

GSI Group Reaches Agreement with Key Parties Providing for Approval of Plan of Reorganization

-Company Expects to Emerge from Chapter 11 in Summer 2010

-Michael E. Katzenstein Appointed Chief Restructuring Officer to Lead Company Through Final Phase of Restructuring

-Bookings and Cash Position for First Quarter 2010

BEDFORD, MA May 11, 2010.---GSI Group Inc. (*Pink Sheets: GSIGQ*) (the “Company” or “GSI”) today announced that it has reached an agreement with representatives of the key stakeholders involved in GSI’s Chapter 11 case that provides for certain modifications of the Company’s (and certain of its subsidiaries’) Third Modified Joint Plan of Reorganization, including, among others, a proposed rights offering fully backstopped by certain noteholders. With this agreement, GSI is on track to emerge from Chapter 11 protection in summer of 2010. GSI expects to complete its financial restructuring with a stronger balance sheet and enhanced liquidity that will position the Company for future growth.

GSI has reached an agreement on a term sheet (the “Term Sheet”) with the holders (“Consenting Noteholders”) of greater than 88% of the outstanding aggregate principal amount of the Company’s 11% Senior Notes due 2013 (the “Notes”) and the Equity Committee in the Company’s Chapter 11 case. The Term Sheet sets forth terms for a new plan support agreement to be entered into among the parties to the Term Sheet and modifications to certain terms of the Company’s (and certain of its subsidiaries’) Third Modified Joint Plan of Reorganization, as filed with the U.S. Bankruptcy Court in Wilmington, Delaware on April 9, 2010 (the “Plan”). Pursuant to the Term Sheet, both the Consenting Noteholders and the Equity Committee have agreed to support the Plan as modified in accordance with the Term Sheet (the “Modified Plan”). A copy of the Term Sheet is attached to this press release.

To help lead the Company through the final phase of its restructuring, the Company has appointed Michael E. Katzenstein as Chief Restructuring Officer effective May 5, 2010. Mr. Katzenstein, a Senior Managing Director in the Corporate Finance practice of FTI Consulting, Inc., will serve as GSI Group’s most senior executive officer in replacement of the Company’s current chief executive officer. Mr. Katzenstein will manage the Company’s finance, legal

and restructuring functions. The Company has also engaged FTI Consulting to provide support services to Mr. Katzenstein.

“We are very pleased to have reached agreement with a substantial majority of the noteholders and the Equity Committee on the term sheet for a plan support agreement that resolves all major outstanding issues related to confirmation of GSI's plan of reorganization and paves the way for the Company to emerge from Chapter 11 in Summer 2010,” Mr. Katzenstein said. “With a strengthened balance sheet, GSI will emerge from the restructuring process in an excellent financial position to grow its business and take advantage of improving market conditions.” Stephen Bershad, Chairman of the Equity Committee, said “The Equity Committee is gratified that we are able to arrive at a consensual solution to recapitalize GSI that allows all shareholders the opportunity to participate in the future growth of the Company. The Modified Plan provides GSI with the proper capital structure to enable it to pursue the significant opportunities resulting from the combination of GSI and Excel.” Mr. Rajneesh Vig, a Partner of Tennenbaum Capital Partners, one of the Consenting Noteholders, said “We remain focused on an expeditious conclusion to the Chapter 11 process for the Company and look forward to working with the Company and the Equity Committee under the terms of our agreement to drive longer term success for GSI.”

Terms of the Agreement

Under the Modified Plan as contemplated by the Term Sheet, the Company's existing shareholders (including those shareholders who may also be noteholders) would retain an ownership in the Company of between 48.9% and 87.3% of the Company's post-reorganization common stock subject to the release and distribution of new common shares placed in reserve until resolution of certain pending litigation unrelated to the Chapter 11 Case and depending on the level of shareholder participation in the proposed rights offering. Under terms of the rights offering, the Company's shareholders would have a right to buy up to \$85 million in the aggregate of new common shares of the reorganized Company for a purchase price of \$1.80 per share. The proceeds from the rights offering, together with approximately \$10 million of the Company's cash, would be used for partial satisfaction of the Notes. Notes in the principal amount of \$5 million would also be exchanged for additional common shares of the reorganized Company at \$1.80 per share. In addition, those noteholders, who have agreed to backstop the entire rights offering, would exchange a minimum of \$20 million of Notes for new common shares of the reorganized Company at \$1.80 per share, regardless of the number of shares purchased by shareholders in the rights offering. The principal amount of Notes

remaining after these various exchanges then would be exchanged for new senior secured notes on terms as contemplated by the Modified Plan and set forth in the form of indenture previously filed with the Court. The Modified Plan will further provide that the noteholders will receive payment in cash of all pre- and post petition interest accrued on the Notes.

The capitalization of the Company following the consummation of the transactions contemplated by the Modified Plan will depend on the level of shareholder participation in the rights offering. If no shareholder were to subscribe for new common shares in the rights offering, the existing shareholders (including those shareholders who may also be noteholders) would receive up to 48.9% of the Company's post-reorganization outstanding shares (subject to the distribution of the above mentioned reserve), the noteholders would receive approximately 51.1% of the Company's post-reorganization outstanding shares, and the Company would issue \$110 million in principal amount of new senior secured notes. If the rights offering were fully subscribed by the shareholders, the existing shareholders (including those shareholders who may also be noteholders) would receive approximately 87.3% of the Company's post-reorganization outstanding shares (subject to the distribution of the above mentioned reserve), the noteholders would receive approximately 12.7% of the Company's post-reorganization outstanding shares, and the Company would issue \$90 million in principal amount of new senior secured notes.

The Term Sheet further provides that the Consenting Noteholders, who have agreed to backstop the rights offering, will receive a cash backstop fee equal to 5% of the maximum proceeds from the rights offering (or \$4.25 million) and all noteholders would be entitled to their pro rata share of an alternate transaction fee of 2% of the principal amount of the Notes (or \$4.2 million) if the Company were to consummate an alternative restructuring prior to consummating the rights offering.

As already contemplated by the prior Plan, pursuant to the Modified Plan the Company's subsidiary GSI Group Limited would, on account of its unsecured note, share ratably in the distributions to the noteholders (as such aggregate distributions by the Company would be increased to reflect the amount of the GSI UK note).

Pursuant to the Modified Plan, the reorganized Company's board of directors would be comprised of seven directors, to include two directors selected by the Required Noteholders (as that term is defined in the plan support agreement), two directors with industry expertise selected by the Equity Committee, one

director selected by mutual agreement between the Required Noteholders and the Equity Committee, one director to be selected from the Company's current board of directors, and the chief executive officer of the reorganized Company.

Under the Term Sheet, the Company has committed to meet certain deadlines with respect to the approval of the new plan support agreement, the commencement of the rights offering, and the filing, confirmation and effectiveness of the Modified Plan.

Certain Preliminary First Quarter 2010 Financial Information

The Company today also reported preliminary bookings for its first fiscal quarter of 2010 and its cash position at the end of the first quarter ended April 2, 2010:

Bookings: Bookings for the first fiscal quarter ended April 2, 2010 were approximately \$95 million compared with bookings of approximately \$77 million for the fourth fiscal quarter of 2009 ended December 31, 2009.

Cash : As of the end of the first fiscal quarter of 2010, the Company had approximately \$80 million of cash and cash equivalents, excluding approximately \$9 million of auction rate securities at fair value. During the first fiscal quarter of 2010, the Company received tax refunds and proceeds from the sale of additional auction rate securities of approximately \$4 million, which amount is included in the \$80 million total above.

Other Information

Mr. Katzenstein is a seasoned restructuring and turnaround management expert who has led multiple engagements across many industries, with concentration in media, technology, telecommunications and subscriber based businesses. He has served as chief restructuring officer, interim chief executive officer/chief operating officer or as advisor to creditors or other parties of interest in numerous restructuring and bankruptcy engagements including CTC Communications, Birch Telecom, VarTec Telecom, Pac-West Telecomm, Pacific USA, Pacific Crossing, PT Cable, Centerpoint Broadband Technologies, XO Communications, Genuity, Nortel, PR Wireless, Global Photon, OpTel and Hawaiian Telcom. His clients also include major financial institutions and hedge funds. Mr. Katzenstein holds a J.D. from Boston University School of Law and a B.A. in political science from the State University of New York at Binghamton.

On November 20, 2009, three of GSI's corporate entities -- GSI Group Inc., the parent Canadian holding company; GSI Group Corporation; and MES International, Inc., a non-operating subsidiary of GSI Group Corporation -- filed voluntary petitions for Chapter 11 reorganization under the U.S. Bankruptcy Code in U.S. Bankruptcy Court in Wilmington, Delaware. No other subsidiaries and no subsidiaries outside of North America were included in the filing. The Modified Plan provides for all vendors and suppliers to be paid in full for all valid pre-petition claims. GSI has continued to pay vendors and suppliers under normal terms in the ordinary course of business for all goods and services provided to the Company after the filing date of November 20, 2009.

More information about GSI is available on the company's website at www.gsig.com. For additional information, please contact GSI Group Inc., Investor Relations, at (781) 266-5137 or InvestorRelations@gsig.com.

About GSI Group Inc.

GSI Group Inc. supplies precision technology to the global medical, electronics, and industrial markets and semiconductor systems. GSI Group Inc.'s common shares are quoted on Pink Sheets OTC Markets Inc. (GSIGQ).

Safe Harbor and Forward Looking Information

Certain statements in this release are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 and are based on current expectations and assumptions that are subject to risks and uncertainties. All statements contained in this news release that do not relate to matters of historical fact should be considered forward-looking statements, and are generally identified by words such as "expect," "intend," "anticipate," "estimate," "plan," and other similar expressions. These forward-looking statements include, but are not limited to, statements related to: the Term Sheet and the completion of the transactions contemplated thereby including the proposed rights offering and the level of participation therein; the restructuring of the Company's outstanding indebtedness under the Notes; the Company's ability to substantially reduce its outstanding indebtedness and interest burden; the ability of the Company to successfully emerge from the Chapter 11 bankruptcy proceedings; the Company's ability to improve its liquidity and the impact of the reorganization on the Company's general liquidity; the relative financial health of the Company; the Company's ability to grow in the future and generate meaningful shareholder value; the Company's industry position and its ability to operate successfully as markets recover; the consummation of

alternative restructuring transactions; the future reorganization of the Company's Board of Directors; the Company's estimates regarding bookings and cash position; and other statements that are not historical facts. These forward looking statements involve a number of risks, uncertainties, assumptions and other factors that could affect future results and cause actual results and events to differ materially from historical and expected results and those expressed or implied in the forward looking statements, including, but not limited to, the following: the highly unpredictable nature of the semiconductor and electronics materials processing industry; the Company's ability to manage its significant indebtedness in light of current economic and business conditions; the ability of the Company to reach agreement with all parties on definitive documentation and successfully complete the transactions contemplated by the Term Sheet; the outcome of the Company's Chapter 11 bankruptcy proceedings, including whether or not the proposed plan is ultimately approved by the U.S. Bankruptcy Court and the final terms thereof; the potential adverse impact of the Chapter 11 bankruptcy proceedings on the Company's business, financial condition or results of operations; the Company's ability to grow and increase profitability; future liquidity and valuation of auction rate securities; the Company's ability to quickly increase manufacturing capacity and promptly respond to fluctuating product demands; the Company's need to invest in research and development; the Company's ability to develop and deliver new competitive technology and enhancements and customer acceptance thereof; the effects of competition; failure to identify and manage weaknesses in internal controls; changes in accounting standards; failures of the Company to properly identify the timing of when revenue should be recognized; the Company's ability to complete and file its delayed periodic reports with the SEC on a timely basis; risks related to consolidation of operations and the integration of operations and employees of acquired businesses, including Excel; the Company's inability to recognize synergies of acquired businesses, including Excel; the results of the proposed restructuring including the issuance of a substantial amount of equity securities in exchange for a portion of the Company's current indebtedness and the dilutive impact of such issuance, and the incurrence of additional material obligations as part of any such restructuring. Other important risk factors that could affect the outcome of the events set forth in these statements and that could affect the Company's operating results and financial condition are discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2008 and in the Company's subsequent filings with the SEC made prior to or after the date hereof. Such statements are based on the Company's management's beliefs and assumptions and on information currently available to the Company's management. The Company disclaims any obligation to

update any forward-looking statements as a result of developments occurring after the date of this document.

RIGHTS OFFERING TERM SHEET

Capitalized terms used in this Rights Offering Term Sheet but not defined herein shall have the meaning given to them in the Plan Support Agreement.

THIS TERM SHEET IS NOT AN OFFER OR A SOLICITATION WITH RESPECT TO ANY SECURITIES OF THE DEBTORS. ANY SUCH OFFER OR SOLICITATION SHALL COMPLY WITH ALL APPLICABLE SECURITIES LAWS, IF ANY, AND/OR PROVISIONS OF THE BANKRUPTCY CODE.

Parties	GSI Group, Inc. (“Holdings”). Liberty Harbor, LLC, Tennenbaum Capital Partners, LLC, Highbridge Capital Management, LLC, Hale Capital Partners, LP and Tinicum, Inc. and/or their affiliated or managed funds (the “Noteholder Investors”).
	Holders of Holdings Common Shares who determine to participate in the Rights Offering.
Purchase Price	\$1.80 per share
The Rights Offering	All holders of Holdings Common Shares as of a specified record date (the “Record Date”) shall receive as part of their plan distributions their pro rata right to purchase New Common Shares (as defined in the Plan) of Reorganized Holdings (the “Rights”) at the Purchase Price such that the total amount of New Common Shares sold pursuant to the Rights Offering and Backstop Commitment described below will generate approximately \$85 million in proceeds (the “Rights Offering Proceeds”). In order to retain the section 1145 exemption, Rights shall not be transferable, and each holder of Holdings Common Shares that exercises its Rights shall be required to represent that it is so acting on its own account.

Holders shall have not less than 20 Business Days to determine whether to participate in the Rights Offering following commencement of the mailing of the subscription and

disclosure documents for the Rights Offering. Holders who participate in the Rights Offering must fund such purchase prior to expiration of the Rights Offering. All such funds will be held in escrow by a third party escrow agent pending the Plan Effective Date. In the event the Plan is not confirmed or the Effective Date does not occur by July 23, 2010, such funds shall be promptly returned to such participating Holders.

The Rights Offering and Backstop Commitment purchases shall be effected contemporaneously with (or shortly before) the Plan Effective Date. There will be no over-subscription rights provided in the Rights Offering.

Backstop Commitment In accordance with, and subject to the terms and conditions set forth in, the Restructuring Plan Support Agreement, the Noteholder Investors shall convert Senior Note Claims at the Purchase Price to New Common Shares to be issued by Reorganized Holdings pursuant to Rights not subscribed for in the Rights Offering. The allocation of New Common Shares to the Noteholder Investors shall be based on each Noteholder Investor's pro rata share of the aggregate Backstop Commitment.

In partial satisfaction of the Senior Note Claims and as a consideration for providing the Backstop Commitment, the Noteholder Investors shall exchange a minimum of \$20 million of the Senior Note Claims at the Purchase Price as part of the Backstop Commitment or otherwise (i.e., even if the Rights Offering is fully subscribed, the Noteholder Investors would still be required to exchange this amount).

New Common Shares issued to the Noteholder Investors pursuant to the Backstop Commitment shall be issued pursuant to an exemption from registration requirements provided by Section 1145 of the Bankruptcy Code, or to the extent the Section 1145 exemption does not apply, Section 4(2) of the Securities Act of 1933.

The Noteholder Investors shall be entitled to an aggregate commitment fee equal to 5% of the maximum Rights Offering Proceeds (the "Backstop Fee"). The Backstop Fee shall be earned upon the entry of the confirmation order approving the Plan. The Backstop Fee shall be payable in cash on the

Effective Date of the Plan.