



Definition of Free Cash Flow*
(In thousands of U.S. dollars)

Management uses the term “Free Cash Flow” to refer to GAAP cash flows from operating activities minus purchases for property, plant and equipment. Management believes this non-GAAP measure, when taken together with our GAAP financial measures, allows Management and our investors to better evaluate the long-term financial trends and assess the Company’s ability to invest in the business, which includes meeting future debt service obligations and working capital requirements.

	Three Months Ended September 30, 2011
	(Unaudited)
Cash Flows from Operating Activities	\$ 12,832
Purchases of property, plant and equipment	(909)
Free Cash Flow	<u>\$ 11,923</u>
Net income attributable to GSI Group Inc.	\$ 8,845
Free cash flow as % of Net income attributable to GSI Group Inc.	135%

* Reconciliation of a GAAP to a non-GAAP financial measure.

Non-GAAP Financial Measure

The non-GAAP financial measure described above is not meant to be considered superior to, or a substitute for, our financial statements prepared in accordance with GAAP. There are material limitations associated with non-GAAP financial measures because they exclude charges that have an effect on our reported results and, therefore, should not be relied upon as the sole financial measures to evaluate our financial results. Management compensates, and believes that investors should compensate, for these limitations by viewing the non-GAAP financial measures in conjunction with the GAAP financial measures. In addition, the non-GAAP financial measure included above may be different from, and therefore may not be comparable to, similar measures used by other companies.