COHERENT INC
Form 10-Q/A
May 10, 2002

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

(Mark One)

ý **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the Quarterly Period Ended March 30, 2002

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ____________ to ____________

Commission File Number: 0-5255

COHERENT, INC.

Delaware	**94-1622541**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5100 Patrick Henry Drive, Santa Clara, California 95054
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(408) 764-4000**

Securities registered pursuant to Section 12(b) of the Act:

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

APPLICABLE ONLY TO ISSUERS INVOLVED
IN BANKRUPTCY PROCEEDING DURING
THE PRECEDING FIVE YEARS

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15 (d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. Yes o No o

APPLICABLE ONLY TO CORPORATE ISSUES:

The number of shares outstanding of registrant's common stock, par value $.01 per share, at April 23, 2002 was 28,876,996 shares.

COHERENT, INC.

INTRODUCTORY NOTE

This Amendment to the Registrant's Quarterly Report on Form 10-Q, as filed by the registrant on May 8, 2002, is being filed to (1) amend the Consolidated Condensed Statements of Income included in Part I Item I for a typographical error, (2) amend the Equity Price Risk disclosures in Part I Item 3 for a typographical error and (3) to file a material contract as Exhibit 10.12 in Part II Item 6.

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PART I. FINANCIAL INFORMATION

Item I. Financial Statements

COHERENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(*Unaudited; in thousands, except per share data)*

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	March 30, 2002	March 31, 2001	March 30, 2002	March 31, 2001
NET SALES	**$ 98,649**	$ 129,603	**$ 195,268**	$ 241,532
COST OF SALES	**58,657**	71,741	**113,256**	132,206
GROSS PROFIT	**39,992**	57,862	**82,012**	109,326
OPERATING EXPENSES:				
Research and development	**13,616**	13,257	**27,544**	24,412
Selling, general and administrative	**23,306**	27,540	**46,025**	53,192
Intangibles amortization	**898**	784	**1,806**	1,552
TOTAL OPERATING EXPENSES	**37,820**	41,581	**75,375**	79,156
INCOME FROM OPERATIONS	**2,172**	16,281	**6,637**	30,170
OTHER INCOME (EXPENSE):				
Interest and dividend income	**2,071**	3,340	**4,409**	7,560
Interest expense	**(1,411)**	(1,262)	**(2,899)**	(2,589)
Foreign exchange gain (loss)	**77**	(47)	**(471)**	(314)
Other-net	**2,018**	1,089	**1,498**	1,528
TOTAL OTHER INCOME (EXPENSE), NET	**2,755**	3,120	**2,537**	6,185
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND MINORITY INTEREST	**4,927**	19,401	**9,174**	36,355
PROVISION FOR INCOME TAXES	**1,684**	6,527	**3,056**	12,283
INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTEREST	**3,243**	12,874	**6,118**	24,072
MINORITY INTEREST IN SUBSIDIARIES EARNINGS	**(236)**	(1,605)	**(381)**	(3,017)
INCOME FROM CONTINUING OPERATIONS	**3,007**	11,269	**5,737**	21,055
DISCONTINUED OPERATIONS (NET OF INCOME TAXES OF $1,522 and $3,031)		3,384		5,697
INCOME BEFORE ACCOUNTING CHANGES	**3,007**	14,653	**5,737**	26,752
CUMULATIVE EFFECT OF ACCOUNTING CHANGES (NET OF INCOME TAXES OF $36)				54
NET INCOME	**$ 3,007**	$ 14,653	**$ 5,737**	$ 26,806
NET INCOME PER BASIC SHARE:				
Income from continuing operations	**$ 0.10**	$ 0.41	**$ 0.20**	$ 0.77
Income from discontinued operations, net of income taxes		0.12		0.21
Cumulative effect of accounting changes				

	THREE MONTHS ENDED		SIX MONTHS ENDED	
Net Income	**$ 0.10**	$ 0.53	**$ 0.20**	$ 0.98
NET INCOME PER DILUTED SHARE:				
Income from continuing operations	**$ 0.10**	$ 0.39	**$ 0.20**	$ 0.74
Income from discontinued operations, net of income taxes		0.12		0.20
Cumulative effect of accounting changes				
Net Income	**$ 0.10**	$ 0.51	**$ 0.20**	$ 0.94
SHARES USED IN COMPUTATION:				
Basic	**28,684**	27,397	**28,598**	27,313
Diluted	**29,268**	28,736	**29,174**	28,636

See Accompanying Notes to Condensed Consolidated Financial Statements

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COHERENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited; in thousands, except par value)

	March 30, 2002	September 29, 2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	**$ 89,034**	$ 77,409
Short-term investments	**204,083**	258,414
Accounts receivable net of allowances of $5,324 (2002) and $4,794 (2001)	**75,807**	90,688
Inventories	**99,795**	107,980
Prepaid expenses and other assets	**28,940**	24,120
Deferred tax assets	**29,060**	25,826
TOTAL CURRENT ASSETS	**526,719**	584,437
PROPERTY AND EQUIPMENT	**266,409**	251,318
ACCUMULATED DEPRECIATION AND AMORTIZATION	**(91,493)**	(82,782)
Property and equipment net	**174,916**	168,536
GOODWILL net of accumulated amortization of $10,644 (2002) and $14,660 (2001)	**31,530**	31,329
OTHER ASSETS	**104,094**	90,215
	$ 837,259	$ 874,517
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Short-term borrowings	**$ 21,495**	$ 21,545

	March 30, 2002	September 29, 2001
Current portion of long-term obligations	**7,809**	10,020
Accounts payable	**15,808**	18,002
Income taxes payable	**3,599**	4,322
Other current liabilities	**51,522**	61,710
TOTAL CURRENT LIABILITIES	**100,233**	115,599
LONG-TERM OBLIGATIONS	**55,935**	58,159
OTHER LONG-TERM LIABILITIES	**56,121**	53,097
MINORITY INTEREST IN SUBSIDIARIES	**51,347**	49,367
STOCKHOLDERS' EQUITY:		
Common stock, par value $.01:		
Authorized 500,000 shares		
Outstanding 28,783 shares (2002) and 28,426 shares (2001)	**286**	283
Additional paid-in capital	**278,967**	270,873
Notes receivable from stock sales	**(1,545)**	(861)
Accumulated other comprehensive loss	**(51,247)**	(13,425)
Retained earnings	**347,162**	341,425
TOTAL STOCKHOLDERS' EQUITY	**573,623**	598,295
	$ 837,259	$ 874,517

See Accompanying Notes to Condensed Consolidated Financial Statements.

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COHERENT, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in thousands)

	SIX MONTHS ENDED	
	March 30, 2002	March 31, 2001
CASH FLOWS FROM CONTINUING OPERATING ACTIVITIES:		
Income from continuing operations after accounting changes	**$ 5,737**	$ 21,109
Adjustments to reconcile income from continuing operations after accounting changes to net cash provided by continuing operating activities:		
Purchases of short-term trading investments	**(76,728)**	(123,480)
Proceeds from sales of short-term trading investments	**82,278**	113,843
Cumulative effect of accounting changes		(54)
Depreciation and amortization	**11,214**	8,731
Intangibles amortization	**1,806**	1,552
Other adjustments	**774**	4,991
Changes in operating assets and liabilities	**2,314**	(13,464)

	SIX MONTHS ENDED	
Net Cash Provided By Continuing Operating Activities	**27,395**	13,228
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment, net	**(19,873)**	(49,122)
Purchases of available-for-sale securities		(34,562)
Proceeds from sales of available-for-sale securities		487
Acquisition of businesses, net of cash acquired		(27,052)
Other net	**52**	1,357
Net Cash Used For Investing Activities	**(19,821)**	(108,892)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Long-term debt borrowings	**10**	25
Long-term debt payments	**(4,215)**	(1,042)
Short-term borrowings	**4,762**	24,444
Short-term repayments	**(3,987)**	(7,721)
Cash overdrafts	**1,662**	(4,737)
Sales of shares under employee stock plans	**6,324**	6,259
Collection of notes receivable from stock sales	**66**	433
Net Cash Provided By Financing Activities	**4,622**	17,661
Net Cash Provided By Discontinued Operations		3,828
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(571)**	2,112
Net increase (decrease) in cash and cash equivalents	**11,625**	(72,063)
Cash and cash equivalents, beginning of period	**77,409**	156,521
CASH AND CASH EQUIVALENTS, END OF PERIOD	**$ 89,034**	$ 84,458
NONCASH INVESTING AND FINANCING ACTIVITIES:		
Issuance of notes related to sale of common stock	**$ 750**	$ 230

See Accompanying Notes to Condensed Consolidated Financial Statements

COHERENT, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1.

The accompanying condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), consistent with those reflected in our Annual Report to stockholders on Form 10-K for the year ended September 29, 2001. All adjustments necessary for a fair presentation have been made which comprise only of normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year.

Certain prior period amounts have been reclassified to conform to the current period presentation. Such reclassification had no impact on net income or stockholders' equity for any period presented.

2.

On February 25, 2001, we entered into a definitive agreement to sell our Medical segment to Lumenis, Inc. (formerly ESC Medical Systems Ltd.) and on April 30, 2001, we completed the sale of the Medical segment assets for cash of $100.0 million, notes receivable of $12.9 million and 5,432,099 shares of Lumenis common stock. We estimated the total value of this consideration as $236.0 million. The agreement provides additional cash consideration up to $6.0 million if the actual net tangible assets sold are more than a predetermined amount and a note receivable reduction if the actual net tangible assets sold are less than a predetermined amount. In addition, the agreement provides a future earnout payment of up to $25.0 million based on the future sales of certain Medical laser and light-based products through December 31, 2004.

The face value of the note received is $12.9 million, bearing interest of 5% payable semi-annually over its 18 month term. At April 30, 2001, we recorded the note at its fair value of $11.6 million and are amortizing the discount to interest income over the term of the note. The Lumenis common stock received is unregistered and its trading is subject to restrictions under Securities and Exchange Commission Rule 144 and other restrictions as defined in the definitive agreement. At April 30, 2001, we estimated the value of the Lumenis stock at $124.4 million. (See Note 3 regarding current estimated value.)

The disposal of the Medical segment represents the disposal of a business segment under Accounting Principles Board Opinion No. 30 "Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." Accordingly, results of the operations of the Medical segment have been classified as discontinued and prior periods have been reclassified on this basis.

3.

All highly liquid investments with a remaining maturity of three months or less at time of purchase are considered to be cash equivalents and are classified as trading. Marketable short-term investments in debt securities are generally classified and accounted for as trading securities. Marketable short-term investments in equity securities are generally classified and accounted for as available-for-sale. Management determines the appropriate classification of debt and equity securities at the time of purchase. Investments in debt and equity securities classified as trading are reported at fair value, with unrealized gains and losses included in earnings. Instruments classified as available-for-sale are reported at fair value with unrealized gains and losses, net of related tax, recorded as a separate component of comprehensive income (loss) in stockholders' equity until realized. Interest and amortization of premiums and discounts for debt securities are included in interest income. Gains and losses on securities sold are determined based on the specific identification method and are included in other income (expense).

As of March 30, 2002, our entire debt securities balance of $143.8 million was classified as trading securities and included in short-term investments on our consolidated balance sheet. As of

September 29, 2001, $40.3 million of debt securities were included in cash and cash equivalents and $149.3 million of debt securities were classified as trading and included in short-term investments on our consolidated balance sheet.

As of March 30, 2002 and September 29, 2001, we had marketable equity securities with an aggregate market value of $60.3 million and $109.1 million, respectively, classified as short-term investments on our consolidated balance sheet. As of March 30, 2002 and September 29, 2001, an unrealized loss of $42.3 million (net of the related tax effect of $21.8 million) and $10.1 million (net of the related tax effect of $5.2 million), respectively, related to these equity securities was included in accumulated comprehensive income (loss). The investments in marketable equity securities at March 30, 2002 and September 29, 2001 represent the fair value of our investment (5,432,099 shares) in Lumenis common stock. The Lumenis common stock received is unregistered and its trading is subject to restrictions under Securities and Exchange Commission Rule 144 and other restrictions as defined in the definitive agreement.

4.

Effective October 1, 2000, we adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities," (SFAS 133) as amended. The statement requires that all derivatives, whether designated in hedging relationships or not, be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of the changes in the fair value of the derivative are recorded in other comprehensive income (OCI) and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in other income (expense).

The transition adjustment to implement SFAS 133 on October 1, 2000, which is presented as a cumulative effect of change in accounting principle, increased earnings by $166,000 (net of income taxes of $94,000) and decreased OCI by $275,000 (net of income taxes of $150,000). The net derivative losses included in OCI as of October 1, 2000 were comprised of hedges on backlog that were reclassified into earnings during the twelve months ended September 29, 2001 and a hedge related to a building purchase option which will be amortized into earnings through December 2020.

Our objectives of holding derivatives are to minimize the risks of foreign currency fluctuation by using the most effective methods to eliminate or reduce the impact of these exposures. Principal currencies hedged include the Euro, Yen and British Pound. Forwards used to hedge a portion of forecasted international revenue for up to 15 months in the future are designated as cash flow hedging instruments.

For foreign currency forward contracts under SFAS 133, hedge effectiveness is measured by comparing the cumulative change in the hedged contract with the cumulative change in the hedged item, both of which are based on forward rates. For foreign currency option contracts under SFAS 133, only the intrinsic value of the option based on spot rates is used in assessing hedge effectiveness. The time value of the option is excluded in calculating effectiveness and reported in earnings immediately. This amount was not significant for the quarter ended March 30, 2002.

The net derivative gain of $163,000 included in OCI as of March 30, 2002 will be reclassified into earnings within the next twelve months for backlog hedges and amortized into earnings through December 2020 for a hedge related to a building purchase option which was exercised in December 2000.

We entered into a loan to hedge the firm commitment to one Euro customer through June 2004. For this fair value hedge, effectiveness is measured by comparing the principal balance of the loan

against the firm commitment balance. As of March 30, 2002, the loan balance of $465,000 exceeded the firm commitment by $16,000. The effect on earnings is recorded to other income (expense) and was not significant for the quarter ended March 30, 2002.

Forwards not designated as hedging instruments under SFAS 133 are also used to hedge the impact of the variability in exchange rates on accounts receivable and collections denominated in certain foreign currencies. Changes in the fair value of these derivatives are recognized in other income (expense).

5.

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141 (SFAS 141), "Business Combinations". SFAS 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. The adoption of SFAS 141 did not have a material impact on our financial position, results of operations or cash flows.

Effective September 30, 2001 we adopted SFAS No. 142, "Goodwill and Other Intangible Assets" which establishes new standards for goodwill acquired in a business combination and other intangible assets, eliminates amortization of existing goodwill balances, and requires annual evaluation of goodwill for impairment. SFAS 142 was effective for fiscal years beginning after December 15, 2001, with early adoption allowed for companies with fiscal years beginning after March 15, 2001. Upon adoption of SFAS 142, we stopped the amortization of goodwill with a net carrying value of $32.1 million at September 29, 2001 and annual amortization of $4.1 million, including amortization resulting from the acquisitions of Crystal Associates, Inc. in November 2000 and DeMaria Electro-Optics Systems, Inc. and MicroLas Laser System GmbH in April 2001, that resulted from business combinations initiated prior to the adoption of SFAS 141, "Business Combinations".

Under SFAS 142, material amounts of goodwill attributable to each of our reporting units were tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value was determined using a discounted cash flow methodology. These impairment tests are required to be performed at adoption and at least annually thereafter. On an ongoing basis (absent any impairment indicators), we expect to perform our impairment tests during the fourth quarter, in conjunction with our annual budgeting process.

As part of our adoption of SFAS 142, we completed the initial impairment tests during the second quarter of fiscal 2002 and these tests resulted in no impairment. The carrying amount of goodwill attributable to each reportable segment is as follows (in thousands):

	March 30, 2002	September 29, 2001
Lambda Physik	$ 20,618	$ 20,618
Electro-Optics	10,912	10,711
	$ 31,530	$ 31,329

Actual results of operations for the three and six month periods ended March 30, 2002 and March 31, 2001 adjusted to apply the non-amortization provisions of SFAS 142 in those periods follow (in thousands):

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	March 30, 2002	**March 31, 2001**	**March 30, 2002**	**March 31, 2001**
Reported net income	**$ 3,007**	$ 14,653	**$ 5,737**	$ 26,806
Add: goodwill amortization, net of tax		281		595
Adjusted net income	**$ 3,007**	$ 14,934	**$ 5,737**	$ 27,401
Basic earnings per share:				
Reported net income	**$ 0.10**	$ 0.53	**$ 0.20**	$ 0.98
Add: goodwill amortization, net of tax		0.01		0.02
Adjusted net income	**$ 0.10**	$ 0.54	**$ 0.20**	$ 1.00
Diluted earnings per share:				
Reported net income	**$ 0.10**	$ 0.51	**$ 0.20**	$ 0.94
Add: goodwill amortization, net of tax		0.01		0.02
Adjusted net income	**$ 0.10**	$ 0.52	**$ 0.20**	$ 0.96

In connection with adopting SFAS 142, we also reassessed the useful lives and the classification of our identifiable intangible assets and determined that they continued to be appropriate except for workforce-in-place with a net carrying value of $0.8 million which was reclassified into goodwill. The components of our amortizable intangible assets are as follows (in thousands):

	March 30, 2002		September 29, 2001	
	Gross Carrying Amount	**Accumulated Amortization**	**Gross Carrying Amount**	**Accumulated Amortization**
Acquired existing technology	$ 19,604	$ 2,393	$ 19,604	$ 1,570
Patents	6,212	1,214	6,490	983
Licenses	4,261	2,983	4,661	3,168
Drawings	854	157	892	74
Order backlog	842	746	880	460
Customer lists	630	227	630	131
Other	49	18	500	467
Workforce			1,053	252

	March 30, 2002		September 29, 2001	
	$ 32,452	$ 7,738	$ 34,710	$ 7,105

Amortization expense for intangible assets during the second quarter of fiscal 2002 was $0.9 million ($1.8 million year-to-date). Estimated amortization expense for the remainder of fiscal 2002 and the five succeeding fiscal years follows (in thousands):

	Estimated Amortization Expense
2002 (remainder)	$ 1,598
2003	3,008
2004	2,909
2005	2,582
2006	2,159
2007	$ 1,882

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes

SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," it retains many of the fundamental provisions of SFAS No. 121. SFAS No. 144 also supersedes the accounting and reporting provisions of APB No. 30, "Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. However, it retains the requirement in APB No. 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Companies are required to adopt SFAS 144 for fiscal years beginning after December 15, 2001, but early adoption is permitted. We expect to adopt SFAS 144 as of October 1, 2002. We have not yet determined the impact this standard will have on our operating results and financial position.

6.

The components of comprehensive income (loss), net of income taxes, are as follows (in thousands):

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	March 30, 2002	March 31, 2001	March 30, 2002	March 31, 2001
Net income	$ 3,007	$ 14,653	$ 5,737	$ 26,806
Cumulative effect of accounting change (See Note 4)				(275)
Translation adjustment	(1,846)	(4,881)	(5,777)	(1,340)
Net gain (loss) on derivative instruments	68	(453)	116	633
Changes in unrealized loss on available-for-sale securities	(26,793)	(1,073)	(32,161)	(1,154)
Total comprehensive income (loss)	$ (25,564)	$ 8,246	$ (32,085)	$ 24,670

The following summarizes activity in accumulated other comprehensive income (OCI) related to derivatives, net of income taxes, held by us (in thousands):

Balance, September 30, 2000	$	
Cumulative effect of adopting SFAS 133		(275)
Changes in fair value of derivatives		1,158
Net gains reclassified from OCI		(525)
Balance, March 31, 2001	$	358
Balance, September 29, 2001	$	47
Changes in fair value of derivatives		(356)
Net gains reclassified from OCI		472
Balance, March 30, 2002	$	163

Accumulated other comprehensive loss (net of tax) at March 30, 2002 is comprised of accumulated translation adjustments of ($9,108,000), net gain on derivative instruments of $163,000 and unrealized loss on available-for-sale securities of ($42,302,000), respectively. Accumulated other comprehensive income (net of tax) at September 29, 2001 is comprised of accumulated translation adjustments of ($3,331,000), net gain on derivative instruments of $47,000 and unrealized loss on investments of ($10,141,000), respectively.

7\. Basic earnings per share is computed based on the weighted average number of shares outstanding during the period. Diluted earnings per share is computed based on the weighted average number of shares outstanding during the period increased by the effect of dilutive stock options and stock purchase contracts, using the treasury stock method, and shares issuable under the Productivity Incentive Plan.

The following table presents information necessary to calculate basic and diluted earnings per common and common equivalent share:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	March 30, 2002	**March 31, 2001**	**March 30, 2002**	**March 31, 2001**
Weighted average shares outstanding Basic	28,684	27,397	28,598	27,313
Common stock equivalents	556	1,312	551	1,301
Employee stock purchase plan equivalents	28	27	25	22
Weighted average shares and equivalents Diluted	29,268	28,736	29,174	28,636

A total of 2,255,000 and 1,231,000 anti-dilutive weighted shares have been excluded from the dilutive share equivalents calculation for the three months ended March 30, 2002 and March 31, 2001, respectively. A total of 2,311,000 and 1,266,000 anti-dilutive weighted shares have been excluded from the dilutive share equivalents calculation for the six months ended March 30, 2002 and March 31, 2001, respectively.

8\. Balance Sheet Details (in thousands):

Inventories are as follows:

	March 30, 2002	September 29, 2001
Purchased parts and assemblies	$ 36,507	$ 39,169
Work-in-process	34,863	44,494
Finished goods	28,425	24,317
Net inventories	$ 99,795	$ 107,980

Prepaid expenses and other assets consist of the following:

	March 30, 2002	September 29, 2001
Prepaid income taxes	$ 16,925	$ 9,035
Prepaid expenses and other	12,015	15,085
Prepaid expenses and other assets	$ 28,940	$ 24,120

Other assets consist of the following:

	March 30, 2002	September 29, 2001
Deferred tax assets	$ 45,213	$ 30,465
Intangible assets	24,714	27,605
Deferred compensation	17,765	15,460
Note receivable from Lumenis	11,991	11,782
Other assets	3,343	3,798
Assets held for investment	1,068	1,105
Other assets	$ 104,094	$ 90,215

Other current liabilities consist of the following:

	March 30, 2002	September 29, 2001
Accrued payroll and benefits	$ 16,283	$ 21,479
Accrued expenses and other	16,748	21,215
Reserve for warranty	10,591	11,519
Customer deposits	4,481	4,379
Deferred income	3,419	3,118
Other current liabilities	$ 51,522	$ 61,710

Other long-term liabilities consist of the following:

	March 30, 2002	September 29, 2001

Deferred tax liabilities	$	35,520	$	34,543
Deferred compensation		17,765		15,460
Deferred income and other		2,152		2,385
Environmental remediation costs		684		709
Other long-term liabilities	$	56,121	$	53,097

9.

Certain claims and lawsuits have been filed or are pending against us. In the opinion of management, all such matters have been adequately provided for, are without merit, or are of such kind that if disposed of unfavorably, would not have a material adverse effect on our consolidated financial position or results of operations.

We, along with several other companies, have been named as a party to a remedial action order issued by the California Department of Toxic Substance Control relating to soil and groundwater contamination at and in the vicinity of the Stanford Industrial Park in Palo Alto, California, where our former headquarters facility is located. The responding parties to the Regional Order (including Coherent) have completed Remedial Investigation and Feasibility Reports, which were approved by the State of California. The responding parties have installed four remedial systems and have reached agreement with responding parties on final cost sharing.

We were also named, along with other parties, to a remedial action order for the Porter Drive facility site itself in Stanford Industrial Park. The State of California has approved the Remedial Investigation Report, Feasibility Study Report, Remedial Action Plan Report and Final Remedial Action Report, prepared by us for this site. We have been operating remedial systems at the site to remove subsurface chemicals since April 1992. During fiscal 1997, we settled with the prior tenant and neighboring companies, on allocation of the cost of investigating and remediating the site at 3210 Porter Drive, Palo Alto, and the bordering site at 3300 Hillview Avenue, Palo Alto.

Management believes that our probable, nondiscounted net liability at March 30, 2002 for remaining costs associated with the above environmental matters is $0.6 million, which has been previously accrued. This amount consists of total estimated probable costs of $0.7 million ($0.1 million included in other current liabilities and $0.6 million included in other long-term liabilities) reduced by estimated minimum probable recoveries of $0.1 million included in other assets from other parties named to the order.

10.

We are organized around three separately managed business units: the Photonics Group, the Telecom-Actives Group and Lambda Physik, which we have identified as operating segments. Consistent with the guidance of SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information," we have aggregated these three operating segments into two reportable segments. The Telecom-Actives Group is aggregated with the Photonics Group in the Electro-Optics segment as they have similar economic characteristics and are similar in the following: nature of products/services, nature of production process, type/class of customer, distribution methods and nature of regulatory environment. The Electro-Optics segment focuses on markets such as semiconductor and related manufacturing, materials processing, optical telecommunications, scientific research, printing and reprographics and advanced packaging. The Lambda Physik segment focuses on markets including lasers for lithography, the production of flat panel displays, inkjet printers, fiber bragg gratings, refractive surgery, scientific research, materials processing and micromachining applications.

Our Chief Executive Officer, Chief Operating Officer and Chief Financial Officer have been identified as the chief operating decision makers (CODMs) for SFAS 131 purposes as they assess the performance of the business units and decide how to allocate resources to the business units. Pretax income from continuing operations is the measure of profit and loss that our CODMs use to assess performance and make decisions. Pretax income from continuing operations represents the sales less the cost of sales and direct operating expenses incurred within the operating segments. In addition, our corporate expenses, except for administrative costs previously allocated to our discontinued Medical segment, depreciation of corporate assets and general legal expenses, are allocated to the operating segments and are included in the results below. Corporate expenses not allocated to the groups (administrative costs previously allocated to our discontinued Medical segment, depreciation of corporate assets and general legal expenses) are included in Corporate and Other in the reconciliation of operating results. Furthermore, interest expense, interest income

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and the gain on the sale of real estate are included in Corporate and Other in the reconciliation of operating results.

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	March 30, 2002	**March 31, 2001**	**March 30, 2002**	**March 31, 2001**
Net Sales:				
Electro-Optics	**$ 76,941**	$ 95,348	**$ 150,859**	$ 178,288
Lambda Physik	**21,708**	34,255	**44,409**	63,244
Total Net Sales	**$ 98,649**	$ 129,603	**$ 195,268**	$ 241,532
Intersegment Net Sales:				
Electro-Optics	**$ 5**	$ 320	**$ 81**	$ 466
Lambda Physik	**350**	47	**576**	340
Total Intersegment Sales	**$ 355**	$ 367	**$ 657**	$ 806
Income (Loss) From Continuing Operations Before Income Taxes, Including Tax-effected Minority Interest:				
Electro-Optics	**$ 2,382**	$ 13,611	**$ 6,558**	$ 25,393
Lambda Physik	**268**	5,025	**409**	7,981
Corporate and other	**2,041**	(840)	**1,826**	(36)
Total Income From Continuing Operations Before Income Taxes, Including Tax-Affected Minority Interest	**$ 4,691**	$ 17,796	**$ 8,793**	$ 33,338

11. During the second quarter of fiscal 2002, we renewed a lease for 216,000 square feet of office, research and development and manufacturing space in Santa Clara, California which we are subleasing to our former Medical segment, which is a part of Lumenis. The lease expires in February 2007. Upon expiration of the lease, we have an option to purchase the property for $24.6 million, renew the lease for an additional five years or at the end of the lease arrange for the sale of the property to a third party with Coherent retaining an obligation to the owner for the difference between the sale price, if less than $21.3 million, and $21.3 million, subject to certain provisions of the lease. If we do not purchase the property or arrange for its sale as discussed above, we would be obligated for an additional lease payment of $21.3 million. We occupied the building in July 1998 and commenced lease payments at that time. The lease requires us to maintain specified financial covenants, all of which we were in compliance with as of March 30, 2002.

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Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

This discussion contains forward-looking statements that relate to future events or Coherent's future performance such as statements set forth below in this Item 2 under the heading "Our Strategy" and statements relating to future international sales and the potential effects of foreign currency fluctuation on our financial condition. Actual results, events and performance may differ materially as a result of various factors, including those described in this Quarterly Report on Form 10-Q under the heading "Risk Factors" and elsewhere in this document. We also refer you to our Annual Report on Form 10-K for the fiscal year ended September 29, 2001 under the heading "Risk Factors" in Part I. Item 1.

Business. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

COMPANY OVERVIEW

We are one of the world's leading suppliers of photonics-based solutions in a broad range of commercial and scientific applications. We design, manufacture and market lasers, laser-based systems, precision optics and related accessories for a diverse group of customers. Since inception in 1966, we have grown through internal expansion and through strategic acquisitions of complementary technologies, intellectual property, manufacturing processes and product offerings.

We have two reportable business segments: Electro-Optics and Lambda Physik, which work with customers to provide cost-effective photonics-based solutions. The Electro-Optics segment focuses on markets such as semiconductor and related manufacturing, materials processing, optical telecommunications, scientific research, biotechnology, printing and reprographics and advanced packaging. Lambda Physik, our 60% owned subsidiary with headquarters located in Göttingen, Germany, focuses on markets including lasers for lithography, the production of flat panel displays, ink jet printers, fiber bragg gratings, refractive surgery, scientific research, medical OEM's, materials processing and micro-machining applications.

As lasers become less expensive, smaller and more reliable, they are increasingly replacing conventional tools and enabling technological advances in a variety of applications and industries, including semiconductor inspection, measurement, test and repair, optical telecommunications, biotechnology, consumer electronics, industrial process control, materials processing, printing, and research and development. Examples include:

Semiconductor and related manufacturing Lasers are increasingly being used in multiple steps in the semiconductor manufacturing process, including DUV lithography, a process that is used to print a master image of a circuit layer onto a semiconductor wafer. Lasers are also used in the inspection, test and measurement of semiconductors during the manufacturing process.

Optical telecommunications Driven by the Internet and the surge of data-intensive applications, fiber optic networks constantly require greater bandwidth. Lasers and optical components enable this increased bandwidth by allowing multiple wavelengths to travel across the same fiber.

Printing and reprographics The printing industry has traditionally depended upon silver-halide films and chemicals to engrave printing plates. This chemical engraving process is accomplished in several time consuming steps. Semiconductor and diode-pumped lasers are now used in complex computer-to-plate printing systems that simplify the engraving process.

Materials processing Lasers are used in a wide variety of conventional manufacturing applications, including cutting, marking and welding materials. Semiconductor lasers and CO_2 lasers are well-suited for cutting, marking, welding and other applications where accuracy, speed and processing costs are important. They create clean holes and sharp edges, and their beam-pointing stability assures accurate measurements.

Scientific and instrumentation The scientific market historically has provided an ideal test market for leading-edge laser technology, including water-cooled gas lasers, high energy flash lamp-pumped Yttrium Aluminum Garnet, or YAG, lasers and ultrafast systems with an installed base of tens of thousands of lasers. Current applications for lasers in the research and development market include pump lasers for ultrafast systems, confocal microscopy systems and seed lasers in amplifier systems.

OUR STRATEGY

We strive to develop innovative and proprietary products and solutions that meet the needs of our customers and that are based on our core expertise in lasers and optical technologies. In pursuit of our strategy, we intend to:

Leverage our technology leadership to grow with rapidly expanding markets We have targeted the semiconductor and related manufacturing and optical telecommunications markets.

Maintain our leadership position in existing markets There are a number of markets where we have historically been at the forefront of technological development and product deployment and from which we have derived a substantial portion of our revenues. We plan to maintain our position as a market leader in these areas.

Maintain and develop additional strong collaborative customer and industry relationships We believe that the Coherent brand name and reputation for product quality, technical performance and customer satisfaction will help us to further develop our loyal customer base. We plan to maintain our current, and develop new, relationships with customers that are industry leaders and work together with these customers to design and develop innovative product systems and solutions as they develop new technologies.

Expand semiconductor laser market opportunities We are working to expand the range and technical capabilities of, and markets for, our semiconductor lasers. We continue to develop new lasers to supply a broad range of wavelengths and power capabilities. These new products enable us to open up markets for new applications based on their efficiency, increased reliability and smaller size compared with conventional lasers.

Develop and acquire new technologies We will continue to enhance our existing technologies and develop new technologies through our internal research and development efforts as well as through the acquisition of additional complementary technologies, intellectual property, manufacturing processes and product offerings.

We conduct a significant portion of our business internationally. International sales accounted for 55% of net sales for fiscal 2001 and were 63% and 61% of net sales for the current quarter and six months ended March 30, 2002, respectively. We anticipate that international sales will continue to account for a significant portion of our net sales in the foreseeable future. A portion of our international sales occurs through our international sales subsidiaries and the remainder of our international sales results from exports to foreign distributors and resellers. As a result, our international sales and operations are subject to the risks of conducting business internationally. We are also subject to the risks of fluctuating foreign exchange rates, which could materially adversely affect the sales price of our products in foreign markets as well as the costs and expenses of our international subsidiaries. While we use forward exchange contracts, currency swap contracts, currency options and other risk management techniques to hedge our currency exposure, we remain exposed to the economic risks of foreign currency fluctuations.

There can be no assurance that such factors will not adversely impact our operations in the future or require us to modify current business practices.

In fiscal 2001, we took the steps we considered necessary to strategically focus on those high growth markets, technologies and opportunities that are best complemented by our core competencies. On April 30, 2001, we completed the sale of our Medical segment to Lumenis, Inc. (formerly ESC Medical Systems Ltd.) for a combination of cash, notes and Lumenis common stock with an estimated value of $236.0 million plus a potential earnout of an additional $25 million. The sale resulted in a one-time after-tax gain of $71.8 million, which is reflected in our results for fiscal 2001. As a result, the operations of our Medical segment are presented as income from discontinued operations on our Statements of Income and Cash Flows.

CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Such estimates include, but are not limited to, allowances for uncollectible accounts receivable and sales returns reserves, inventory reserves, warranty costs, depreciation and amortization, taxes and contingencies. Actual results could differ from those estimates.

We have identified the following as critical accounting policies to our company: revenue recognition, accounting for our short-term investments and financial instruments, accounting for goodwill and other acquired intangibles, inventory reserves, warranty reserves and accounting for income taxes.

Revenue Recognition

Effective October 1, 2000, we adopted Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements," (SAB 101). SAB 101 summarizes certain of the SEC's views in applying GAAP to revenue recognition in financial statements. The Company's previous policy was to recognize product installation revenue upon shipment and to accrue product installation costs at the time revenue was recognized. Upon adoption of SAB 101, the Company defers installation revenue until installation has been completed and recognizes installation costs as incurred.

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred, the price is fixed or determinable and collectibility is reasonably assured. Revenue from service contracts is recognized ratably over the contract period and revenue from installation and training is recognized when service is performed.

We warrant certain of our products and provide for estimated product warranty costs at the time of sale.

Short-Term Investments and Financial Instruments

The carrying amounts of certain of our financial instruments including cash and cash equivalents, accounts receivable, short-term borrowings, accounts payable and accrued liabilities approximate fair value due to their short maturities. Short-term investments comprise trading securities and available-for-sale securities which are carried at fair value. The recorded carrying amount of our long-term obligations approximates fair value. Foreign exchange contracts are stated at fair value based on prevailing financial market information.

All highly liquid investments with a remaining maturity of three months or less at time of purchase are considered to be cash equivalents and are classified as trading. Marketable short-term investments in debt securities are generally classified and accounted for as trading securities. Marketable short-term investments in equity securities are generally classified and accounted for as available-for-sale. Management determines the appropriate classification of debt and equity securities at the time of purchase. Investments in debt and equity securities classified as trading are reported at fair value, with unrealized gains and losses included in earnings. Securities classified as available-for-sale are reported at fair value with unrealized gains and losses, net of related tax, recorded as a separate component of comprehensive income in stockholders' equity until realized. Interest and amortization of premiums and discounts for debt securities are included in interest income. Gains and losses on securities sold are determined based on the specific identification method and are included in other income.

Our investment in Lumenis common stock (5,432,099 shares) is classified as a short-term investment on our consolidated balance sheet, with unrealized losses recorded in accumulated other comprehensive loss. The Lumenis stock is unregistered and its trading is subject to restrictions under Securities and Exchange Commission Rule 144 and other restrictions as defined in the definitive agreement.

Effective October 1, 2000, we adopted SFAS No.133, "Accounting for Derivative Instruments and Hedging Activities," (SFAS 133) as amended. The statement requires that all derivatives, whether designated in hedging relationships or not, be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of the changes in the fair value of the derivative are recorded in other comprehensive income (OCI) and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in other income (expense).

Our objectives of holding derivatives are to minimize the risks of foreign currency fluctuation by using the most effective methods to eliminate or reduce the impact of these exposures. Principal currencies hedged include the Euro, Yen and British Pounds. Forwards used to hedge a portion of forecasted international revenue for up to 15 months in the future are designated as cash flow hedging instruments.

For foreign currency forward contracts under SFAS 133, hedge effectiveness is measured by comparing the cumulative change in the hedged contract with the cumulative change in the hedged item, both of which are based on forward rates. For foreign currency option contracts under SFAS 133, only the intrinsic value of the option based on spot rates is used in assessing hedge effectiveness. The time value of the option is excluded in calculating effectiveness and reported in earnings immediately.

Forwards not designated as hedging instruments under SFAS 133 are also used to hedge the impact of the variability in exchange rates on accounts receivable and collections denominated in certain foreign currencies. Changes in fair value of these derivatives are recognized in other income (expense).

Goodwill and Other Acquired Intangibles

Goodwill relates to acquired businesses. Intangible assets, recorded as other assets, include distribution rights, acquired existing technology, patents, licenses, drawings, order backlog and customer lists are amortized on a straight-line basis over estimated useful lives of two to seventeen years.

Effective September 30, 2001 we adopted SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS 142) which establishes new standards for goodwill acquired in a business combination and other intangible assets, eliminates amortization of existing goodwill balances, and requires annual evaluation of goodwill for impairment. SFAS 142 was effective for fiscal years beginning after December 15, 2001, with early adoption allowed for companies with fiscal years beginning after March 15, 2001. We elected

to early adopt SFAS 142. Upon adoption of SFAS 142, we stopped the amortization of goodwill with a net carrying value of $32.1 million at September 29, 2001 and annual amortization of $4.1 million, including amortization resulting from the acquisitions of Crystal Associates, Inc. in November 2000 and DeMaria Electro-Optics Systems, Inc. and MicroLas Laser System GmbH in April 2001, that resulted from business combinations initiated prior to the adoption of SFAS No. 141, "Business Combinations".

Under transition provisions of SFAS 142, material amounts of goodwill attributable to each of our reporting units were tested for impairment by comparing the fair value of each reporting unit with its carrying value as of September 29, 2001 in the second quarter of fiscal 2002 and these tests resulted in no impairment. Fair value was determined using a discounted cash flow methodology. These impairment tests are required to be performed at adoption and at least annually thereafter. On an ongoing basis (absent any impairment indicators), we expect to perform our impairment tests during the fourth quarter (based on our third quarter financial statements), in conjunction with our annual budgeting process.

Inventory Reserves

We establish reserves to state our inventory at the lower of cost (computed on a first-in, first-out basis) or market. We write down our inventory for estimated obsolescence or unmarketable inventory equal to the difference between the cost of inventory and the estimated market value based on assumptions about future demand and market conditions. Inventory reserves are generally recorded, within guidelines set by management, when the inventory for a device exceeds 12 months of demand for the device and when individual parts have been in inventory for greater than 12 months. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required which could materially affect out future results of operations. We establish reserves on demo inventory by amortizing the cost of demo inventory over a two year period from the fourth month it is placed in service. During the year ended September 29, 2001, we recorded a charge of $13.9 million for excess inventory and open purchase order commitments due to decreased marketability resulting from the slowdown in the Lithography business at Lambda Physik, which was reflected in postponed delivery dates, cancelled orders and further expected order cancellations from customers.

Warranty Reserves

We warrant certain of our products and provide for estimated product warranty costs at the time of sale. We establish warranty reserves based upon historical warranty expenditure experience for each product line. In addition, we provide additional reserves when we are aware of increased exposures. Actual product warranty expenditures are charged against warranty reserve as incurred.

Income Taxes

We account for income taxes using the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences of temporary differences between the financial statement carrying amounts and the tax bases of assets and liabilities. A valuation allowance is established to reduce the deferred tax asset if it is "more likely than not" that the related tax benefits will not be realized in the future.

Federal income taxes have not been provided for on a portion of the unremitted earnings of foreign subsidiaries either because such earnings are intended to be permanently reinvested or because foreign tax credits are available to offset any planned distributions of such earnings.

RESULTS OF OPERATIONS

CONSOLIDATED SUMMARY

Income from continuing operations for the current fiscal quarter was $3.0 million ($0.10 per diluted share) including a gain on sale of real estate of $1.0 million ($0.03 per diluted share) compared to income from continuing operations of $11.3 million ($0.39 per diluted share) in the corresponding prior year period. Income from continuing operations for the six months ended March 30, 2002 was $5.7 million ($0.20 per diluted share), including a gain on sale of real estate of $1.0 million ($0.03 per diluted share) and an after-tax and net of minority interest benefit of $0.7 million ($0.02 per diluted share) for a non-recurring favorable inventory adjustment compared to income from continuing operations of $21.1 million ($0.74 per diluted share) in the corresponding prior year period. The decrease in income from continuing operations was primarily attributable to lower sales volumes, higher research and development expenses, lower gross margins as a percentage of sales and lower interest and dividend income, partially offset by the current quarter gain on sale of real estate, the non-recurring favorable inventory adjustment in the first quarter of fiscal 2002 and the cessation of goodwill amortization due to the adoption of SFAS 142 in the first quarter of fiscal 2002.

NET SALES:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	March 30, 2002	**March 31, 2001**	**March 30, 2002**	**March 31, 2001**
		(in thousands)		
Consolidated:				
Domestic	**$ 36,356**	$ 55,865	**$ 77,037**	$ 106,894
International	**62,293**	73,738	**118,231**	134,638
Total	**$ 98,649**	$ 129,603	**$ 195,268**	$ 241,532
Electro-Optics:				
Domestic	**$ 32,750**	$ 43,939	**$ 68,824**	$ 84,819
International	**44,191**	51,409	**82,035**	93,469
Total	**$ 76,941**	$ 95,348	**$ 150,859**	$ 178,288
Lambda Physik:				
Domestic	**$ 3,606**	$ 11,926	**$ 8,213**	$ 22,075
International	**18,102**	22,329	**36,196**	41,169
Total	**$ 21,708**	$ 34,255	**$ 44,409**	$ 63,244

Consolidated

Net sales for the current fiscal quarter and six months ended March 30, 2002 decreased $31.0 million (24%) and $46.3 million (19%), respectively, from the same periods one year ago. Sales decreased significantly in both the Electro-Optics and Lambda segments. During the current quarter, domestic sales decreased $19.5 million (35%) and international sales decreased $11.5 million (16%); however, international sales increased to 63% of sales. Year to date, domestic sales decreased $29.9 million (28%) and international sales decreased $16.4 million (12%); however, international sales increased to 61% of sales.

Electro-Optics

Electro-Optics net sales decreased $18.4 million (19%) and $27.4 million (15%) for the second quarter and six months ended March 30, 2002, respectively, compared to the corresponding prior year periods.

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Domestic sales decreased $11.2 million (25%) and international sales decreased $7.2 million (14%) during the current quarter. Year to date, domestic sales decreased $16.0 million (19%) and international sales decreased $11.4 million (12%). Net sales decreased primarily due to decreases in commercial solid-state products, including semiconductor lasers to the optical telecommunications, materials processing, and semiconductor markets as well as optics to the semiconductor market. While the general economy is showing signs of strengthening, the semiconductor and materials processing markets remain cautious in their capital spending. We remain uncertain about the timing of the improvement in the optical telecommunications market.

Lambda Physik

Lambda Physik net sales decreased $12.5 million (37%) and $18.8 million (30%) for the second quarter and six months ended March 30, 2002, respectively, compared to the corresponding prior year periods. Domestic sales decreased $8.3 million (70%) and international sales decreased $4.2 million (19%) during the current quarter. Year to date, domestic sales decreased $13.9 million (63%) and international sales decreased $4.9 million (12%) primarily due to weakness in the overall lithography market and loss of market share in the lithography market as well as lower demand with medical OEM customers.

GROSS PROFIT

Consolidated

The consolidated gross profit rate decreased to 40.5% from 44.6% in the current quarter and decreased to 42.0% from 45.3% for the six months ended March 30, 2002, compared to the same periods one year ago. The decrease was primarily due to lower sales of higher margin commercial solid-state products in the Electro-Optics segment, underutilization of capacity due to lower sales volumes in both segments and higher volume of lower margin service revenue as well as higher warranty expenses in the Lambda Physik segment.

Electro-Optics

The gross profit rate decreased to 41.3% from 46.5% in the current quarter and decreased to 42.5% from 46.7% for the six months ended March 30, 2002, compared to the same periods one year ago. The decrease was primarily due to lower sales of higher margin commercial solid-state products and underutilization of capacity due to lower sales volumes.

Lambda Physik

The gross profit rate decreased to 38.2% from 40.0% in the current quarter and decreased to 40.6% from 41.5% for the six months ended March 30, 2002, compared to the same periods one year ago. The decrease was primarily due to underutilization of capacity, higher volume of lower margin service revenue and higher warranty expenses.

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OPERATING EXPENSES:

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	March 30, 2002	**March 31, 2001**	**March 30, 2002**	**March 31, 2001**
	(in thousands)			
Research and development	**$ 13,616**	$ 13,257	**$ 27,544**	$ 24,412
Selling, general and administrative	**23,306**	27,540	**46,025**	53,192
Intangibles amortization	**898**	784	**1,806**	1,552
Total operating expenses	**$ 37,820**	$ 41,581	**$ 75,375**	$ 79,156

Total operating expenses decreased $3.8 million (9%) during the second quarter compared to the same period last year, but as a percentage of sales increased from 32.1% to 38.3%. Year to date, total operating expenses decreased $3.8 million (5%), but as a percentage of sales increased from 32.8% from 38.6%.

Research and development (R&D) expenses increased $0.4 million (3%) during the second quarter compared to the same period last year and as a percentage of sales increased from 10.2% to 13.8%. Year to date, R&D expenses increased $3.1 million (13%) and as a percentage of sales increased from 10.1% to 14.1%. The increases were primarily due to increased spending on telecommunications and lithography projects before cost containment efforts were fully implemented.

Selling, general and administrative (SG&A) expenses decreased $4.2 million (15%) during the second quarter compared to the same period one year ago, but as a percentage of sales increased from 21.2% to 23.6%. Year to date, SG&A expenses decreased $7.2 million (13%), but as a percentage of sales increased from 22.0% to 23.6%. The absolute dollar decrease was primarily due to lower commissions as a result of lower sales volumes and lower employment-related expenses due to headcount reductions and lower incentive compensation.

Intangibles amortization increased $0.1 million (15%) and $0.3 million (16%) during the current quarter and six months ended March 30, 2002, compared to the same periods last year, but remained at 1% of sales. The absolute dollar increase was primarily due to amortization of intangibles resulting from the acquisitions of MicroLas, DEOS and Crystal, partially offset by the cessation of goodwill amortization due to the adoption of SFAS 142.

OTHER INCOME (EXPENSE)

Other income, net of other expense, decreased $0.4 million and $3.6 million for the current quarter and six months ended March 30, 2002, respectively, compared to the same prior year periods. The current quarter decrease was primarily due to lower interest income and lower gains on short-term trading investments, partially offset by the current quarter gain on the sale of real estate and rental income from the sublease of the Condensa facility to Lumenis. Year to date, the decrease was primarily due to lower interest income, lower gains on short-term trading investments and lower dividends due to the purchase of MicroLas, partially offset by the current quarter gain on the sale of real estate and rental income from the sublease of the Condensa facility to Lumenis.

INCOME TAXES

Our effective tax rate on income from continuing operations (before minority interest) for the current quarter was 34.2% compared to 33.6% for the same quarter last year. Our effective tax rate on income from continuing operations (before minority interest) for the six months ended March 30, 2002 was 33.3% compared to 33.8% for the same prior year period. The effective tax rate increased in the current quarter as a result of changes in the distribution of taxable income among jurisdictions, partially offset by lower state income taxes and the proportionately greater impact of tax credits due to

lower income before taxes in the current quarter. Year to date, the effective tax rate decreased as a result of lower state income taxes and the proportionately greater impact of tax credits due to lower income before taxes in the current year.

MINORITY INTEREST IN SUBSIDIARIES

Minority interest in subsidiaries earnings decreased $1.4 million and $2.6 million for the current quarter and six months ended March 30, 2002, respectively, compared to the corresponding prior year periods. The decrease was primarily due to the decreased profitability of our Lambda Physik subsidiary.

FINANCIAL CONDITION

Liquidity and Capital Resources

At March 30, 2002, our primary sources of liquidity were cash, cash equivalents, short-term investments and available-for-sale debt securities of $232.8 million. In addition, we held $60.3 million of restricted Lumenis common stock. The Lumenis common stock is unregistered and its trading is subject to restrictions under Securities and Exchange Commission Rule 144 and other restrictions as defined in the definitive agreement. Additional sources of liquidity were a multi-currency line of credit and bank credit facilities totaling $67.9 million as of March 30, 2002, of which $59.7 million was unused and available.

During the second quarter of fiscal 2002, we renewed a lease for 216,000 square feet of office, research and development and manufacturing space in Santa Clara, California which we are subleasing to our former Medical segment, which is a part of Lumenis. The lease expires in February 2007. Upon expiration of the lease, we have an option to purchase the property for $24.6 million, renew the lease for an additional five years or at the end of the lease arrange for the sale of the property to a third party with Coherent retaining an obligation to the owner for the difference between the sale price, if less than $21.3 million, and $21.3 million, subject to certain provisions of the lease. If we do not purchase the property or arrange for its sale as discussed above, we would be obligated for an additional lease payment of $21.3 million. We occupied the building in July 1998 and commenced lease payments at that time. The lease requires us to maintain specified financial covenants, all of which we were in compliance with as of March 30, 2002.

We have committed $2.8 million to purchase equipment for our Electro-Optics facility in Auburn, California as well as an additional $0.8 million in building improvements to complete this facility. We have committed $1.1 million for equipment for the growth and development of telecommunications products in our Electro-Optics facility in Tampere, Finland. We have committed $3.3 million in building improvements to expand our manufacturing capacity in Glasgow, Scotland. We have also committed $0.7 million for equipment and building improvements in our Lincoln, California Electro-Optics facility as well as $0.7 million for building improvements, including a cleanroom, in our Electro-Optics facility in San Jose, California.

Changes in Financial Condition

Cash and cash equivalents at March 30, 2002 increased $11.6 million, or 15%, from September 29, 2001. Operations and changes in exchange rates provided $26.8 million, including $5.6 million, net, proceeds from sales of short-term investments, depreciation and amortization of $13.0 million and income from continuing operations of $5.7 million. Investing activities used $19.8 million, primarily used to acquire property and equipment, net. Financing activities provided $4.6 million with $6.3 million from the sale of shares under our employee stock plans partially offset by net debt repayments of $1.8 million.

Short-term investments decreased $54.3 million (21%) from September 29, 2001 to March 30, 2002 primarily due to a decrease in the fair value of our investment in Lumenis common stock.

Accumulated other comprehensive loss increased $37.8 million (282%) from September 29, 2001 to March 30, 2002 primarily due to the decline in market value of our investment in Lumenis common stock, net of taxes.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations". SFAS No. 141 requires that all business combinations initiated after June 30, 2001 be accounted for under the purchase method and addresses the initial recognition and measurement of goodwill and other intangible assets acquired in a business combination. The adoption of SFAS 141 did not have a material impact on our financial position, results of operations or cash flows.

Effective September 30, 2001 we adopted SFAS No. 142, "Goodwill and Other Intangible Assets" which establishes new standards for goodwill acquired in a business combination and other intangible assets, eliminates amortization of existing goodwill balances, and requires annual evaluation of goodwill for impairment. SFAS 142 was effective for fiscal years beginning after December 15, 2001, with early adoption allowed for companies with fiscal years beginning after March 15, 2001. Upon adoption of SFAS 142, we stopped the amortization of goodwill with a net carrying value of $32.1 million at September 29, 2001 and annual amortization of $4.1 million, including amortization resulting from the acquisitions of Crystal Associates, Inc. in November 2000 and DeMaria Electro-Optics Systems, Inc. and MicroLas Laser System GmbH in April 2001, that resulted from business combinations initiated prior to the adoption of SFAS 141, "Business Combinations".

Under SFAS 142, material amounts of goodwill attributable to each of our reporting units were tested for impairment by comparing the fair value of each reporting unit with its carrying value. Fair value was determined using a discounted cash flow methodology. These impairment tests are required to be performed at adoption and at least annually thereafter. On an ongoing basis (absent any impairment indicators), we expect to perform our impairment tests during the fourth quarter, in conjunction with our annual budgeting process.

As part of our adoption of SFAS 142, we completed the initial impairment tests during the second quarter of fiscal 2002 and these tests resulted in no impairment.

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. While SFAS No. 144 supersedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," it retains many of the fundamental provisions of SFAS No. 121. SFAS No. 144 also supersedes the accounting and reporting provisions of APB No. 30, "Reporting the Results of Operations Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions," for the disposal of a segment of a business. However, it retains the requirement in APB No. 30 to report separately discontinued operations and extends that reporting to a component of an entity that either has been disposed of (by sale, abandonment, or in a distribution to owners) or is classified as held for sale. Companies are required to adopt SFAS 144 for fiscal years beginning after December 15, 2001, but early adoption is permitted. We expect to adopt SFAS 144 as of October 1, 2002. We have not yet determined the impact this standard will have on our operating results and financial position.

RISK FACTORS AFFECTING FUTURE RESULTS OF OPERATIONS

Risks Related to our Business

We may experience quarterly and annual fluctuations in our net sales and operating results in the future, which may result in volatility in our stock price.

Our net sales and operating results may vary significantly from quarter to quarter and from year to year in the future. A number of factors, many of which are outside of our control, may cause these variations, including:

- general economic uncertainties both preceding and following the terrorist attacks on September 11, 2001;
- fluctuations in demand for, and sales of, our products or prolonged downturns in the industries that we serve;
- ability of our suppliers to produce and deliver components and parts, including sole or limited source components, in a timely manner, in the quantity and quality desired and at the prices we have budgeted;
- timing or cancellation of customer orders and shipment scheduling;
- fluctuations in our product mix;
- foreign currency fluctuations;
- introductions of new products and product enhancements by our competitors, entry of new competitors into our markets, pricing pressures and other competitive factors;
- our ability to develop, introduce, manufacture and ship new and enhanced products in a timely manner without defects;
- rate of market acceptance of our new products;
- delays or reductions in customer purchases of our products in anticipation of the introduction of new and enhanced products by us or our competitors;
- our ability to control expenses;
- timing of regulatory approvals and changes in domestic and regulatory environments;
- level of capital spending of our customers;
- potential obsolescence of our inventory; and

- costs related to acquisitions of technology or businesses.

In addition, we often recognize a substantial portion of our sales in the last month of the quarter. Our expenses for any given quarter are typically based on expected sales and if sales are below expectations in any given quarter, the adverse impact of the shortfall on our operating results may be magnified by our inability to adjust spending quickly to compensate for the shortfall. We also base our manufacturing on our forecasted product mix for the quarter. If the actual product mix varies significantly from our forecast, we may not be able to fill some orders during that quarter, which would result in delays in the shipment of our products. Accordingly, variations in timing of sales, particularly for our higher priced, higher margin products, can cause significant fluctuations in quarterly operating results.

Due to these and other factors, we believe that quarter-to-quarter and year-to-year comparisons of our past operating results may not be meaningful. You should not rely on our results for any quarter or year as an indication of our future performance. Our operating results in future quarters and years may

be below public market analysts' or investors' expectations, which would likely cause the price of our common stock to fall.

Our business has been adversely impacted by the worldwide economic slowdown and related uncertainties.

Weaker economic conditions worldwide have contributed to the current technology industry slowdown and impacted our business resulting in:

- reduced demand for some of our products;
- increased risk of excess and obsolete inventories;
- increased rate of order cancellations or delays;
- excess manufacturing capacity under current market conditions; and
- higher overhead costs, as a percentage of revenues.

Additionally, these economic conditions are making it very difficult for us, our customers and our vendors to forecast and plan future business activities. This level of uncertainty severely challenges our ability to operate profitably or to grow our business. In particular, it is difficult to develop and implement strategy, sustainable business models, efficient operations and effectively manage supply chain relationships. For example, the recent slowdown in the Lithography market has resulted in postponed delivery dates and cancelled orders. During the year ended September 29, 2001, we recorded a charge of $13.9 million for excess inventory and open purchase order commitments, which was reflected in postponed delivery dates, cancelled orders and further expected order cancellations from customers. If the economic or market conditions continue or further deteriorate, this may have a material adverse impact on our financial position, results of operations and cash flow.

We depend on sole source or limited source suppliers for some of the key components and materials, including exotic materials and crystals, in our products, which makes us susceptible to supply shortages or price fluctuations that could adversely affect our business.

We currently purchase several key components and materials used in the manufacture of our products from sole source or limited source suppliers. Some of these suppliers are relatively small private companies that may discontinue their operations at any time. We typically purchase our components and materials through purchase orders and we have no guaranteed supply arrangement with any of these suppliers. We may fail to obtain these supplies in a timely manner in the future. We may experience difficulty identifying alternative sources of supply for certain components used in our products. Once identified, we would experience further delays from evaluating and testing the products of these potential alternative suppliers. Furthermore, financial or other difficulties faced by these suppliers or significant changes in demand for these components or materials could limit their availability. Any interruption or delay in the supply of any of these components or materials, or the inability to obtain these components and materials from alternate sources at acceptable prices and within a reasonable amount of time, would impair our ability to meet scheduled product deliveries to our customers and could cause customers to cancel orders.

We rely exclusively on our own production capability to manufacture certain strategic components, optics and optical systems, crystals, semiconductor lasers, lasers and laser-based systems. Because we manufacture, package and test these components, products and systems at our own facilities, and such components, products and systems are not readily available from other sources, any interruption in manufacturing would adversely affect our business. In addition, our failure to achieve adequate manufacturing yields at our manufacturing facilities may materially and adversely affect our operating results and financial condition.

Our future success depends on our ability to increase our sales volumes and decrease our costs to offset anticipated declines in the average selling prices of our products and, if we are unable to realize greater sales volumes and lower costs, our operating results may suffer.

Our future success depends on the continued growth of the markets for lasers, laser systems, precision optics and related accessories, as well as our ability to identify in advance emerging markets for laser-based systems. We cannot assure you that we will be able to successfully identify, on a timely basis, new high-growth markets in the future. Moreover, we cannot assure you that new markets will develop for our products or our customers' products, or that our technology or pricing will enable such markets to develop. Future demand for our products is uncertain and will depend to a great degree on the continued technological development and the introduction of new or enhanced products. If this does not continue, sales of our products may decline and our business will be harmed.

We have historically been the industry's high quality, high priced supplier of laser systems. We have in the past experienced decreases in the average selling prices of some of our products. We anticipate that as competing products become more widely available, the average selling price of our products may decrease. If we are unable to offset the anticipated decrease in our average selling prices by increasing our sales volumes, our net sales will decline. In addition, to maintain our gross margins, we must continue to reduce the cost of our products. Further, as average selling prices of our current products decline, we must develop and introduce new products and product enhancements with higher margins. If we cannot maintain our gross margins, our operating results could be seriously harmed, particularly if the average selling prices of our products decrease significantly.

Our future success depends on our ability to develop and successfully introduce new and enhanced products that meet the needs of our customers.

Our current products address a broad range of commercial and scientific applications in the photonics markets. We cannot assure you that the market for these applications will continue to generate significant or consistent demand for our products. Demand for our products could be significantly diminished by new technologies or products that replace them or render them obsolete.

Over the last three fiscal years, our research and development expenses have been in the range of 10% to 11% of net sales and were 14% of net sales for the six months ended March 30, 2002. Our future success depends on our ability to anticipate our customers' needs and develop products that address those needs. Introduction of new products and product enhancements will require that we effectively transfer production processes from research and development to manufacturing and coordinate our efforts with those of our suppliers to achieve volume production rapidly. If we fail to effectively transfer production processes, develop product enhancements or introduce new products in sufficient quantities to meet the needs of our customers as scheduled, our net sales may be reduced and our business may be harmed.

We face risks associated with our international sales that could harm our financial condition and results of operations.

For the six months ended March 30, 2002, 61% of our net sales were derived from international sales. For fiscal years 2001, 2000 and 1999, 55%, 59% and 59%, respectively, of our net sales were derived from international sales. We anticipate that international sales will continue to account for a significant portion of our revenues in the foreseeable future. A portion of our international sales occurs through our international sales subsidiaries and the remainder of our international sales result from exports to foreign distributors and resellers. Our international operations and sales are subject to a number of risks, including:

- longer accounts receivable collection periods;
- higher rates of sales returns and allowances;

- the impact of recessions in economies outside the United States;
- unexpected changes in regulatory requirements;
- certification requirements;
- reduced protection for intellectual property rights in some countries;
- potentially adverse tax consequences;
- political and economic instability; and
- preference for locally produced products.

We are also subject to the risks of fluctuating foreign exchange rates, which could materially adversely affect the sales price of our products in foreign markets as well as the costs and expenses of our international sales subsidiaries. While we use forward exchange contracts, currency swap contracts, currency options and other risk management techniques to hedge our foreign currency exposure, we remain exposed to the economic risks of foreign currency fluctuations. For additional discussion about our foreign currency risks, see "Item 3 Quantitative and Qualitative Disclosures About Market Risk."

We may not be able to protect our proprietary technology, which could adversely affect our competitive advantage.

We rely on a combination of patent, copyright, trademark and trade secret laws and restrictions on disclosure to protect our intellectual property rights. We cannot assure you that our patent applications will be approved, that any patents that may be issued will protect our intellectual property or that any issued patents will not be challenged by third parties. Other parties may independently develop similar or competing technology or design around any patents that may be issued to us. We cannot be certain that the steps we have taken will prevent the misappropriation of our intellectual property, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States.

We could become subject to litigation regarding intellectual property rights, which could seriously harm our business.

The laser industry is characterized by a very large number of patents, many of which are of questionable validity and some of which appear to overlap with other issued patents. As a result, there is a significant amount of uncertainty in the industry regarding patent protection and infringement. In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. In the future, we may be a party to litigation to protect our intellectual property or as a result of an alleged infringement of others' intellectual property. These claims and any resulting lawsuit, if successful, could subject us to significant liability for damages or invalidation of our proprietary rights. These lawsuits, regardless of their success, would likely be time-consuming and expensive to resolve and would divert management time and attention. Any potential intellectual property litigation also could force us to do one or more of the following:

- stop manufacturing, selling or using our products that use the infringed intellectual property;
- obtain from the owner of the infringed intellectual property right a license to sell or use the relevant technology, although such license may not be available on reasonable terms, or at all; or
- redesign the products that use the technology.

If we are forced to take any of these actions, our business may be seriously harmed. We do not have insurance to cover potential claims of this type.

We may in the future initiate claims or litigation against third parties for infringement of our proprietary rights to protect these rights or to determine the scope and validity of our proprietary rights

or the proprietary rights of competitors. These claims could result in costly litigation and the diversion of our technical and management personnel.

We depend on skilled personnel to operate our business effectively in a rapidly changing market, and if we are unable to retain existing or hire additional personnel, our ability to develop and sell our products could be harmed.

Our future success depends upon the continued services of our executive officers and other key engineering, sales, marketing, manufacturing and support personnel. None of our officers or key employees in the United States is bound by an employment agreement for any specific term and these personnel may terminate their employment at any time. In addition, we do not have "key person" life insurance policies covering any of our employees.

Our ability to continue to attract and retain highly skilled personnel will be a critical factor in determining whether we will be successful in the future. Competition for highly skilled personnel is intense, especially in the Silicon Valley, where one of our major operating facilities is located. We may not be successful in attracting, assimilating or retaining qualified personnel to fulfill our current or future needs. Our failure to attract additional employees and retain our existing employees could adversely affect our growth and our business.

We may experience volatility in our stock price, which could negatively affect your investment.

The market price of our common stock has fluctuated, and may continue to fluctuate, significantly in response to a number of factors, some of which are beyond our control, including:

- quarterly variations in operating results;
- changes in financial estimates by securities analysts;
- changes in market valuations of other similar companies;
- announcements by us or our competitors of new products or of significant technical innovations, contracts, acquisitions, strategic partnerships or joint ventures;
- additions or departures of key personnel;
- any deviations in net sales or in levels of profitability from levels expected by securities analysts; and
- future sales of common stock.

Your investment may also be affected by any fluctuations in the stock price of Lumenis, Inc., which we received in 2001 as consideration for the sale of our Medical segment. At April 30, 2001, we estimated the value of the Lumenis stock at $124.4 million. At March 30, 2002, we estimated the value of the stock at $60.3 million. Currently, we do not hedge our investment in Lumenis stock. The Lumenis stock received is unregistered and its trading is subject to restrictions under the Securities and Exchange Commission Rule 144 and other restrictions. Any major reduction in the stock price of Lumenis could decrease our total assets, which could negatively impact our stock price.

In addition, the stock market has recently experienced extreme volatility that has often been unrelated to the performance of particular companies. These market fluctuations may cause our stock price to fall regardless of our performance.

The long sales cycles for our products may cause us to incur significant expenses without offsetting revenues.

Customers often view the purchase of our products as a significant and strategic decision. As a result, customers typically expend significant effort in evaluating, testing and qualifying our products before

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making a decision to purchase them, resulting in a lengthy initial sales cycle. While our customers are evaluating our products and before they place an order with us, we may incur substantial sales and marketing and research and development expenses to customize our products to the customer's needs. We may also expend significant management efforts, increase manufacturing capacity and order long lead-time components or materials prior to receiving an order. Even after this evaluation process, a potential customer may not purchase our products. As a result, these long sales cycles may cause us to incur significant expenses without ever receiving revenue to offset those expenses.

The markets in which we sell our products are intensely competitive and increased competition could cause reduced sales levels, reduced gross margins or the loss of market share.

Competition in the various photonics markets in which we provide products is very intense. We compete against a number of companies, including Spectra-Physics Lasers, Inc., JDS Uniphase, Inc., Cymer, Inc., Gigaphoton, Rofin-Sinar and Excel Technology. Some of our competitors are large companies that have significant financial, technical, marketing and other resources. These competitors may be able to devote greater resources than we can to the development, promotion, sale and support of their products. Several of our competitors that have large market capitalizations or strong cash reserves are much better positioned than we are to acquire other companies in order to gain new technologies or products that may displace our product lines. Any of these acquisitions could give our competitors a strategic advantage. Any business combinations or mergers among our competitors, forming larger competitors with greater resources, could result in increased competition, price reductions, reduced margins or loss of market share, any of which could materially and adversely affect our business, results of operations and financial condition.

Additional competitors may enter the market and we are likely to compete with new companies in the future. We expect to encounter potential customers that, due to existing relationships with our competitors, are committed to the products offered by these competitors. As a result of the foregoing factors, we expect that competitive pressures may result in price reductions, reduced margins and loss of market share.

Some of our laser systems are complex in design and may contain defects that are not detected until deployed by our customers, which could increase our costs and reduce our revenues.

Laser systems are inherently complex in design and require ongoing regular maintenance. The manufacture of our lasers, laser products and systems involves a highly complex and precise process. As a result of the technical complexity of our products, changes in our or our suppliers' manufacturing processes or the inadvertent use of defective or contaminated materials by us or our suppliers could result in a material adverse effect on our ability to achieve acceptable manufacturing yields and product reliability. To the extent that we do not achieve such yields or product reliability, our business, operating results, financial condition and customer relationships would be adversely affected.

Our customers may discover defects in our products after the products have been fully deployed and operated under peak stress conditions. In addition, some of our products are combined with products from other vendors, which may contain defects. As a result, should problems occur, it may be difficult to identify the source of the problem. If we are unable to fix defects or other problems, we could experience, among other things:

- loss of customers;
- increased costs of product returns and warranty expenses;
- damage to our brand reputation;
- failure to attract new customers or achieve market acceptance;
- diversion of development and engineering resources; and

legal actions by our customers.

The occurrence of any one or more of the foregoing factors could seriously harm our business, financial condition and results of operations.

If we fail to accurately forecast component and material requirements for our products, we could incur additional costs and incur significant delays in shipments, which could result in loss of customers.

We use rolling forecasts based on anticipated product orders and material requirements planning systems to determine our product requirements. It is very important that we accurately predict both the demand for our products and the lead times required to obtain the necessary components and materials. We depend on our suppliers for most of our product components and materials. Lead times for components and materials that we order vary significantly and depend on factors including the specific supplier requirements, the size of the order, contract terms and current market demand for components. For substantial increases in our sales levels, some of our suppliers may need at least six months lead-time. If we overestimate our component and material requirements, we may have excess inventory, which would increase our costs. If we underestimate our component and material requirements, we may have inadequate inventory, which could interrupt and delay delivery of our products to our customers. Any of these occurrences would negatively impact our net sales, business and operating results.

If we fail to manage our growth effectively, our business could be disrupted, which could harm our operating results.

Our ability to successfully offer our products and implement our business plan in evolving markets requires an effective planning and management process. We continue to expand the scope of our operations domestically and internationally. The growth in employee headcount and in sales, combined with the challenges of managing geographically-dispersed operations, has placed, and our anticipated growth in future operations will continue to place, a significant strain on our management systems and resources, particularly our information technology systems. We expect that we will need to continue to improve our information technology systems, financial and managerial controls, reporting systems and procedures and continue to expand, train and manage our work force worldwide. The failure to effectively manage our growth could disrupt our business and harm our operating results.

Any acquisitions we make could disrupt our business and harm our financial condition.

We have in the past made strategic acquisitions of other corporations, and we continue to evaluate potential strategic acquisitions of complementary companies, products and technologies. In the event of any future acquisitions, we could:

issue stock that would dilute our current stockholders' percentage ownership;

pay cash;

incur debt;

assume liabilities; or

incur expenses related to in-process research and development, amortization and impairment of goodwill and other intangible assets.

These purchases also involve numerous risks, including:

- problems combining the acquired operations, technologies or products;
- unanticipated costs or liabilities;
- diversion of management's attention from our core businesses;
- adverse effects on existing business relationships with suppliers and customers; and
- potential loss of key employees, particularly those of the purchased organizations.

We cannot assure you that we will be able to successfully integrate any businesses, products, technologies or personnel that we might acquire in the future, which may harm our business.

We use standard laboratory and manufacturing materials that could be considered hazardous; and we could be liable for any damage or liability resulting from accidental environmental contamination or injury.

Although most of our products do not incorporate hazardous or toxic materials and chemicals, some of the gases used in our excimer lasers and some of the liquid dyes used in some of our scientific laser products are highly toxic. In addition, our operations involve the use of standard laboratory and manufacturing materials that could be considered hazardous. Also, a facility fire at the Tampere, Finland site, that spreads to a reactor used to grow semiconductor wafers, could release highly toxic emissions. We believe that our safety procedures for handling and disposing of such materials comply with all federal, state and off-shore regulations and standards; however, the risk of accidental environmental contamination or injury from such materials cannot be entirely eliminated. In the event of such an accident involving such materials, we could be liable for any damage and such liability could exceed the amount of our liability insurance coverage and the resources of our business.

If our facilities were to experience catastrophic loss, our operations would be seriously harmed.

Our facilities could be subject to a catastrophic loss from fire, flood, earthquake or terrorist activity. A substantial portion of our research and development activities, manufacturing, our corporate headquarters and other critical business operations are located near major earthquake faults in Santa Clara, California, an area with a history of seismic events. Any such loss at any of our facilities could disrupt our operations, delay production, shipments and revenue and result in large expenses to repair or replace the facility. While we have obtained insurance to cover most potential losses, after reviewing the costs and limitations associated with earthquake insurance, have decided not to procure such insurance. We believe that this decision is consistent with decisions reached by numerous other companies located nearby. We cannot assure you that our existing insurance coverage will be adequate against all other possible losses.

Provisions of our charter documents, Delaware law, our Common Shares Rights Plan and our Change-of-Control Severance Plan may have anti-takeover effects that could prevent or delay a change in control.

Provisions of our certificate of incorporation and bylaws may discourage, delay or prevent a merger or acquisition or make removal of incumbent directors or officers more difficult. These provisions may discourage takeover attempts and bids for our common stock at a premium over the market price. These provisions include:

- the ability of our board of directors to alter our bylaws without stockholder approval;
- limiting the ability of stockholders to call special meetings;
- limiting the ability of our stockholders to act by written consent; and

establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

We are subject to Section 203 of the Delaware General Corporation Law, which prohibits a publicly held Delaware corporation from engaging in a merger, asset or stock sale or other transaction with an interested stockholder for a period of three years following the date such person became an interested stockholder, unless prior approval of our board of directors is obtained or as otherwise provided. These provisions of Delaware law also may discourage, delay or prevent someone from acquiring or merging with us without obtaining the prior approval of our board of directors, which may cause the market price of our common stock to decline. In addition, we have adopted a change of control severance plan, which provides for the payment of a cash severance benefit to each eligible employee based on the employee's position and years of service to us. If a change of control occurs, our successor or acquiror will be required to assume and agree to perform all of our obligations under the change of control severance plan.

Our common shares rights agreement permits the holders of rights to purchase shares of our common stock to exercise the stock purchase rights following an acquisition of or merger by us with another corporation or entity, following a sale of 50% or more of our consolidated assets or earning power, or the acquisition by an individual or entity of 20% or more of our common stock. Our successor or acquiror is required to assume all of our obligations and duties under the common shares rights agreement, including in certain circumstances the issuance of shares of its capital stock upon exercise of the stock purchase rights. The existence of our common shares rights agreement may have the effect of delaying, deferring or preventing a change of control and, as a consequence, may discourage potential acquirors from making tender offers for our shares.

Risks related to our industry

Our market is unpredictable and characterized by rapid technological changes and evolving standards, and, if we fail to address changing market conditions, our business and operating results will be harmed.

The photonics industry is characterized by extensive research and development, rapid technological change, frequent new product introductions, changes in customer requirements and evolving industry standards. Because this market is subject to rapid change, it is difficult to predict its potential size or future growth rate. Our success in generating revenues in this market will depend on, among other things:

- maintaining and enhancing our relationships with our customers;
- the education of potential end-user customers about the benefits of lasers, laser systems and precision optics; and
- our ability to accurately predict and develop our products to meet industry standards.

For the current quarter and six months ended March 30, 2002, our research and development costs were $13.6 million, or 14% of net sales and $27.5 million, or 14% of net sales, respectively. For our fiscal years ended September 30, 2001, 2000 and 1999, our research and development costs were $53.0 million, or 11%, $40.7 million, or 11%, and $32.1 million, or 10%, of net sales, respectively. We cannot assure you that our expenditures for research and development will result in the introduction of new products or, if such products are introduced, that those products will achieve sufficient market acceptance. Our failure to address rapid technological changes in our markets could adversely affect our business and results of operations.

The downturn in the semiconductor manufacturing industry could adversely affect our business, financial condition and results of operations.

Our net sales depend in part on the demand for our products by semiconductor equipment companies. The semiconductor industry is highly cyclical and has historically experienced periodic and significant downturns, which have often severely affected the demand for semiconductor manufacturing equipment, including laser-based tools and systems. We are currently experiencing such a downturn, which is resulting in decreased demand for semiconductor manufacturing equipment and consequently a decreased demand for our products. Although such a downturn would reduce our sales, we would not be able to reduce expenses commensurately, due in part to the need for continual spending in research and development and the need to maintain extensive ongoing customer service and support capability. Accordingly, any sustained downturn in the semiconductor industry could have a material adverse effect on our financial condition and results of operations.

Our reported results may be adversely affected by changes in accounting principles generally accepted in the United States of America.

We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). GAAP is subject to interpretation by the American Institute of Certified Public Accountants, the Securities and Exchange Commission and various bodies formed to interpret and create appropriate accounting policies. A change in these policies or interpretations can have a significant effect on our reported results, and may even affect the reporting of transactions completed prior to the announcement of a change.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

For interest rate sensitivity and foreign currency exchange risk, reference is made to Part II, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, in our Annual Report on Form 10-K for the year ended September 29, 2001.

EQUITY PRICE RISK

We have investments in publicly-traded equity securities. As we account for these securities as available-for-sale, unrealized gains and losses resulting from changes in the fair value of these securities are reflected in stockholders' equity, and not reflected in earnings until the securities are sold. As of March 30, 2002, the fair market value of these securities was $60.4 million and unrealized loss on these securities was $42.3 million (net of $21.8 million in income tax). $60.3 million of these securities represents an investment in Lumenis common stock. Our investment in Lumenis common stock decreased in value by $48.8 million (45%) from September 29, 2001 to March 30, 2002. A 20% adverse change in equity prices would result in an approximate $12.1 million decrease in the fair value of our available-for-sale equity investments as of March 30, 2002. The Lumenis common stock received is unregistered and its trading is subject to restrictions under Securities and Exchange Commission Rule 144 and other restrictions as defined in the definitive agreement. Currently, we do not hedge our investment in Lumenis stock. Due to the nature and terms of this security, we may continue to experience a material change in the value of our investment related to future price fluctuations of the security.

COHERENT, INC.

PART II. OTHER INFORMATION

ITEM 1. Legal Proceedings

N/A

ITEM 2. Changes in Securities and Use of Proceeds

N/A

ITEM 3. Defaults Upon Senior Securities

N/A

ITEM 4. Submission of Matters to a Vote of Security Holders

On March 28, 2002, the Annual Meeting of Shareholders of Coherent, Inc. was held in Santa Clara, California.

The following individuals were elected to the Board of Directors of Coherent, Inc.:

Bernard J. Couillaud	Henry E. Gauthier
Charles W. Cantoni	Frank P. Carrubba
John H. Hart	Jerry E. Robertson
Robert J. Quillinan	

Other matters voted upon at the meeting and the number of affirmative and negative votes cast with respect to each such matter were as follows:

		Affirmative Votes	Negative Votes
1.	Proposal to approve the Company's 2001 Stock Plan which reserves 2,800,000 shares of common stock for issuance.	18,719,234	3,383,714
2.	To ratify the appointment of Deloitte & Touche LLP as independent public accountants for the fiscal year ending September 28, 2002.	26,437,171	385,826

ITEM 5. Other Information

N/A

ITEM 6. Exhibits and Reports on Form 8-K

(a)

Exhibits

10.12 Master Lease and Security Agreement between SMBC Leasing and Finance, Inc. and Coherent.

(b)

Reports on Form 8-K

None

COHERENT, INC.

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

COHERENT, INC.
(Registrant)

Date: May 10, 2002	By:	/s/ HELENE SIMONET
		Helene Simonet Executive Vice President and Chief Financial Officer

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