

OEM Capital – Photonics MARKET FOCUS

October 2010

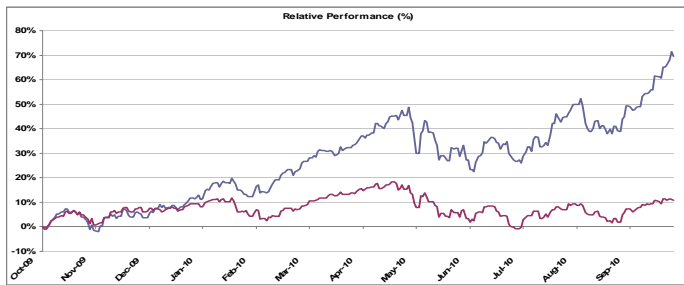
MONTHLY MARKET PERFORMANCE:

Closing Prices as of September 30, 2010

Company Name	Market Cap	Revenue	% Price Change [30 day]	% Price Change [YTD]	P/E
Advanced Photonix Inc.	24.0	21.4	64.9 ▲	27.0 ▲	NM
Agilent Technologies Inc.	11,558.4	5,035.0	23.7 ▲	6.6 ▲	36.4
Andor Technology plc	110.8	37.0	18.1 ▲	162.6 ▲	36.1
AXT Inc.	205.4	76.5	22.4 ▲	95.3 ▲	21.6
Cognex Corp.	1,064.4	223.3	37.5 ▲	47.9 ▲	52.1
Coherent Inc.	994.5	546.3	7.7 ▲	33.8 ▲	47.2
CyberOptics Corp.	62.5	46.4	(1.4) ▼	37.1 ▲	NM
Dynasil Corporation of America	53.2	40.0	21.7 ▲	53.8 ▲	26.1
EXFO Inc	353.3	199.4	0.5 ▲	46.4 ▲	88.8
Finisar Corp.	1,447.5	709.0	46.9 ▲	105.8 ▲	54.2
Gooch & Housego plc	£68.1	£37.9	26.3 ▲	138.9 ▲	35.6
Halma plc	£1,193.0	£459.1	15.4 ▲	26.3 ▲	23.7
II-VI Inc.	1,154.2	345.1	8.5 ▲	16.1 ▲	34.5
Infinera Corp.	1,163.0	380.7	38.3 ▲	28.5 ▲	NM
IPG Photonics Corporation	1,117.8	218.6	11.4 ▲	39.0 ▲	63.7
JDS Uniphase Corporation	2,745.1	1,363.9	34.8 ▲	46.5 ▲	NM
KLA-Tencor Corporation	5,875.3	1,820.8	25.8 ▲	(4.6) ▼	33.3
Newport Corp.	416.4	411.7	19.7 ▲	20.0 ▲	59.7
Oclaro, Inc.	792.7	392.5	56.7 ▲	106.6 ▲	92.3
Ophir Optonics Ltd.	nis363.3	nis391.6	5.9 ▲	(8.6) ▼	17.3
Photonic Products Group Inc.	11.6	10.6	2.0 ▲	0.0 ▲	NM
Rofin-Sinar Technologies Inc.	717.4	389.7	24.4 ▲	6.4 ▲	36.2
Rudolph Technologies Inc.	260.4	141.2	5.1 ▲	17.0 ▲	68.4
Zygo Corp.	171.9	101.3	21.9 ▲	35.7 ▲	22.8

¹ \$ millions unless otherwise noted

PHOTONICS MARKET FOCUS INDEX vs. S&P 500:



■ OEM Capital Photonics Index ■ S&P 500 Index
Source of financial data: Standard & Poor's, CapitalIQ, FT and Thomson Financial

INTRALINKS DEAL FLOW INDICATOR:

Global deal activity (all sectors) was up 9% in Q3 2010 versus Q2 2010, up 68% from the Q1 2009 low. This marks six straight quarters of growth in M&A deal volume, building from the lows of early 2009. Driving this is the general improvement and stability in the public markets with US, European and Asian market indexes all



The first bar on the list is the benchmark showing the number of deals in Q1 2008
The orange trend line shows the quarter-to-quarter change in deal volume
Source of chart data: IntraLinks www.intralinks.com

up for the year and reduced fears of a “double dip” recession. Private equity is once again active. PEG buyers have significant amounts of uncommitted capital and a revived IPO market is providing exits for PEG sellers. Used with permission of **IntraLinks**®

MARKET COMMENTARY:

Strong Month for Photonics Index companies with the Index finishing up 25.6% for the month at a new high compared to the S&P

COMMENTARY

By: Mike Simon
ms@oemcapital.com

500 which was up 5.9%. For the 12 months from October 1, 2009 the Photonics Index is up 69.6% (S&P 500 10.8%). Positive earnings reports, stronger backlogs and operating

margins drove stocks higher.

NOTABLE RECENT TRANSACTIONS:

AFL Telecom (part of Fujikura) acquired **Verrillon** on September 21. **Verrillon** manufactures specialty optical fibers and components for a broad range of industries. **Verrillon** acquired **3M Co's Specialty Fiber** business in 2005 and **AOFR Pty Ltd**, manufacturer of specialty photonics components in 2001. The sale was an exit for PEG investors **Tudor Ventures**, **Vesbridge Partners**, **Masthead** and **Mequnticook**. Over \$30 million was invested since 2000.

Busy month for Korean LED wafer and wafer equipment handling company **Galaxia Photonics** (FKA: **Epiplus**). On September 7th **Galaxia** announced the completion of a \$12.75 million private placement. On September 24 Corporate investor Hyosong finished the round, investing to acquire an additional 37% of **Galaxia**.

EXFO Inc, provider of test and service assurance solutions for network service providers and equipment manufacturers divested their life sciences and industrial division to the **Riverside Company**, a well-known USA PEG in a transaction valued at \$24.3 million on October 1st.

IPO / Financing News:

Capella Photonics, San Jose based photonic component and subsystem manufacturer for datacom applications raised an additional \$17.5 million in a private placement closed September 14th, bringing the total invested in the company to over \$100 million. Venture investors in **Capella** include **Formative Ventures**, **Levensohn Venture Partners**, **Lucas Venture Partners**, **Rustic Canyon Partners** and **Silicon Valley Bank**.

SinOnyx, Inc. closed a private placement worth \$12.5 million on October 20th. **SinOnyx**, based in Beverly MA, has developed extremely sensitive silicon photo detectors and photovoltaic devices. Well-known PEG investors were joined by strategic investor **Coherent**. **SinOnyx** has risen over \$35 million since October 2007.

Singapore based, Toronto-traded **Zecotek Photonics Inc.** (TSXV: ZMS) closed a \$1.5 million private placement on October 19th. **Zecotek** is a developmental stage company working on specialty photonic components in collaboration with **Fujikura**, **Northrop Grumman Synoptics**, **Tekhnoscan JS** and other strategic partners and universities.

Sunlight Photonics, developer of thin-film and crystalline semiconductor photovoltaic cells raised \$1 million in a private placement announced October 22nd.

OEM Capital

Technology Investment Banking

Software · Communications · Computers · Electronics

2507 Post Road · Southport CT 06890-1259 · Tel (203) 254-0200 · Fax (203) 259-4041

www.oemcapital.com

Copyright 2010