

OEM Capital – PHOTONICS MARKET FOCUS

September 2010

MONTHLY MARKET PERFORMANCE:

Closing Prices as of August 31, 2010

Company Name	Market Cap	Revenue	% Price Change [30 day]	% Price Change [YTD]	P/E
Advanced Photonix	14.6	21.1	5.5	(23.0)	NM
Agilent Technologies	9,387.3	4,708.0	(3.4)	(13.8)	44.0
Andor Technology plc	93.8	37.0	7.8	122.4	28.7
AXT Inc.	167.8	76.5	(8.1)	59.6	19.6
Cognex Corp.	773.9	223.3	4.6	7.5	36.3
Coherent Inc.	923.4	546.3	0.4	24.2	50.5
CyberOptics Corp.	63.4	46.4	(5.7)	39.1	NM
Dynasil Corp.	43.7	37.2	13.1	26.4	20.8
EXFO Electro Optical	351.5	199.4	(2.6)	45.7	90.8
Finisar Corp.	978.2	629.9	(20.2)	40.1	240.8
Gooch & Housego plc	£53.9	£37.9	(3.7)	89.1	28.0
Halma plc	£1,033.5	£459.1	(1.2)	9.5	20.3
II-VI Inc.	1,063.2	297.9	0.3	6.9	42.4
Infinera Corp.	841.1	380.7	(6.7)	(7.0)	NM
IPG Photonics	1,003.0	218.6	34.5	24.7	44.1
JDS Uniphase Corp.	2,023.7	1,257.3	(15.3)	8.6	NM
KLA Tencor Corp.	4,700.5	1,820.8	(11.6)	(24.1)	30.7
Newport Corp.	347.7	411.7	(25.6)	0.2	63.9
Oclaro, Inc.	495.5	392.5	(17.1)	31.9	49.1
Ophir Optronics Ltd.	340.3	381.1	(4.2)	(13.7)	0.0
Photonic Products	11.3	11.0	(6.7)	(2.0)	NM
Rofin-Sinar	576.6	355.9	(3.1)	(14.5)	63.3
Rudolph Tech.	247.7	141.2	(8.5)	11.3	73.0
Zygo Corp.	140.4	98.0	(2.9)	11.4	NM

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	2.2x	2.0x	2.0x	2.5x
TEV/EBITDA	14.9x	12.6x	14.2x	37.9x
TEV/EBIT	20.1x	17.9x	22.5x	270.9x
Return on Equity %	8.9%	9.6%	(6.7%)	(5.8%)
Gross Margin %	48.0%	50.0%	48.6%	45.0%
SG&A Margin %	25.2%	25.2%	25.6%	28.5%
EBITDA Margin %	14.0%	16.0%	14.3%	6.6%
EBIT Margin %	9.3%	11.3%	9.1%	0.9%
Net Income Margin %	9.0%	8.8%	(5.7%)	(4.8%)
Total Revenue, 1 Yr Growth %	18.8%	10.5%	(1.0%)	(21.1%)
Total Revenue, 2 Yr CAGR %	12.4%	14.2%	4.6%	(11.6%)
Total Revenue, 3 Yr CAGR %	7.2%	11.7%	8.9%	(4.8%)
P/TangBV	3.0x	3.3x	4.0x	3.9x

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

September brought relief to investors after a dismal August. Equity prices climbed for four straight weeks and the S&P 500 index struggled back to positive territory for the year. On August 31st the S&P 500 was down 6.5% for the year while the Photonics Index was still up over 30% for the same period.

COMMENTARY

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Revenue and earnings announcements for 19 of the Index companies came out during the past month; all were positive, "better than expected" except

for JDSU and Oclaro where the revenue miss was insignificant.

NOTABLE RECENT TRANSACTIONS:

Broadband fiber: The "roll up" of companies in the fiber network and bandwidth space continued into September: **Court Square** acquired **Fibertech Networks** on August 25th for a \$500+ million price. **Ridgemont Equity** acquired a majority of **Unite Private Networks** on August 31st. **PAETEC** acquired **Cavalier Telephone** on September 13 in an all-cash deal valued at \$460 million.

Maxim Integrated Products (NASDAQ: MXIM) acquired **Phyworks Ltd** for \$72.5 million in cash. Combined they will have a dominant position in the market for optical transceiver modules. Successful exit for VC Investors including Advent, Atlas and ADD Partners. Phyworks raised \$23m in three rounds from 2001 to 2004.

FLIR Systems (NASDAQ: FLIR) signed an agreement on August 16 to acquire **ICx Technologies** (NASDAQ: IXTC) from **Wexford Spectrum Investors**. The transaction is valued at approximately \$274 million. The acquisition expands FLIR's capabilities into advanced sensors for chemical, biological, radiological, nuclear and explosives detection for the defense and homeland security markets, the company said.

Rudolph Technologies acquired assets from **Yield Dynamics** (owned by MKL Instruments since 2007) on August 11. Terms were not disclosed. About 35 engineering and applications personnel will be joining Rudolph's Data Analysis and Review business unit.

IPO / Financing News:

BT Imaging raised \$3.8m Series A funding from existing investors Allen & Buckeridge and Uniseed and new investor Applied Ventures, the VC arm of Applied Materials. BT Imaging manufactures visual inspection systems for the photovoltaic manufacturing industry.

Ciespace received \$4m in Series A funding from new investors Arch Venture Partners and the University of Tokyo. Ciespace will use the proceeds to advance its innovative 3D digital modeling platform. Ciespace was founded in 2004 and is based in Pittsburgh PA.

Tech Valley Communications secured financing from Riverside Partners in July. Tech Valley operates 440 route moles of fiber optic network connecting 450+ commercial office buildings serving more than 900 customers in the Tech Valley Region of Upstate New York. The acquisition activity in the broadband fiber space, with successful exits for PEG investors is sure to attract venture money to the smaller companies like Tech Valley.

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