

GSI LUMONICS INC
Form PRE 14A
April 12, 2005

**UNITED STATES
SECURITIES AND EXCHANGE
COMMISSION**
Washington, D.C. 20549
SCHEDULE 14A

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**Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934 (Amendment No.)**

Filed by the Registrant **X**
Filed by a Party other than the Registrant **O**

Check the appropriate box:

- X** Preliminary Proxy Statement
- O** **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- O** Definitive Proxy Statement
- O** Definitive Additional Materials
- O** Soliciting Material Pursuant to Rule §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):

- X** No fee required.
- O** Fee computed on table below per Exchange Act Rules 14a-6(i)(1) 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):

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1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

[GSI Lumonics Logo]

39 Manning Road
Billerica, Massachusetts 01821
(978) 439-5511

**NOTICE OF ANNUAL AND SPECIAL MEETING OF SHAREHOLDERS
To Be Held on Thursday, May 26, 2005**

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 9:00 a.m. (EDT) on Thursday, May 26, 2005 at the Bedford Renaissance Hotel, 44 Middlesex Turnpike, Bedford, MA 01730 for the following purposes:

(a) to elect directors;

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- (b) to ratify the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2005;
- (c) to ratify, confirm and approve adoption of the Company's Shareholder Rights Plan, as described in the management proxy circular accompanying this notice;
- (d) to amend the Company's Articles of Continuance to change the name of the Company from GSI Lumonics, Inc. to GSI Companies Inc.;
- (e) to ratify, confirm and approve an amendment to the Company's By-Law Number 1, as described in the management proxy circular accompanying this notice; and
- (f) 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 Friday, April 15, 2005 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 25, 2005, 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 Thursday, April 28, 2005 to the holders of the Company's common shares as of the close of business on Friday, April 15, 2005.

DATED at Billerica, Massachusetts this 28th day of April, 2005.

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

William O. Flannery,
Secretary

[Insert GSI Lumonics Logo]

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 9:00 a.m. (EDT) on Thursday, May 26, 2005 at Bedford Renaissance Hotel, 44 Middlesex Turnpike, Bedford, MA 01730. 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 Thursday, April 28, 2005 to the Company's shareholders as of the close of business on Friday, April 15, 2005.

Appointment and Revocation of Proxies

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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 25, 2005, or, if the meeting is adjourned or postponed, before commencement of the reconvened meeting.

The shareholder executing the form of proxy 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 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 the Company's independent registered public accounting firm for the fiscal year ending December 31 2005, **in favor** of the adoption of the Shareholder Rights Plan and **in favor** of the Amendment to the Articles of Continuance and **in favor** of the approval of the Amendment to the Company's By-Law Number 1.

The Board of Directors of the Company has fixed the close of business on Friday, April 15, 2005 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 [] 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;

the vote for the ratification of the appointment of the independent registered public accounting firm requires the approval of a majority of the common shares represented and cast in respect of such matter to be effective;

the vote for the approval of the Shareholder Rights Plan requires the approval of a majority of the common shares represented and cast by the Independent Shareholders (as described in more detail below in the Section entitled, Approval of the Company's Shareholder Rights Plan, Subsection, Features of the Rights Plan; Defined Terms) in respect of such matter to be effective;

the vote for the approval of the amendment to the Articles of Continuance requires the approval of two thirds of the common shares represented and entitled to vote on such matter to be effective; and

the vote for the approval of the amendment to the Company's By-Law Number 1 requires the approval of a majority of the common shares represented and cast in respect of such matter 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 Friday, April 15, 2005, the directors and executive officers of the Company and their respective affiliates, as a group, may be deemed to be the beneficial owners of [] common shares, representing approximately []% 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, **in favor** of the ratification of the appointment of Ernst & Young LLP as the Company's independent registered public accounting firm and **in favor** of the approval of the Shareholder Rights Plan and **in favor** of the Amendment to the Articles of Continuance and **in favor** of approval of the amendment to the Company's By-Law Number 1.

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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 [] common shares outstanding. Each shareholder of record, as of the close of business on Friday, April 15, 2005, 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.

Broker Non-Votes

A broker non-vote occurs when a broker submits a proxy card 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 election of directors and ratification of the independent registered public accounting firm. Non-routine matters include matters such as amendments to stock plans, adoption of shareholder rights plans or amendments to Articles of Continuance. For purposes of determining the presence or absence of a quorum, votes withheld, 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.

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 Directors. The Board of Directors has resolved that the entire Board of Directors will consist of seven (7) 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.

Mr. Paul Ferrari, Chairman of the Board of Directors, has notified the Company that he will be retiring from the Board of Directors effective as of the Annual and Special Meeting of Shareholders to be held on May 26, 2005, and will not stand for reelection. Upon his retirement as a Director, Mr. Ferrari shall become an advisor to the Board of Directors for a period of time. The Company thanks Mr. Ferrari for his many years of outstanding service to the Company and its shareholders and his continued willingness to lend his expertise and knowledge to the Board. The

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Board has selected Mr. Richard Black to assume the duties of Chairman of the Board, effective as of Mr. Ferrari's retirement as a Director and effective upon Mr. Black's re-election as a Director by the shareholders.

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.

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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 (1)	Age	Year Became Director
Richard B. Black President and Chief Executive Officer, ECRM, Inc. Tewksbury Massachusetts, U.S.A.	71	1999
Phillip A. Griffiths, Ph.D. Faculty Member, School of Mathematics Institute for Advanced Study Princeton, New Jersey, U.S.A.	66	2001
Byron O. Pond Chairman, President and Chief Executive Officer, Amcast Industrial Corp. Dayton, Ohio, U.S.A.	68	2000
Benjamin J. Virgilio President & Chief Executive Officer, BKJR, Inc. Toronto, Ontario, Canada	65	1998
Garrett A. Garrettson Retired CEO and Consultant Pebble Beach, California 93953	61	2005
Marina Hatsopoulos Chief Executive Officer Z Corporation Burlington, Massachusetts, U.S.A.	39	2005
Charles D. Winston President & Chief Executive Officer, GSI Lumonics Inc. Billerica, Massachusetts, U.S.A.	64	1999

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

Board Committee Membership of Incumbent Directors

Name	Audit Committee	Compensation Committee	Technology Committee	Nominating and Corporate Governance Committee

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Black	X	X		
	(Chairman)			
Griffiths			X	X
			(Chairman)	
Pond	X	X		X
				(Chairman)
Virgilio	X	X		
		(Chairman)		
Winston			X	
Ferrari				X

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. From 1963 to 1966 Mr. Black was an Adjunct Professor of Accounting at Beloit College. 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. He was a 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. Mr. Ferrari became a director of the Company in 1999 and is 74 years old.

Phillip A. Griffiths, Ph.D. is a faculty member in the School of Mathematics at the Institute for Advanced Study in Princeton, New Jersey. He was, from 1991 to 2004, Director of the Institute, where he was responsible for managing the Institute's various research activities. 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 of InventQjaya.

Byron O. Pond joined Amcast Industrial Corporation in February 2001. During his tenure he served as President, CEO and Chairman before retiring on his contract termination date in February 2004. After retirement Mr. Pond remained as an Amcast director and also became non-executive Chairman. On November 1, 2004 Mr. Pond was asked to reassume the Amcast Chairman, President and CEO positions. Amcast filed for protection under Chapter 11 of the U.S. Bankruptcy Code on November 30, 2004. 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. From February 1981 to November 1993, he was President and Chief Executive Officer of A.G. Simpson Limited.

Garrett A. Garretson is a retired CEO and consultant. He was, from November 2001 to September 2004, the Chief Executive Officer of Clairvoyante, Inc. a provider of flat panel display technology and related intellectual property. Prior to that he was, from April, 2000 to December, 2002, Chairman of the Board and, from April of 1996 to April, 2000, Chief Executive Officer of Spectrian Corporation, a telecommunications infrastructure equipment company. Mr. Garretson is a director of Catalyst Semiconductor and Iridex, each a publicly held company.

Marina Hatsopoulos is the founder of and has been, since December 1994, the Chief Executive Officer of Z Corporation, a provider of technology and products to the 3D printing market.

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.

**RATIFICATION OF APPOINTMENT OF INDEPENDENT
REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee, with the Board of Director's ratification, has selected and appointed the firm of Ernst & Young LLP of Boston, Massachusetts, independent accountants, to serve as the Company's independent registered public accounting firm for the fiscal year ending December 31, 2005. Ernst & Young LLP of Ottawa, Canada, independent accountants, have served as the independent registered accounting firm for the Company and audited the accounts and records of the Company from fiscal year 1993 to fiscal year 2004. The reports of Ernst & Young, Ottawa on the consolidated financial statements of the Company for the fiscal years ended December 31, 2004, and December 31, 2003, contained no adverse opinion or disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles. In connection with the audits of the fiscal years ended December 31, 2004 and 2003 and through April 7, 2005, there have been no disagreements between the Company and Ernst & Young, Ottawa on any matters of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which, if not resolved to the satisfaction of Ernst & Young, Ottawa would have caused Ernst & Young, Ottawa to make reference to the matter in their report. The Company has requested E&Y Canada to furnish it a letter addressed to the Securities and Exchange Commission stating whether it agrees with the above statements. A copy of that letter dated April 11, 2005 was filed with the SEC as part of a report on Form 8-K and is available through the Company's website, www.gsilumonics.com. 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 of Boston, Massachusetts as the Company's independent registered public accounting firm for the current fiscal year ending December 31, 2005, the 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 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.

Principal Accountant Fees and Services

The following table sets forth the fees for professional audit services rendered by Ernst & Young LLP for the audit of the Company's consolidated annual financial statements for fiscal 2004 and fiscal 2003, and fees for other services rendered by Ernst & Young LLP during those periods.

	FY 2004	FY 2003
Audit Fees (1)	\$ 1,738,000	\$ 769,000
Audit Related Fees (2)	21,000	16,000
Tax Fees (3)	771,000	434,000
All Other Fees (4)	2,000	46,000
Total	\$2,532,000	\$ 1,265,000

- (1) Audit Fees consist of fees billed for professional services rendered for the audit of the Company's annual consolidated financial statements and review of the interim consolidated financial statements included in quarterly reports and services that are normally provided by Ernst & Young LLP in connection with statutory and regulatory filing requirements, including, commencing in 2004, the audit of management's assertion as to the effectiveness of internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002. Of this amount, \$86,000 had been billed as of December 31, 2004. Of the \$769,000 charged for Audit Fees in fiscal 2003, an aggregate amount of \$364,000 had been billed through December 31, 2003.
- (2) Audit-Related Fees consist of fees billed 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.

- (3) Tax Fees consist of fees billed for professional services rendered for federal, state and international tax compliance.
- (4) All other fees in fiscal 2004 relate to access to Ernst & Young's online research tool and in fiscal 2003 included primarily payroll and miscellaneous services in foreign locations.
- All engagements for services by Ernst & Young LLP or other independent accountants are subject to prior approval by the Audit Committee. However, de minimis non-audit services may instead be approved in accordance with applicable SEC rules. The prior approval of the Audit Committee was obtained for all services provided by Ernst & Young LLP in fiscal 2004.

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. 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.

APPROVAL OF THE COMPANY'S SHAREHOLDER RIGHTS PLAN

At the meeting, the shareholders will be asked to consider and, if deemed advisable, to approve, with or without variation, a resolution (the Rights Plan Resolution) authorizing the adoption of the Shareholders Rights Plan of the Company (the Rights Plan). The text of the Rights Plan Resolution is attached as Schedule A hereto.

Background

On April 12, 1999, the Board of Directors adopted a shareholder rights plan for the Company. At the annual meeting of shareholders held on May 9, 2002, the shareholders adopted a resolution to approve the continued existence of that shareholder rights plan. That shareholder rights plan expired pursuant to its terms on April 12, 2005 and, by its terms, may not be extended. The Rights Plan that is being submitted herein for shareholder approval is intended to be substantially similar to the shareholder rights plan that expired earlier this year.

The Company and Computershare Trust Company of Canada (the Rights Agent) entered into an agreement dated as of April 12, 2005 to implement the Rights Plan. The Rights Plan creates a right (which may only be exercised if a person acquires control of 20% or more of the common shares) for each shareholder, other than the person that acquires 20% or more of the common shares, to acquire additional common shares of the Company at one-half of the market price at the time of exercise. This significantly dilutes the share position of the person that acquires 20% or more of the common shares and practically prevents that person from acquiring control of 20% or greater of the common shares unless the Rights Plan has been withdrawn or the buyer makes a Permitted Bid (as discussed below). The most common approaches that a buyer may take to have a rights plan withdrawn are to negotiate with the Board of Directors to have the rights plan waived, or to apply to a securities commission to order withdrawal of the rights plan if the Company cannot develop an auction. Both of these approaches will give the Board of Directors more time and control over any sale process and increase the likelihood of a better offer to the Company's shareholders. See Objectives of the Rights Plan below.

Under the terms of the Rights Plan, the Rights Plan must be approved and confirmed by the Independent Shareholders (as defined in the Rights Plan) on or before the date of the Company's 2008 annual meeting. An Independent Shareholder is generally any shareholder other than an Acquiring Person (as defined in the

Rights Plan) and its associates and affiliates. As of the date of this circular, the Company is not aware of any shareholder that would not be considered an Independent Shareholder, and therefore it is anticipated that all shareholders will be eligible to vote their common shares with respect to the Rights Plan Resolution set forth in Schedule A hereto.

Features of the Rights Plan; Defined Terms

A summary of the key features of the Rights Plan is included below. All capitalized terms used in this section of this management proxy circular (including the summary of the Rights Plan below) have the meanings set forth in the Rights Plan unless otherwise indicated. The complete text of the Rights Plan is available to any shareholder on request from the Secretary of the Company. Shareholders wishing to receive a copy of the Rights Plan should contact the Company by telephone 1-800-342-3757, or write to the Assistant Secretary, GSI Lumonics Inc. 39 Manning Road, Billerica, Massachusetts 01821, U.S.A. Alternatively, the full text of the Rights Plan is available from the SEC Edgar website, www.sec.gov or on the SEDAR Web site maintained by the Canadian securities regulators at www.sedar.com.

Objectives of the Rights Plan

The Rights Plan is not being adopted or approved in response to or in anticipation of any pending or threatened take-over bid, nor to deter take-over bids generally. As of the date of this Circular, the Board of Directors was not aware of any third party considering or preparing any proposal to acquire control of the Company. The primary objectives of the Rights Plan are to ensure that, in the context of a bid for control of the Company through an acquisition of common shares, the Board of Directors has sufficient time to explore and develop alternatives for maximizing shareholder value, to provide adequate time for competing bids to emerge, to ensure that shareholders have an equal opportunity to participate in such a bid and to give them adequate time to properly assess the bid and lessen the pressure to tender typically encountered by a security holder of an issuer that is subject to a bid. The Rights Plan in no way prohibits a change of control of the Company in a transaction that the Board of Directors believes is fair and in the best interests of all shareholders of the Company. The rights of shareholders to seek a change in the management of the Company or to influence or promote action of management in a particular manner will not be affected by the Rights Plan. The approval of the Rights Plan does not affect the duty of a director to act honestly and in good faith with a view to the best interests of the Company and its shareholders.

In approving the Rights Plan, the Board of Directors considered the following concerns inherent in the existing legislative framework governing take-over bids in Canada:

- (a) *Time.* Current Canadian legislation permits a take-over bid to expire in 35 days. The Board of Directors is of the view that this generally is not sufficient time to permit shareholders to consider a take-over bid and to make a reasoned and considered decision. The Rights Plan provides a mechanism whereby the minimum expiry period for a Take-over Bid must be 60 days after the date of the bid and the bid must remain open for a further period of 10 Business Days after the Offeror publicly announces that the common shares deposited or tendered and not withdrawn constitute more than 50% of the common shares outstanding held by Independent Shareholders (generally, shareholders other than the Offeror or Acquiring Person (someone who beneficially owns greater than 20% of the outstanding common shares), their Associates and Affiliates, and Persons acting jointly or in concert with the Offeror or Acquiring Person). The Rights Plan is intended to provide shareholders with adequate time to properly evaluate the offer and to provide the Board of Directors with sufficient time to explore and develop alternatives for maximizing shareholder value. Those alternatives could include identifying other potential bidders, conducting an orderly auction or developing a restructuring alternative that could enhance shareholder value.
- (b) *Pressure to Tender.* A shareholder may feel pressured to tender to a bid that the shareholder considers to be inadequate out of a concern that failing to tender may result in the shareholder being left with illiquid or minority discounted securities in the issuer. This is particularly so in the case of a partial

bid for less than all securities of a class, where the bidder wishes to obtain a control position but does not wish to acquire all of the common shares. The Rights Plan provides a mechanism in the Permitted Bid provision that is intended to ensure that a shareholder may remove the uncertainty as to whether a majority of shareholders will support a take-over bid from the decision to tender to the take-over bid by requiring that a take-over bid remain open for acceptance for a further 10 Business Days following public announcement that more than 50% of the common shares held by Independent Shareholders have been deposited and not withdrawn as at the initial date of take-up or payment by the buyer. This mechanism therefore will lessen any undue pressure to tender that may be encountered by a security holder of an issuer that is the subject of a take-over bid.

- (c) *Unequal Treatment.* While existing securities legislation has substantially addressed many concerns of unequal treatment, there remains the possibility that control of an issuer may be acquired pursuant to a private agreement in which a small group of security holders dispose of their securities at a premium to market price which premium is not shared with other security holders. In addition, a person may slowly accumulate securities through stock exchange acquisitions that may result, over time, in an acquisition of control without payment of fair value for control or a fair sharing of a control premium among all securityholders. The Rights Plan addresses these concerns by applying to all acquisitions of greater than 20% of the common shares, to better ensure that shareholders receive equal treatment.

General Impact of the Rights Plan

It is not the intention of the Board of Directors, in approving the Rights Plan, to secure the continuance of existing directors or management in office, nor to avoid a bid for control of the Company in a transaction that is fair and in the best interests of shareholders. For example, through the Permitted Bid mechanism, described in more detail in the summary provided below, shareholders may tender to a bid that meets the Permitted Bid criteria without triggering the Rights Plan, regardless of the acceptability of the bid to the Board of Directors. Furthermore, even in the context of a bid that does not meet the Permitted Bid criteria, the Board of Directors will continue to be bound to consider fully and fairly any bid for the common shares in any exercise of its discretion to waive application of the Rights Plan or redeem the Rights. In all such circumstances, the Board of Directors must act honestly and in good faith with a view to the best interests of the Company and its shareholders. The Rights Plan does not preclude any shareholder from utilizing the proxy mechanism under the *Business Corporations Act* (New Brunswick) and securities laws to promote a change in the management or direction of the Company, and has no effect on the rights of holders of outstanding common shares to requisition a meeting of shareholders in accordance with the provisions of applicable corporate and securities legislation, or to enter into agreements with respect to voting their common shares. The definitions of Acquiring Person and Beneficial Ownership have been developed to minimize concerns that the plan may be inadvertently triggered or triggered as a result of an overly-broad aggregating of holdings of institutional shareholders and their clients.

The Rights Plan will not interfere with the day-to-day operations of the Company. The issuance of the Rights does not in any way alter the financial condition of the Company, impede its business plans or alter its financial statements.

In summary, the Board of Directors believes that the dominant effect of the Rights Plan will be to enhance shareholder value, and ensure equal treatment of all shareholders in the context of an acquisition of control.

Summary of Shareholder Rights Plan

The following is a summary of the features of the Rights Plan. The summary is qualified in its entirety by the full text of the Rights Plan, a copy of which is available on request from the Secretary of the Company as described above.

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(a) Issuance of Rights

The Board has authorized, subject to regulatory approvals, the issue on April 12, 2005 of one Right in respect of each Common Share outstanding at the close of business on April 12, 2005, the date of implementation of the Rights Plan. The Board will also authorize the issue of one Right for each Common Share issued after such date and prior to the earlier of the Separation Time and the Expiration Time. Each Right entitles the record holder thereof to purchase from the Company one Common Share at an exercise price of CDN\$200, subject to adjustment and certain anti-dilution provisions (the Exercise Price). The Rights are not exercisable until the Separation Time. If a Flip-in Event occurs, each Right will entitle the registered holder to receive, upon payment of the Exercise Price, that number of common shares having an aggregate market price equal to twice the Exercise Price.

The Company is not required to issue or deliver Rights or securities upon the exercise of Rights outside Canada or the United States where such issuance or delivery would be unlawful without registration of the relevant Persons or securities. If the Rights Plan would require compliance with securities laws or comparable legislation of a jurisdiction outside Canada and the United States, the Board of Directors may establish procedures for the issuance to a Canadian resident Fiduciary of such securities, to hold such Rights or other securities in trust for the Persons beneficially entitled to them, to sell such securities, and to remit the proceeds to such Persons.

(b) Trading of Rights

Until the Separation Time (or the earlier termination or expiration of the Rights), the Rights will be evidenced by the certificates representing the Common shares and will be transferable only together with the associated Common shares. From and after the Separation Time, separate certificates evidencing the Rights (Rights Certificates) will be mailed to holders of record of Common shares (other than an Acquiring Person) as of the Separation Time. Rights Certificates will also be issued in respect of Common shares issued prior to the Expiration Time, to each holder (other than an Acquiring Person) converting, after the Separation Time, securities (Convertible Securities) convertible into or exchangeable for Common shares. The Rights will trade separately from the Common shares after the Separation Time.

(c) Separation Time

The Separation Time is the Close of Business on the eighth Business Day after the earliest of (i) the Stock Acquisition Date, which is generally the first date of public announcement of facts indicating that a Person has become an Acquiring Person; (ii) the date of the commencement of, or first public announcement of the intent of any Person (other than the Company or any Affiliate of the Company) to commence a Take-over Bid

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(other than a Permitted Bid or a Competing Permitted Bid, and the Rights Plan requires such bid to continue to satisfy the requirements of a Permitted Bid or Competing Permitted Bid); and (iii) the date at which a Permitted Bid ceases to be a Permitted Bid. In either case, the Separation Time can be such later date as may from time to time be determined by the Board of Directors. If a Take-over Bid expires, is cancelled, terminated or otherwise withdrawn prior to the Separation Time, it shall be deemed never to have been made.

(d) Acquiring Person

In general, an Acquiring Person is a Person who is the Beneficial Owner of 20% or more of the outstanding common shares. Excluded from the definition of Acquiring Person are the Company and its Affiliates, and any Person who becomes the Beneficial Owner of 20% or more of the outstanding common shares as a result of one or more or any combination of a Voting Share Reduction, a Permitted Bid Acquisition, an Exempt Acquisition, a Pro Rata Acquisition and a Convertible Security Acquisition. The definitions of Voting Share Reduction, Permitted Bid Acquisition, Exempt Acquisition, Pro Rata Acquisition and Convertible Security Acquisition are set out in the Rights Plan. However, in general:

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- (i) a Voting Share Reduction means an acquisition or redemption of common shares by the Company which, by reducing the number of outstanding common shares, increases the percentage of common shares Beneficially Owned by any Person to over 20% of the outstanding common shares;
- (ii) a Permitted Bid Acquisition means an acquisition of common shares made pursuant to a Permitted Bid or a Competing Permitted Bid;
- (iii) an Exempt Acquisition means an acquisition of common shares in respect of which the Board of Directors has waived the application of the Rights Plan, which was made pursuant to a dividend reinvestment plan of the Company, which was made pursuant to the receipt or exercise of rights issued by the Company to all the holders of common shares (other than holders resident in a jurisdiction where such distribution is restricted or impracticable as a result of applicable law) to subscribe for or purchase common shares or Convertible Securities (provided that such rights are acquired directly from the Company and not from any other Person and provided that the Person does not hereby acquire a greater percentage of common shares or Convertible Securities so offered than the Person's percentage of common shares or Convertible Securities beneficially owned immediately prior to such acquisition), which was made pursuant to a distribution by the Company of common shares or Convertible Securities made pursuant to a prospectus (provided that the Person does not thereby acquire a greater percentage of the common shares or Convertible Securities so offered than the percentage owned immediately prior to such acquisition), which was made pursuant to a distribution by the Company of common shares or Convertible Securities by way of a private placement or a securities exchange Take-over Bid circular or upon the exercise by an individual employee of stock options granted under a stock option plan of the Company or rights to purchase securities granted under a share purchase plan of the Company, or which is made pursuant to an amalgamation, merger or other statutory procedure requiring shareholder approval;
- (iv) a Pro Rata Acquisition means an acquisition by a Person as a result of a stock dividend, a stock split or other event pursuant to which such Person receives or acquires common shares or Convertible Securities on the same pro rata basis as all other holders of common shares of the same class; and
- (v) a Convertible Security Acquisition means an acquisition of common shares upon the exercise of Convertible Securities received by such Person pursuant to a Permitted Bid Acquisition, Exempt Acquisition or a Pro Rata Acquisition.

Also excluded from the definition of Acquiring Person are underwriters or members of a banking or selling group acting in connection with a distribution of securities by way of prospectus or private placement, a Person in its capacity as an Investment Manager, Trust Corporation, Plan Trustee, Statutory Body, Crown Agent or Manager (provided that such Person is not making or proposing to make a Take-over Bid), and a Person (a Grandfathered Person) who is the Beneficial Owner of 20% or more of the outstanding common shares of the Company as at the Record Time, provided, however, that this exception ceases to be applicable to a Grandfathered Person in the event that such Grandfathered Person shall, after the Record Time: (1) cease to own 20% or more of the outstanding common shares or (2) become the Beneficial Owner of additional common shares constituting more than 1% of the number of common shares outstanding as at the Record Time.

(e) Beneficial Ownership

General

In general, a Person is deemed to Beneficially Own common shares actually held by others in circumstances where those holdings are or should be grouped together for purposes of the Rights Plan. Included are holdings by the Person's Affiliates (generally, a person that controls, is controlled by, or under common control with another person) and Associates (generally, relatives sharing the same residence). Also included are securities which the Person or any of the Person's Affiliates or Associates has the right to acquire within 60 days (other than (1) customary agreements with and between underwriters and banking group or

selling group members with respect to a distribution to the public or pursuant to a private placement of securities; or (2) pursuant to a pledge of securities in the ordinary course of business).

A Person is also deemed to Beneficially Own any securities that are Beneficially Owned (as described above) by any other Person with which the Person is acting jointly or in concert (a Joint Actor). A Person is a Joint Actor with any Person who is a party to an agreement, arrangement or understanding with the first Person or an Associate or Affiliate thereof to acquire or offer to acquire common shares.

Institutional Shareholder Exemptions from Beneficial Ownership

The definition of Beneficial Ownership contains several exclusions whereby a Person is not considered to Beneficially Own a security. There are exemptions from the deemed Beneficial Ownership provisions for institutional shareholders acting in the ordinary course of business. These exemptions apply to (i) an investment manager (Investment Manager) which holds securities in the ordinary course of business in the

performance of its duties for the account of any other Person (a Client) including, the acquisition or holding of securities for non-discretionary accounts held on behalf of a Client by a broker or dealer registered under applicable securities laws); (ii) a licensed trust corporation (Trust Corporation) acting as trustee or administrator or in a similar capacity in relation to the estates of deceased or incompetent persons (each an Estate Account) or in relation to other accounts (each an Other Account) and which holds such security in the ordinary course of its duties for such accounts; (iii) the administrator or the trustee (a Plan Trustee) of one or more pension funds or plans (a Plan) registered under applicable law; (iv) a Person who is a Plan or is a Person established by statute (the Statutory Body), and its ordinary business or activity includes the management of investment funds for employee benefit plans, pension plans, insurance plans, or various public bodies; (v) a Crown Agent; (iv) a manager or trustee (Manager) of a mutual fund (Mutual Fund) that is registered or qualified to issue its securities to investors under the securities laws of any province of Canada or the laws of the United States of America or is a Mutual Fund. The foregoing exemptions only apply so long as the Investment Manager, Trust Corporation, Plan Trustee, Plan, Statutory Body, Crown Agent, Manager or Mutual Fund is not then making or has not then announced an intention to make a Take-over Bid, other than an Offer to Acquire common shares or other securities pursuant to a distribution by the Company or by means of ordinary market transactions.

A Person will not be deemed to Beneficially Own a security because (i) the Person is a Client of the same Investment Manager, an Estate Account or an Other Account of the same Trust Corporation, or Plan with the same Plan Trustee as another Person or Plan on whose account the Investment Manager, Trust Corporation or Plan Trustee, as the case may be, holds such security or (ii) the Person is a Client of an Investment Manager, Estate Account, Other Account or Plan, and the security is owned at law or in equity by the Investment Manager, Trust Corporation or Plan Trustee, as the case may be.

Exemption for Permitted Lock-up Agreement

Under the Rights Plan, a Person will not be deemed to Beneficially Own any security where the holder of such security has agreed to deposit or tender such security, pursuant to a Permitted Lock-up Agreement or to a Take-over Bid made by such Person or such Person's Affiliates or Associates or a Joint Actor, or such security has been deposited or tendered pursuant to a Take-over Bid made by such Person or such Person's Affiliates, Associates or Joint Actors until the earliest time at which any such tendered security is accepted unconditionally for payment or is taken up or paid for.

A Permitted Lock-up Agreement is essentially an agreement between a Person and one or more holders of common shares (the terms of which are publicly disclosed and available to the public within the time frames set forth in the definition of Permitted Lock-up Agreement) pursuant to which each Locked-up Person agrees to deposit or tender common shares to the Lock-up Bid and which further permits the Locked-up Person to withdraw its common shares in order to deposit or tender the common shares to another Take-over Bid or support another transaction (i) at a price or value that exceeds the price under the Lock-Up Bid; or (ii) for a number of Common Share at least 7% greater than the number of common shares that the Offeror has

offered to purchase under the Lock-up Bid at a price or value per Common Share that is not less than the price or value per Common Share offered under the Lock-up Bid; or (iii) at an offering price that exceeds the offering price in the Lock-up Bid by as much as or more than a Specified Amount and that does not provide for a Specified Amount greater than 7% of the offering price in the Lock-up Bid. The Rights Plan therefore requires that a Person making a Take-Over Bid structure any Lock-up Agreement so as to provide reasonable flexibility to the shareholder in order to avoid being deemed the Beneficial Owner of the common shares subject to the Lock-up Agreement and potentially triggering the provisions of the Rights Plan.

A Permitted Lock-up Agreement may contain a right of first refusal or require a period of delay to give the Person who made the Lock-up Bid an opportunity to match a higher price in another Take-Over Bid or other similar limitation on a Locked-up Person's right to withdraw common shares so long as the limitation does not preclude the exercise by the Locked-up Person of the right to withdraw common shares during the period of the other Take-Over Bid or transaction. Finally, under a Permitted Lock-up Agreement, no break up fees, top up fees, penalties, expenses or other amounts that exceed in aggregate the greater of (i) 2-1/2% of the price or value of the consideration payable under the Lock-up Bid; and (ii) 50% of the amount by which the price or value of the consideration received by a Locked-up Person under another Take-Over Bid or transaction exceeds what such Locked-up Person would have received under the Lock-up Bid; can be payable by such Locked-up Person if the Locked-up Person fails to deposit or tender common shares to the Lock-up Bid or withdraws common shares previously tendered thereto in order to deposit such common shares to another Take-Over Bid or support another transaction.

(f) *Flip-in Event*

A Flip-in Event occurs when any Person becomes an Acquiring Person. In the event that, prior to the Expiration Time, a Flip-in Event which has not been waived by the Board of Directors occurs (see Redemption, Waiver and Termination), each Right (except for Rights Beneficially Owned or which may thereafter be Beneficially Owned by an Acquiring Person, an Affiliate or Associate of an Acquiring Person or a Joint Actor (or a transferee of any such Person), which Rights will become null and void) shall constitute the right to purchase from the Company, upon exercise thereof in accordance with the terms of the Rights Plan, that number of common shares having an aggregate Market Price on the date of the Flip-in Event equal to twice the Exercise Price, for the Exercise Price (such Right being subject to anti-dilution adjustments). For example, if at the time of the Flip-in Event the Exercise Price is CDN\$200 and the Market Price of the common shares is CDN\$20, the holder of each Right would be entitled to purchase common shares having an aggregate Market Price of CDN\$400 (that is, twenty (20) common shares) for CDN\$200 (that is, a 50% discount from the Market Price).

(g) *Permitted Bid and Competing Permitted Bid*

A Permitted Bid is a Take-over Bid made by way of a Take-over Bid circular and which complies with the following additional provisions:

- (i) the Take-over Bid is made to all holders of record of common shares, other than the Offeror;
- (ii) the Take-over Bid contains irrevocable and unqualified conditions that:
 - A. no common shares shall be taken up or paid for pursuant to the Take-over Bid prior to the Close of Business on a date which is not less than 60 days following the date of the Take-over Bid and the provisions for the take-up and payment for common shares tendered or deposited thereunder shall be subject to such irrevocable and unqualified condition;
 - B. unless the Take-over Bid is withdrawn, common shares may be deposited pursuant to the Take-over Bid at any time prior to the Close of Business on the date of first take-up or payment for common shares and all common shares deposited pursuant to the Take-over Bid may be withdrawn at any time prior to the Close of Business on such date;

- C. more than 50% of the outstanding common shares held by Independent Shareholders must be deposited to the Take-over Bid and not withdrawn at the Close of Business on the date of first take-up or payment for common shares; and
- D. in the event that more than 50% of the then outstanding common shares held by Independent Shareholders have been deposited to the Take-over Bid and not withdrawn as at the date of first take-up or payment for common shares under the Take-over Bid, the Offeror will

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make a public announcement of that fact and the Take-over Bid will remain open for deposits and tenders of common shares for not less than 10 Business Days from the date of such public announcement.

A Competing Permitted Bid is a Take-over Bid that is made after a Permitted Bid has been made but prior to its expiry and that satisfies all the requirements of a Permitted Bid as described above, except that a Competing Permitted Bid is not required to remain open for 60 days so long as it is open until the later of (i) the earliest date on which common shares may be taken-up or paid for under any earlier Permitted Bid or Competing Permitted Bid that is in existence and (ii) 35 days (or such other minimum period of days as may be prescribed by applicable law in Ontario) after the date of the Take-over Bid constituting the Competing Permitted Bid.

(h) *Redemption, Waiver and Termination*

- (i) *Redemption of Rights on Approval of Holders of Common Shares and Rights.* The Board of Directors acting in good faith may, after having obtained the prior approval of the holders of common shares or Rights, at any time prior to the occurrence of a Flip-in Event, elect to redeem all but not less than all of the then outstanding Rights at a redemption price of \$0.00001 per Right, appropriately adjusted for anti-dilution as provided in the Rights Agreement (the Redemption Price).
- (ii) *Discretionary Waiver respecting Acquisition not by Take-over Bid Circular.* The Board of Directors acting in good faith may, with the prior consent of the holders of common shares, determine, at any time prior to the occurrence of a Flip-in Event as to which the application of the Rights Plan has not been waived, if such Flip-in Event would occur by reason of an acquisition of common shares otherwise than pursuant to a Take-over Bid made by means of a Take-over Bid circular to holders of common shares and otherwise than by inadvertence when such inadvertent Acquiring Person has then reduced its holdings to below 20%, to waive the application of the Rights Plan to such Flip-in Event. However, if the Board of Directors waives the application of the Rights Plan, the Board of Directors shall extend the Separation Time to a date subsequent to and not more than 10 Business Days following the meeting of shareholders called to approve such a waiver.
- (iii) *Discretionary Waiver with Mandatory Waiver of Concurrent Bids.* The Board of Directo