

**IN THE SUPERIOR COURT OF THE STATE OF CALIFORNIA  
FOR THE COUNTY OF SANTA CLARA**

CAPITAL PARTNERS, on Behalf of Itself and All Others  
Similarly Situated,

Plaintiff,

v.

DR. MALCOLM J. THOMPSON, JEFFREY A.  
HAWTHORNE, TERRY H. CARLITZ, DONALD C.  
FRASER, EDWARD ROGAS, JR., CURTIS S. WOZNIAK,  
PHOTON DYNAMICS, INC. and ORBOTECH, LTD.

Defendants.

CASE NO. 08-cv-118315

**NOTICE OF PENDENCY AND PROPOSED SETTLEMENT OF CLASS ACTION**

**TO: ALL PERSONS WHO OWNED COMMON STOCK OF PHOTON DYNAMICS, INC. AT ANY TIME FROM JUNE 26, 2008 THROUGH AND INCLUDING OCTOBER 2, 2008**

This Notice has been sent to you pursuant to an order of the Santa Clara County Superior Court (the "Court"). The purpose of this Notice is to inform you of the proposed settlement of this class action litigation and of the hearing to be held by the Court to consider the fairness, reasonableness, and adequacy of the settlement. This Notice describes the rights you may have in connection with the settlement and what steps you may, but are not required to, take in relation to the settlement and this class action litigation.

**This Notice is not an expression of any opinion by the Court about the merits of any of the claims or defenses asserted by any party in this Action or the fairness or adequacy of the proposed settlement.**

**I. THE LITIGATION**

On June 26, 2008, Photon Dynamics, Inc. ("Photon Dynamics") and Orbotech, Ltd. ("Orbotech") announced that they had signed a definitive agreement for Orbotech to acquire Photon Dynamics for \$15.60 per share in cash.

On July 25, 2008, Plaintiff Capital Partners filed a complaint in the Superior Court of California, County of Santa Clara, on behalf of all holders of Photon Dynamics' common stock, and naming as defendants Photon Dynamics, the members of its board of directors and Orbotech (the "Action").

The Action sought equitable relief based on allegations that the conduct of the Defendants in connection with the Acquisition constituted a breach of their fiduciary duties and, in particular, their duty to make all material and necessary disclosures to shareholders in conjunction with seeking shareholder approval of the Acquisition.

Plaintiff and its counsel have conducted an extensive investigation and discovery regarding Plaintiff's claims for injunctive relief. Plaintiff also engaged in substantial arm's-length negotiations with Defendants regarding a possible resolution of the Action. As a result of these negotiations, the parties entered into an agreement to resolve the Action, pursuant to which Photon Dynamics made seven of the eight additional disclosures to Photon Dynamics' shareholders that were sought by Plaintiff's complaint.

The settlement set forth herein reflects the results of the parties' negotiations and the terms of the agreement to resolve the Action. An agreement to resolve the Action was reached only after extensive discovery including (i) the production of thousands of pages of documents by the Photon Dynamics Defendants and their financial advisor, and (ii) the depositions of Dr. Malcolm J. Thompson, Chairman of the Board of Photon Dynamics, Jeffrey A. Hawthorne, Chief Executive Officer of Photon Dynamics, and Jason DiLullo, a Managing Director and Co-Head of Technology M&A of Credit Suisse Securities (USA) LLC, Photon Dynamics' financial advisor, and arm's-length negotiations between the parties who were all represented by counsel with extensive experience and expertise in shareholder class action litigation. During the negotiations, all parties had a clear view of the strengths and weaknesses of their respective claims and defenses. Plaintiff and its counsel have concluded that the additional disclosures provided Photon Dynamics' shareholders with information sufficient to cast an informed vote on the Acquisition and therefore that the settlement is in the best interest of the Settlement Class.

**II. TERMS OF THE PROPOSED SETTLEMENT**

1. As a direct result of the prosecution of the Action, the desire to settle and the settlement negotiations between the Parties, Photon Dynamics supplemented the disclosures in its Proxy via filing an Amended Schedule 14A with the SEC on or about August 28, 2008 containing the following additional disclosures insisted upon by Plaintiff:

- (i) Additional information concerning the projections for calendar year 2010.
- (ii) Information regarding the fact that Credit Suisse has not provided investment banking services to Orbotech or its affiliates in the past two years.

- (iii) Information regarding the basis upon which Credit Suisse arrived at the price range of \$16.50 to \$17.00 per share that Credit Suisse indicated to Orbotech was an “appropriate basis to continue negotiations” regarding a sale of Photon Dynamics to Orbotech.
- (iv) With regard to Credit Suisse’s *Discounted Cash Flow Analysis*, the methodology Credit Suisse used to arrive at (a) discount rates of 12.0% to 16.0% that it used for this analysis and (b) the after taxes multiples of 12.0x to 20.0x that it used for this analysis.
- (v) With regard to Credit Suisse’s *Selected Companies Analysis*, (a) the criteria Credit Suisse used to select the companies it reviewed for this analysis, and (b) the range of selected multiples that Credit Suisse derived from this analysis and applied to derive the implied estimated per share equity reference ranges.
- (vi) With regard to Credit Suisse’s *Selected Transactions Analysis*, (a) the criteria Credit Suisse used to select the transactions it reviewed for this analysis, and (b) the range of selected multiples that Credit Suisse derived from this analysis and applied to derive the implied estimated per share equity reference ranges.
- (vii) Information regarding the employee-related closing condition in the merger agreement that Orbotech advised the Company that it would agree to forego.

2. Without admitting wrongdoing of any kind, Defendants acknowledge that the pendency and prosecution of the Action, the costs of defending the Action, and their desire to settle the Action were the sole factors causing them to make the additional disclosures referred to herein.

3. Defendants have also agreed to resolve the claim of Plaintiff’s counsel for attorneys’ fees and reimbursement of expenses. Rather than requiring that you or the other Settlement Class Members pay these fees, Defendants agreed to pay Plaintiff’s counsel the lower of (x) \$360,000.00, or (y) such other amount of attorneys’ fees and expenses that is approved by the Court (as modified on any appeal that may properly be taken). This amount will not be paid out of amounts that would otherwise have been paid to Photon Dynamics’ public stockholders.

4. The Parties agree, for purposes of this settlement only, to the certification of a Settlement Class under §382 of the California Code of Civil Procedure.

**III. REASONS FOR THE SETTLEMENT**

Plaintiff believes that the claims asserted in the Action have merit. However, Plaintiff’s Counsel recognize and acknowledge that shareholders have voted to sell the Company with all material and necessary information having been disclosed to them. Based on their evaluation, Plaintiff’s Counsel have determined that the settlement set forth in the Stipulation is in the best interests of the Plaintiff and the Settlement Class.

The Defendants have denied and continue to deny each and all of the claims and contentions alleged by Plaintiff in the Action, as set forth in the Stipulation. Nonetheless, the Defendants have concluded that further litigation could be protracted and expensive, and that it is desirable that the Action be fully and finally settled in the manner and upon the terms and conditions set forth in the Stipulation. Defendants also have taken into account the uncertainty and risks inherent in any litigation, especially in complex cases like this Action. The Defendants have, therefore, determined that it is desirable and beneficial to them that the Action be settled in the manner and upon the terms and conditions set forth in the Stipulation.

**IV. NOTICE OF HEARING ON PROPOSED SETTLEMENT**

A settlement hearing will be held on January 23, 2009, at 9:00 a.m., before the Honorable Joseph H. Huber, Superior Court Judge, at the Santa Clara County Superior Court, Downtown Superior Court, 191 North First Street, Department 8, San Jose, California 95113 (the “Settlement Hearing”). The purpose of the Settlement Hearing will be to determine: (a) whether the settlement should be approved as fair, reasonable and adequate; and (b) whether the Final Order and Judgment should be entered. The Court may adjourn or continue the Settlement Hearing without further notice of any kind.

**V. DEFINITIONS USED IN THIS NOTICE**

a. “Acquisition” means the transaction whereby Orbotech, Ltd. acquired Photon Dynamics, Inc. for \$15.60 per share in cash (the “Acquisition”).

b. “Action” means the action captioned *Capital Partners v. Thompson, et. al.*, Case # 08-cv-118315, pending in the Superior Court of the State of California, Santa Clara County.

c. “Defendants” means, individually and collectively, Photon Dynamics, Malcolm J. Thompson, Jeffrey A. Hawthorne, Terry H. Carlitz, Donald C. Fraser, Edward Rogas, Jr., Curtis S. Wozniak and Orbotech.

d. “Defendants’ Counsel” means the law firms of Davis, Polk & Wardwell, 1600 El Camino Real, Menlo Park, California 94025, and Cravath, Swaine & Moore LLP, Worldwide Plaza, 825 Eighth Avenue, New York, New York 10019.

e. “Final Court Approval” means that the Court in the Action has entered an order approving the Settlement and that

such order is finally affirmed on appeal or is no longer subject to appeal and the time for any petition for reargument, appeal or review, by certiorari or otherwise, has expired.

- f. "Final Order and Judgment" means the judgment by the Court approving the proposed Settlement.
- g. "Orbotech" means Orbotech, Ltd. and its predecessors, successors, parents, subsidiaries, divisions and affiliates.
- h. "Parties" means, collectively, each of the Defendants and Plaintiff on behalf of itself and the members of the Settlement Class.
- i. "Photon Dynamics" means Photon Dynamics, Inc. and its predecessors, successors, parents, subsidiaries, divisions and affiliates.
- j. "Plaintiff" means Capital Partners and its individual partners, principals, associates and/or employees, as well as its predecessors, successors, parents, subsidiaries, divisions and affiliates.
- k. "Plaintiff's Counsel" means The Brualdi Law Firm P.C., 29 Broadway, Suite 2400, New York, New York 10006, and Hulett Harper Stewart LLP, 550 West C Street, Suite 1600, San Diego, California 92101, and any partners, principals, associates or employees of the above.
- l. "Released Parties" means Photon Dynamics, Dr. Malcolm J. Thompson, Jeffrey A. Hawthorne, Terry H. Carlitz, Donald C. Fraser, Edward Rogas, Jr., Curtis S. Wozniak, Orbotech, and all of their present or past heirs, executors, estates, administrators, predecessors, successors, assigns, parents, subsidiaries, associates, affiliates, employers, employees, agents, consultants, insurers, directors, managing directors, officers, partners, principals, members, attorneys, accountants, financial and other advisors, investment bankers, underwriters, lenders, and any other representatives of any of these persons or entities.
- m. "Released Claims" means all claims, demands, rights, liabilities and causes of action of every description whatever, whether in contract, tort, equity or otherwise, whether known or unknown, whether or not concealed or hidden, that were asserted or might have been asserted in this or any other forum or proceeding in the United States or in any other country, including without limitation claims for negligence, gross negligence, indemnification, breach of duty of care, breach of duty of loyalty, fraud, misrepresentation, breach of fiduciary duty, breach of duty of disclosure, negligent misrepresentation, mismanagement, corporate waste or breach of contract (or aiding and abetting any of the foregoing), against the Defendants and their corresponding Released Parties, by or on behalf of Plaintiff, the Settlement Class, any member of the Settlement Class, or any heir, executor, administrator, representative, agent, successor, transferee or assign of the foregoing acting in their capacity as such (including, without limitation, any claims, whether direct, derivative, representative or in any other capacity, arising under federal, state, local, statutory or common law or any other law, rule or regulation, including the law of any jurisdiction outside of the United States) that are based upon or relate in any way to any violation of state, federal or any foreign country's securities laws, any misstatement or omission, any breach of duty, any negligence or fraud (or any other alleged wrongdoing or misconduct) **and** relating in any way to the Merger; any other claims relating to the Merger, the fiduciary and other duties owed to shareholders of Photon Dynamics in connection therewith, Defendants' disclosure obligations under federal, state or any other law (including the law of any jurisdiction outside of the United States) in connection with the Merger, and any other claim (other than claims for appraisal) related in any way to any of the foregoing. Claims by shareholders for appraisal of their shares pursuant to California law and claims to enforce the Settlement are excluded from this release. Claims belonging to the Defendants against their insurers are also excluded from this release.
- n. "Settlement Class" and "Settlement Class Member" means, for purposes of settlement only, under §382 of the California Code of Civil Procedure, a class consisting of all persons or entities who owned Photon Dynamics common stock on June 26, 2008, and all of their successors in interest and transferees, immediate and remote, through and including October 2, 2008, but not Defendants and persons or entities related to or affiliated with Defendants.
- o. "Settlement Hearing" means the final hearing to be held by the Superior Court to determine whether the Settlement should be approved as fair, reasonable and adequate.
- p. "Unknown Claims" means claims that Defendants, Plaintiff, any or all members of the Settlement Class, and any or all other persons and entities whose claims are being released, do not know or suspect to exist, which, if known by him, her or it, might affect his, her or its agreement to release the Released Parties, the Released Claims or Defendants' Claims, or might affect his, her or its decision to object or not to object to the Settlement.

## **VI. ORDER CONDITIONALLY CERTIFYING A SETTLEMENT CLASS FOR PURPOSES OF SETTLEMENT**

On November 25, 2008, the Court conditionally certified the Settlement Class for purposes of settlement as defined above.

## **VII. DISMISSAL AND RELEASES**

If the proposed settlement is approved, the Court will enter the Final Order and Judgment. The Final Order and Judgment will release the Released Claims as to the Defendants and the Released Parties.

The Final Order and Judgment will provide that all Settlement Class Members shall be deemed to have released and forever discharged all Released Claims against all Released Persons, and will be barred from asserting any of the Released Claims in the future, unless the settlement is canceled or terminated pursuant to the terms of the Stipulation.

**VIII. CONDITIONS FOR SETTLEMENT**

The settlement is conditioned upon the occurrence of certain events. Those events include, among other things:

(a) Final Court Approval of the Settlement and entry of the Final Order and Judgment.

(b) The Final Order and Judgment becoming final, which shall occur one business day following the later of the following events: (i) the date upon which the time expires for filing or noticing any appeal of the Final Order and Judgment and (ii) if there is an appeal or appeals, the completion, in a manner that affirms and leaves in place the Final Order and Judgment without any material modification, of all proceedings arising out of the appeal or appeals (including, but not limited to, the expiration of all deadlines for motions for reconsideration, all proceedings ordered on remand, and all proceedings arising out of any subsequent appeal or appeals following decisions on remand); and

(c) The closing of the Acquisition.

If, for any reason, any one of the conditions described in the Stipulation is not met, the Stipulation might be terminated and, if terminated, will become null and void, and the parties to the Stipulation will be restored to their respective positions prior to the settlement.

**IX. THE RIGHT TO BE HEARD AT THE HEARING**

Any Settlement Class Member may, but is not required to, enter an appearance in the Action and be represented by counsel of his, her or its choice and at his, her or its expense. Any Settlement Class Member who does not enter an appearance will be represented by the attorneys for the Plaintiffs listed below. Any Settlement Class Member who objects to any aspect of the settlement may appear and be heard at the Settlement Hearing. However, a class member may object without appearing at the Final Approval Hearing. Any such Person must submit a written notice of objection, mailed or hand delivered such that it is **received** on or before January 9, 2009, by **each** of the following:

**CLERK OF THE COURT**

Santa Clara County Superior Court  
Downtown Superior Court  
191 North First Street, Department 8  
San Jose, California 95113

*Counsel for Plaintiff:*

THE BRUALDI LAW FIRM, P.C.  
RICHARD B. BRUALDI  
29 Broadway, Suite 2400  
New York, New York 10006

*Attorneys for Defendants:*

DAVIS, POLK & WARDWELL  
NEAL A. POTISCHMAN  
1600 El Camino Real  
Menlo Park, California 94025

Cravath, Swaine & Moore LLP  
GARY A. BORNSTEIN  
Worldwide Plaza  
825 Eighth Avenue  
New York, New York 10019

The notice of objection must demonstrate the objecting Person's membership in the Settlement Class, and contain a statement of the reasons for objection. Only Members of the Settlement Class who have submitted written notices of objection in this manner will be entitled to be heard at the Settlement Hearing, unless the Court orders otherwise.

**X. NOTICE TO PERSONS OR ENTITIES HOLDING RECORD OWNERSHIP ON BEHALF OF OTHERS**

Nominees who held Photon Dynamics' common stock at any time between June 26, 2008, through and including October 2, 2008, the date of the closing of the Acquisition, for the beneficial ownership of another shall, within five (5) days after receipt of this Notice, either mail this Notice to all such beneficial owners of such stock or provide a list of the names and addresses of such beneficial owners to The Garden City Group, Inc., P.O. Box 9000 #6508, Merrick, New York 11566-9000. Additional copies of this Notice for transmittal to beneficial owners are available on written request directed to The Garden City Group, Inc. at the same address.

**XI. EXAMINATION OF PAPERS**

This Notice is a summary and does not describe all of the details of the Stipulation. For full details of the matters discussed in this Notice, you may desire to review the Stipulation filed with the Court, which may be inspected during business hours, at the office of the Clerk of the Court, Santa Clara County Superior Court, Downtown Superior Court, 191 North First Street, Department 8, San Jose, California 95113. For further information regarding this settlement you may contact: The Brualdi Law Firm, P.C., c/o Shareholder Relations, 29 Broadway, Suite 2400, New York, New York 10006, Telephone: 1-(877) 495-1187.

**PLEASE DO NOT TELEPHONE THE COURT OR THE CLERK'S OFFICE REGARDING THIS NOTICE.**

DATED: December 3, 2008

BY ORDER OF THE COURT  
STATE OF CALIFORNIA  
COUNTY OF SANTA CLARA