matters required by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as currently in effect and as amended by SAS No. 89 (Audit Adjustments) and

**Table of Contents**

SAS No. 90 (Audit Committee Communications), with Ernst & Young LLP, including the process used by management in formulating certain accounting estimates and the basis for the conclusions of Ernst & Young LLP regarding the reasonableness of those estimates; and

Met with the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls and the overall quality of the Company's financial reporting.

The audit committee has also received the written disclosures and the letter from Ernst & Young LLP required by Independence Standards Board Standard No. 1 (Independence Discussion with Audit Committees), has discussed the independence of Ernst & Young LLP and considered whether the provision of non-audit services by Ernst & Young LLP is compatible with maintaining auditor independence, and has satisfied itself as to the independence of Ernst & Young LLP.

Based on the review and discussions noted above, the audit committee has recommended to the board of directors that the Company's audited financial statements be included in its annual report on Form 10-K for the fiscal year ended December 31, 2003 for filing with the United States Securities and Exchange Commission. The audit committee, with the ratification of the full board of directors, has also appointed and selected Ernst & Young LLP as the Company's independent auditors for the fiscal year ending December 31, 2004.

*Report submitted by:* Richard B. Black, Byron O. Pond and Benjamin J. Virgilio

**Report of Compensation Committee on Executive Compensation**

The executive compensation policy of the Company has as its goals the following:

to provide executives with compensation that is fair and competitive in the market place;

to provide executives with incentive to meet and exceed financial and other strategic objectives; and

to focus executives on strategically increasing shareholder value, rather than simply increasing the size of the Company.

*Base salary.* Base salaries are determined on an individual basis taking into consideration the individual's position, the individual's ability to contribute to the Company's performance and amounts paid by technology companies of similar size for comparable positions.

*Annual bonus.* Each executive officer has the opportunity to earn an annual bonus. The amount of the bonus is tied to the individual's performance and the achievement of specific goals and objectives that, in some cases, may be difficult to quantify. Cash bonuses may also, at the discretion of the compensation committee, be used to recognize other significant contributions of an executive to the overall accomplishment of the Company's objectives. All cash bonuses are paid at the discretion and upon the approval of the compensation committee. The amount of the potential bonuses varies based upon the executive officer's position with the Company, ability to impact the Company's performance and contribute to the Company's objectives and degree of responsibility.

*Long term incentives.* Executives may participate in the Company's stock option plans, referred to in this management proxy circular as the plans. The plans are administered by the compensation committee, which designates the individuals who are to be granted options, the number of options to be granted and other terms and conditions of the options. The number of stock options granted to executive officers is based upon the same factors as are relevant in setting their salaries and annual bonuses.

*Chief Executive Officer's compensation.* During the year ended December 31, 2003, Charles D. Winston served as the Company's Chief Executive Officer. In setting the Chief Executive Officer's salary and target bonus for the year ended December 31, 2003, the compensation committee reviewed salaries and bonuses paid to other chief executive officers of technology companies of similar size and considered his ability to impact the achievement of the Company's objectives. In view of the downturn in global economic conditions affecting the Company, Mr. Winston's base salary remained unchanged for the fourth consecutive year. For the year ended December 31, 2003, Mr. Winston's target bonus was 70% of his base salary. Bonus payments were predicated on achievement of targets relating to earnings per share, the ratio of working capital to sales and

**Table of Contents**

on-time delivery. Mr. Winston achieved approximately 50% of his bonus opportunity and received \$161,960. The compensation committee awarded Mr. Winston an additional discretionary bonus of \$50,000, approximately 12% of his base salary, in respect of his achievements related to three corporate acquisitions in fiscal 2003. Mr. Winston did not receive any stock option awards or other form of long term compensation during the fiscal year ended December 31, 2003.

Report submitted by: Richard B. Black, Byron O. Pond and Benjamin J. Virgilio

**EXECUTIVE COMPENSATION**

The following table, presented in accordance with the rules of the United States Securities and Exchange Commission, sets forth information with respect to the compensation earned during the fiscal years ended December 31, 2003, 2002 and 2001 by the Company's Chief Executive Officer and the four other most highly compensated executive officers of the Company who received annual compensation in excess of \$100,000 (collectively, with the Chief Executive Officer, the Named Executive Officers).

**Summary Compensation Table**

Name and Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation Awards	
		Salary	Bonus	Other Annual Compensation(1)	Securities Underlying Options Granted	All Other Compensation(2)
Charles D. Winston President & CEO	2003	\$400,000	\$216,960			\$ 8,500
	2002	400,000	158,414		200,000	8,500
	2001	400,000	140,000		250,000	8,500
Thomas R. Swain(3) V.P., Finance & CFO	2003	\$200,013	\$ 65,700		15,000	\$ 8,500
	2002	200,013	56,580		100,000	8,500
	2001	196,167	50,000		100,000	123,405(4)
Kurt A. Pelsue(5) V.P., Technology & CTO	2003	\$209,720	\$ 58,721			\$ 8,500
	2002	205,762	46,505		20,000	8,500
	2001	196,000			40,000	8,500
Linda Palmer(6) V.P., Human Resources and Communications	2003	\$180,000	\$ 46,504			\$ 8,500
	2002	174,230	39,342		20,000	8,500
	2001	160,000			50,000	8,500
Felix Stukalin(7) V.P., Business Development	2003	\$166,153	\$239,540		15,000	\$ 8,500
	2002	166,153	36,209		20,000	8,500
	2001	160,000	32,000		40,000	8,500

- (1) Unless otherwise noted, perquisites and personal benefits do not exceed the lesser of \$50,000 or 10% of the total of the annual salary and bonus of the Named Executive Officer.
- (2) Unless otherwise noted, all other compensation consists exclusively of the Company's contribution under its retirement and savings plans established pursuant to Section 401(k) of the United States Internal Revenue Code. The terms of the retirement and savings plans permit each participant to defer up to 15% of his annual salary up to an annual maximum amount prescribed by United States Internal Revenue Service regulations (\$11,500 in 2003, plus an additional \$1,000 for those participants who met eligibility requirements for catch up contributions). The Company matches such deferrals to the extent of achievement by it of profit goals.
- (3) Mr. Swain has held his current position of Vice President, Finance and Chief Financial Officer since September 2000. Prior to that time, Mr. Swain served as Director of Real Estate Operations from April 1999 to August 2000. He joined General Scanning, Inc. in August 1996 with the acquisition of View Engineering, Inc. and served as Vice President and General Manager, View Engineering Division until December 1997, then served as Vice President of Business Development from January 1998 through March 1999. Prior to its acquisition by General Scanning, Inc., Mr. Swain had served as President and Chief Executive Officer of View Engineering, Inc. Mr. Swain is

58 years old.

**Table of Contents**

- (4) Includes \$114,905 with respect to relocation and related expenses and \$8,500 with respect to 401(k) match.
- (5) Mr. Pelsue assumed his current position as Vice President, Technology and Chief Technology Officer in March 1999. He had served as Vice President, Corporate Engineering for General Scanning, Inc. from 1997 to 1999. Prior to that time, Mr. Pelsue held numerous senior level engineering assignments within General Scanning, Inc. He joined General Scanning, Inc. in 1976. Mr. Pelsue is 51 years old.
- (6) Ms. Palmer assumed her current role as Vice President, Human Resources in December 1999, having served as Vice President of Integration from March 1999. She had been General Scanning, Inc.'s Vice President of Human Resources beginning in 1996. Prior to that time, Ms. Palmer served as Director of Human Resources for Analog Devices. Ms. Palmer is 52 years old.
- (7) Mr. Stukalin joined the Company in November 1994. Mr. Stukalin was General Manager of the Components Product Group from 1999 to 2000 and of Wave Precision from 2000 to 2002. In May 2002 Mr. Stukalin assumed the role of Vice President of Business Development. Mr. Stukalin is 42 years old.

**STOCK OPTION PLANS**

A merger of equals involving General Scanning, Inc. and Lumonics Inc. was completed on March 22, 1999. In conjunction with the merger, the Company assumed outstanding options held by employees under nonqualified and incentive stock options and issued 2,051,903 stock options in exchange. As of December 31, 2003, options to purchase 597,180 common shares remained outstanding under the assumed 1981 stock option plan and the 1992 stock option plan of General Scanning, Inc. In addition, the Company assumed outstanding warrants, which were issued pursuant to the 1995 directors' warrant plan of General Scanning, Inc., for the purchase of common stock issued to non-employee members of the General Scanning, Inc. board of directors, referred to in this management proxy circular as the warrants. The warrants are subject to vesting as determined by a committee of the board of directors at the date of grant and expire ten (10) years from the date of grant. As of December 31, 2003, 51,186 warrants, all of which are exercisable, remain outstanding at prices ranging from \$9.65 to \$15.41 per share. The warrants have been included in all stock option tables included in this management proxy circular. Excluding the assumed options and warrants referenced herein, no additional options or warrants are authorized to be granted under the assumed General Scanning, Inc. stock option plans.

The Company's 1995 option plan, referred to throughout this management proxy circular as the 1995 option plan, which was established on September 29, 1995 by Lumonics Inc. for the benefit of employees (including contract employees), consultants and directors of the Company, remained in place following the merger with General Scanning, Inc. in 1999. The 1995 option plan was amended and restated in 2001 to, among other items, extend the benefits of the 1995 option plan to consultants and to amend certain termination provisions. As of the date of this management proxy circular, it is the only stock option plan under which new options may be granted. Subject to the requirements of the restated 1995 option plan, the compensation committee or the board of directors has the authority to select those directors, consultants and employees to whom options will be granted, date of the grant, the number of options to be granted and other terms and conditions of the options. The exercise price of options granted under the restated 1995 option plan must be equal to the closing price of the Company's common shares on the Toronto Stock Exchange, or in lieu thereof, The Nasdaq Stock Market, on the day immediately preceding the date of grant. The exercise period of each option is determined by the compensation committee but may not exceed ten (10) years from the date of grant. The 1995 option plan initially authorized the issuance of a maximum of 406,000 options to purchase common shares. This authorization was increased to: 1,906,000 on May 6, 1997, 2,906,000 on May 11, 1999 and 4,906,000 on May 8, 2000; with all such increases being approved by the shareholders. Currently, a maximum of 4,906,000 options to purchase common shares are permitted to be issued under the restated 1995 option plan. The compensation committee has the power to amend, modify or terminate the restated 1995 option plan provided that optionee's rights are not materially adversely affected and subject to any approvals required under the applicable regulatory requirements. As of the close of business on December 31, 2003, options to purchase an aggregate of approximately 2,812,438 common shares were outstanding under the

**Table of Contents**

restated 1995 option plan to employees and directors at prices ranging from Cdn\$6.38 per share to Cdn\$29.00 per share, and from \$4.31 per share to \$20.31 per share.

No past financial assistance has been given to participants to assist them in purchasing common shares under the restated 1995 option plan, nor is such financial assistance contemplated. The restated 1995 option plan contains no provision for the Company to provide any such assistance.

**EQUITY COMPENSATION PLANS**

The following table gives information about the Company's common shares that may be issued upon the exercise of options, warrants and rights under all of its existing equity compensation plans as of December 31, 2003, the Company's most recently completed fiscal year, including the 1995 option plan, the 1981 stock option plan of General Scanning, Inc., the 1992 stock option plan of General Scanning, Inc., the warrants (as described below) and the Company's employee stock purchase plan.