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Update on CO2 Laser Market

Richardson's sales into the CO2 laser tube market remain a compelling subplot of the company's growth prognosis. In our 2/24/12 update we provided an informational review of this market.

Richardson tube and consumable sales into the CO2 laser market grew 31% YOY in FY12 to \$19 million. This represents 12% of total sales and 17% of EDG sales. Please recall that Germany-based Trumpf is the world's largest supplier of CO2 laser systems with a worldwide installed base of approximately 20,000 lasers. Richardson is the company's largest replacement tube supplier. We believe the performance of Trumpf's laser division is a viable proxy for Richardson's future CO2 laser tube sales.

Trumpf has been recovering strongly from the Great Financial Crisis. The company reported YOY sales growth of 51% for 6/30/11 and recently 15% YOY growth for 6/30/12. Its FY12 sales were the highest in company history. The replacement cycle for CO2 laser tubes is 2-3 years so this should bode well for Richardson in the coming quarters since Trumpf's recovery began in early 2010.

The CO2 laser industry has been consistently exceeding expectations. The *Industrial Laser Solutions* periodical is forecasting 5% growth for the laser market in 2012 while some more optimistic players in the industry are forecasting double-digit growth.

While slowdowns in Europe and China are legitimate risk factors for the CO2 laser industry, this is countered by strength in the U.S. industrial sector. The companies within this sector typically enjoy high cash balances and have been investing heavily in automation. CO2 laser systems offer productivity advantages with limited employee hiring, features which are ideal in this type of economic recovery. The U.S. auto industry has been a strong vertical market for CO2 laser systems.

Industrial-lasers.com estimates that there are presently about 3,000 industrial lasers installed at global auto plants for welding and cutting operations. It is generally believed that laser penetration remains relatively small in the auto industry. Most notably, there has been a recent uptick in roof-to-side wall joining applications.

While there are competing laser systems to CO2 including fiber, direct diode, and disk, Trumpf reported in 2011 that CO2 laser unit sales grew more than any other type.

China represents an area of potential significant upside for laser adoption as its use remains more limited there. Additionally, there is a dearth of technical expertise in the region. Despite China's recent slowing, lasers are beginning to garner more attention as a counter to rising labor costs.

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