

OEM Capital – Photonics MARKET FOCUS

July 2010

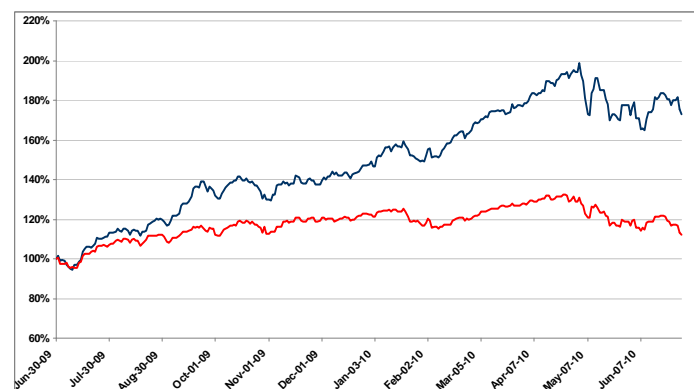
MONTHLY MARKET PERFORMANCE:

Closing Prices as of June 30, 2010

Company Name	Market Cap	Revenue	% Price Change [30 day]	% Price Change [YTD]	P/E
Advanced Photonix	10.8	21.1	(13.7)▼	(40.5)▼	NM
Agilent Technologies	9,895.4	4,708.0	(12.8)▼	(9.2)▼	44.0
Andor Technology plc	76.9	37.0	24.8▲	82.9▲	27.5
AXT Inc.	139.8	66.4	3.4▲	33.0▲	30.3
Cognex Corp.	697.3	192.4	(11.2)▼	(3.1)▼	100.4
Coherent Inc.	866.7	478.0	(4.8)▼	14.7▲	NM
CyberOptics Corp.	66.3	35.0	(2.5)▼	46.0▲	NM
Dynasil Corp.	37.2	37.2	3.5▲	8.1▲	17.8
EXFO Electro Optical	327.3	199.4	2.0▲	35.8▲	85.7
Finisar Corp.	1,105.2	629.9	3.9▲	63.2▲	208.2
Gooch & Housego plc	£42.0	£37.9	19.3▲	47.4▲	22.4
Halma plc	£1,031.2	£459.1	8.7▲	9.4▲	20.3
II-VI Inc.	912.0	297.9	(14.3)▼	(7.9)▼	36.8
Infinera Corp.	628.8	338.3	(14.8)▼	(29.2)▼	NM
IPG Photonics	703.8	191.7	(13.3)▼	(12.3)▼	101.8
JDS Uniphase Corp.	2,167.3	1,257.3	(12.1)▼	16.3▲	NM
KLA-Tencor Cor.	4,739.4	1,542.8	(9.2)▼	(24.5)▼	50.7
Newport Corp.	332.0	384.6	(16.3)▼	(4.1)▼	NM
Oclaro, Inc.	537.7	346.7	(6.2)▼	43.1▲	NM
Ophir Optronics	334.9	381.1	(10.8)▼	(15.1)▼	0.0
Photonic Products	13.3	11.0	0.0▲	15.0▲	NM
Rofin-Sinar	665.2	355.9	(11.2)▼	(12.7)▼	60.6
Rudolph Tech.	235.5	108.2	(14.9)▼	6.3▲	NM
Zygo Corp.	141.6	98.0	(4.6)▼	12.3▲	NM

(\$ millions) unless otherwise noted

OEM Photonics Market Focus Index vs. S&P 500:



■ OEM Capital Photonics Index ■ S&P 500 Index

SELECTED STATISTICS FOR INDEX COMPANIES:

Key Statistics	CY2007	CY2008	CY2009	Latest
TEV/Total Revenue	1.7x	1.8x	2.3x	2.1x
TEV/EBITDA	10.9x	12.5x	35.5x	20.6x
TEV/EBIT	15.5x	19.8x	280.7x	40.2x
Return on Equity %	9.6%	(6.7%)	(5.9%)	0.6%
Gross Margin %	50.0%	48.6%	45.0%	45.8%
SG&A Margin %	25.2%	25.8%	28.5%	26.6%
EBITDA Margin %	16.0%	14.2%	6.5%	10.3%
EBIT Margin %	11.3%	8.9%	0.8%	5.2%
Net Income Margin %	8.8%	(5.7%)	(5.0%)	0.8%
Total Revenue, 1 Yr Growth %	10.5%	(1.0%)	(21.4%)	(8.7%)
Total Revenue, 2 Yr CAGR %	14.2%	4.6%	(11.7%)	(9.1%)
Total Revenue, 3 Yr CAGR %	11.7%	8.9%	(4.9%)	(3.5%)

Source of financial data: Standard & Poor's, CapitalIQ, FT and Thomson Financial
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MARKET COMMENTARY:

Anticipation is the catch-word while we wait for Q2 earnings announcements of Photonics Market companies which should start coming in at the end of July. May was a disappointing month across all market indexes; Are we out of the woods on the recovery? Many thought not and equity prices bounced seemingly randomly during the month, swinging on the news of jobs, the deficit and the Fed monetary policy which will keep borrowing costs low for now.

COMMENTARY

By: Mike Simon
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The **Photonics Market Index** finished June at 173.1, down 2.5% from May's close. This was better performance than the **S&P500**, which was down 5.7% for the month.

NOTABLE RECENT TRANSACTIONS:

It was a busy month in the fiber network and bandwidth space, both **Zayo Group** and **Lightower Fiber Networks** completed transactions. "Roll up" through acquisition is a sign of a maturing industry, as larger companies consolidate the smaller companies whose business model is no longer compatible with the industry.

Zayo Group continues to roll-up companies in the fiber optic network and telecom space, acquiring **American Fiber Systems** in a transaction announced on June 30th. This is the 15th acquisition by **Zayo Group** since 2006. **AFS** received \$55+m in VC funding since January 2000. Terms of the AFS transaction were not disclosed.

Lightower Fiber Networks acquired **Verocity** in a deal announced May 25th. **Lightower** sold off their wireless infrastructure sites network to SBA communications in 2008. **Verocity** provides optical data connectivity solutions to service enterprise customers.

IPO / Financing News:

ReVision Optics, developer of an intraocular lens implant for the correction of presbyopia most of us experience as we get older raised \$35 million in fifth-round funding lead by **ProQuest Investments**. Returning investors include **Domain Associates**, **Canaan Partners** and **InterWest Partners**.

Calient Technologies, developer of advanced intelligent Fiber Optic Cross-Connection systems (FOCS) raised \$10 million in new expansion-financing. Calient's technology is based on its patented deep-silicon plasma etch process technology that is used to make 3D MEMS mirrors. Calient Technologies has raised over \$60 million since January 2004. The \$195 million raised in January 2001 at the height of the telecom didn't last long, but today Calient's products have a successful in-service history with carriers around the world.

StockerYale changed its name to **ProPhotonix**. Mark Blodgett, Chairman and CEO commented in a company news release June 23rd: "The new name gives customers, suppliers, and investors a clearer definition of what we do... While the StockerYale brand is well known in the machine vision industry, it does not clearly reflect that we are a technology company, developing and manufacturing unique LED and laser module products for the medical, defense and industrial markets."

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