COHERENT INC
Form 10-Q
May 14, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended April 4, 2009

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: 001-33962

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**

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 x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o (do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares outstanding of registrant s common stock, par value $.01 per share, on April 30, 2009 was 24,387,833 shares

Table of Contents

COHERENT, INC.

INDEX

		Page
Part I.	**Financial Information**	
Item 1.	Financial Statements (unaudited)	
	Condensed Consolidated Statements of Operations Three and six months ended April 4, 2009 and March 29, 2008	4
	Condensed Consolidated Balance Sheets April 4, 2009 and September 27, 2008	5
	Condensed Consolidated Statements of Cash Flows Six months ended April 4, 2009 and March 29, 2008	6
	Notes to Condensed Consolidated Financial Statements	7
Item 2.	Management s Discussion and Analysis of Financial Condition and Results of Operations	25
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	43
Item 4.	Controls and Procedures	44
Part II.	**Other Information**	
Item 1.	Legal Proceedings	44
Item 1A.	Risk Factors	46
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	59
Item 3.	Defaults upon Senior Securities	59
Item 4.	Submission of Matters to a Vote of Security Holders	59
Item 5.	Other Information	59
Item 6.	Exhibits	60
Signatures		61

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This quarterly report contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. All statements included in or incorporated by reference in this quarterly report, other than statements of historical fact, are forward-looking statements. These statements are generally accompanied by words such as trend, may, will, could, would, should, expect, plan, anticipate, rely, believe, estimate, predict, intend, potential, continue, forecast or other comparable terminology, including without limitation statements made under Future Trends , Our Strategy , discussions regarding our bookings and in Management s Discussion and Analysis of Financial Condition and Results of Operations . Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Actual results of Coherent, Inc. (referred to herein as the Company, we, our or Coherent) may differ significantly from those anticipated in these forward-looking statements as a result of various factors, including those discussed in the sections captioned Future Trends, Risk Factors, Key Performance Indicators, as well as any other cautionary language in this quarterly report. All forward-looking statements included in the document are based on information available to us on the date hereof. We undertake no obligation to update these forward-looking statements as a result of events or circumstances or to reflect the occurrence of unanticipated events or non-occurrence of anticipated events.

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

COHERENT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(*Unaudited; in thousands, except per share data)*

	Three Months Ended		Six Months Ended	
	April 4, 2009	**March 29, 2008**	**April 4, 2009**	**March 29, 2008**
Net sales	**$ 105,422**	$ 155,942	**$ 229,810**	$ 300,238
Cost of sales	**65,815**	88,818	**139,814**	172,620
Gross profit	**39,607**	67,124	**89,996**	127,618
Operating expenses:				
Research and development	**15,610**	19,428	**30,388**	37,747
Selling, general and administrative	**27,962**	37,384	**51,590**	76,202
Impairment of goodwill			**19,286**	
Amortization of intangible assets	**1,894**	2,229	**3,837**	4,435
Total operating expenses	**45,466**	59,041	**105,101**	118,384
Income (loss) from operations	**(5,859)**	8,083	**(15,105)**	9,234
Other income (expense):				
Interest and dividend income	**689**	3,368	**2,133**	7,437
Interest expense	**(32)**	(184)	**(109)**	(345)
Other net	**(2,257)**	1,079	**(7,854)**	3,052
Total other income (expense), net	**(1,600)**	4,263	**(5,830)**	10,144
Income (loss) before income taxes	**(7,459)**	12,346	**(20,935)**	19,378
Provision for income taxes	**1,671**	6,221	**2,874**	8,524
Net income (loss)	**$ (9,130)**	$ 6,125	**$ (23,809)**	$ 10,854
Net income (loss) per share:				
Basic	**$ (0.38)**	$ 0.20	**$ (0.98)**	$ 0.35
Diluted	**$ (0.38)**	$ 0.19	**$ (0.98)**	$ 0.34
Shares used in computation:				
Basic	**24,258**	31,394	**24,202**	31,406
Diluted	**24,258**	31,874	**24,202**	31,916

See Accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

COHERENT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited; in thousands, except par value)

	April 4, 2009	September 27, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	**$ 182,951**	$ 213,826
Restricted cash		2,645
Short-term investments	**23,849**	4,268
Accounts receivable net of allowances of $2,235 and $2,494, respectively	**81,302**	96,611
Inventories	**114,239**	120,519
Prepaid expenses and other assets	**48,314**	41,793
Deferred tax assets	**24,399**	30,121
Total current assets	**475,054**	509,783
Property and equipment, net	**100,094**	100,996
Goodwill	**63,513**	86,818
Intangible assets, net	**22,652**	27,556
Other assets	**79,885**	81,230
Total assets	**$ 741,198**	$ 806,383
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	**$**	**$**
Current portion of long-term obligations	**8**	9
Accounts payable	**20,316**	26,333
Income taxes payable	**1,956**	7,847
Other current liabilities	**74,249**	79,138
Total current liabilities	**96,529**	113,327
Long-term obligations	**9**	15
Other long-term liabilities	**83,325**	94,606
Commitments and contingencies (Note 11)		
Stockholders equity:		
Common stock, par value $.01 per share:		
Authorized 500,000 shares		
Outstanding 24,388 shares and 24,191 shares, respectively	**243**	241
Additional paid-in capital	**184,940**	177,646
Accumulated other comprehensive income	**58,502**	79,089
Retained earnings	**317,650**	341,459
Total stockholders equity	**561,335**	598,435
Total liabilities and stockholders equity	**$ 741,198**	$ 806,383

See Accompanying Notes to Condensed Consolidated Financial Statements.

Table of Contents

COHERENT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in thousands)

	Six Months Ended	
	April 4, 2009	**March 29, 2008**
Cash flows from operating activities:		
Net income (loss)	**$ (23,809)**	$ 10,854
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**9,716**	12,241
Amortization of intangible assets	**3,837**	4,435
Deferred income taxes	**(1,583)**	935
Loss (gain) on disposal of property and equipment	**438**	(87)
Stock-based compensation	**4,178**	5,311
Excess tax benefit from stock-based compensation arrangements	**(8)**	
Impairment of goodwill	**19,286**	
Non-cash restructuring and other	**167**	
Other non-cash expense	**34**	152
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	**13,013**	(2,211)
Inventories	**1,867**	1,884
Prepaid expenses and other assets	**(9,514)**	(14,402)
Other assets	**10,045**	2,550
Accounts payable	**(5,743)**	3,529
Income taxes payable/receivable	**(2,025)**	1,764
Other current liabilities	**(2,396)**	4,785
Other long-term liabilities	**(9,976)**	(3,099)
Net cash provided by operating activities	**7,527**	28,641
Cash flows from investing activities:		
Purchases of property and equipment	**(14,156)**	(9,213)
Proceeds from dispositions of property and equipment	**1,349**	9,853
Purchases of available-for-sale securities	**(44,986)**	(105,824)
Proceeds from sales and maturities of available-for-sale securities	**25,434**	136,878
Proceeds from sale of business		6,519
Change in restricted cash	**2,521**	(25)
Other net		804
Net cash provided by (used in) investing activities	**(29,838)**	38,992
Cash flows from financing activities:		
Short-term borrowings	**3**	
Short-term repayments	**(3)**	
Repayment of capital lease obligations	**(4)**	(6)
Cash overdrafts increase (decrease)	**20**	(874)
Issuance of common stock under employee stock option and purchase plans	**3,544**	1,362
Repurchase of common stock		(228,147)
Excess tax benefits from stock-based compensation arrangements	**8**	
Net cash provided by (used in) financing activities	**3,568**	(227,665)
Effect of exchange rate changes on cash and cash equivalents	**(12,132)**	13,889
Net decrease in cash and cash equivalents	**(30,875)**	(146,143)
Cash and cash equivalents, beginning of period	**213,826**	315,927
Cash and cash equivalents, end of period	**$ 182,951**	$ 169,784

Supplemental disclosure of cash flow information:				
Cash paid during the period for:				
Interest	**$**	**104**	$	192
Income taxes	**$**	**13,029**	$	10,274
Cash received during the period for:				
Income taxes	**$**	**6,138**	$	3,575
Non-cash investing and financing activities:				
Unpaid property and equipment	**$**	**1,492**	$	2,423
Net retirement of restricted stock awards	**$**	**394**	**$**	

See Accompanying Notes to Condensed Consolidated Financial Statements

Table of Contents

COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to such rules and regulations. These interim condensed consolidated financial statements and notes thereto should be read in conjunction with the Coherent, Inc. (referred to herein as the Company, we, our, us or Coherent) consolidated financial statements and notes thereto filed on Form 10-K for the fiscal year ended September 27, 2008. In the opinion of management, all adjustments necessary for a fair presentation of financial condition and results of operation as of and for the periods presented have been made and include only normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year or any other interim periods presented therein. Our fiscal year ends on the Saturday closest to September 30. Fiscal years 2009 and 2008 include 53 and 52 weeks, respectively.

Correction of an Error in Condensed Consolidated Statements of Cash Flows

In July 2008, we determined that the purchase and sale activity of securities classified as cash equivalents had been improperly included in the presentation of purchases and sales of investments within the investing section of the consolidated statement of cash flows within the captions Purchases of available-for-sale securities and Proceeds from sales and maturities of available-for-sale securities. As a result, we have corrected this error in the accompanying consolidated statement of cash flows for the six months ended March 29, 2008 by removing the purchases, sales and maturities of the securities classified as cash equivalents from the amounts previously reported. The correction of the error does not change the net effect of these purchases, maturities and sales of available for sale securities within cash flows from investing activities. For the six months ended March 29, 2008, we previously reported purchases of available for sale securities of $530,332, which we have reduced by $424,508 of purchases related to cash equivalents to purchases of $105,824, as corrected. We previously reported proceeds from sales and maturities of available-for-sale securities of $561,386, which we have reduced by $424,508 of sales and maturities related to cash equivalents to maturities and sales of $136,878, as corrected.

2. RECENT ACCOUNTING STANDARDS

In December 2007, the Financial Accounting Standards Board (FASB) ratified the Emerging Issues Task Force (EITF) s Consensus for Issue No. 07-1, Accounting for Collaborative Arrangements (EITF 07-1), which defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. We adopted EITF 07-1 for our fiscal year beginning September 28, 2008. The adoption of EITF 07-1 did not have a material impact on our consolidated financial position and results of operations.

In December 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 141 (revised 2007) Business Combinations (SFAS 141(R)). SFAS 141(R) retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations. SFAS 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date that the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any noncontrolling interest at their fair values as of the acquisition date. SFAS 141(R) also requires that acquisition related costs be recognized separately from the acquisition and recorded as an expense. SFAS 141(R) is effective for us for acquisitions after the beginning of our fiscal year 2010. We are currently evaluating the potential impact, if any, of the adoption of FAS 141(R) on our consolidated financial position, results of operations and cash flows.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. We adopted SFAS 157 in our first quarter of fiscal 2009. The adoption of SFAS 157 for financial assets and financial liabilities did not have a significant impact on our consolidated financial position and results of operations.

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2) which delayed the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. FSP 157-2 is effective for us for our fiscal year beginning October 4, 2009. We are currently evaluating the impact of the adoption of those provisions of SFAS 157 on our consolidated financial position and results of operations.

Table of Contents

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 expands the use of fair value accounting but does not affect existing standards, which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure certain financial assets and financial liabilities, on an instrument-by-instrument basis. If the fair value option is elected, changes in fair value are recognized in earnings. We adopted SFAS 159 in our first quarter of fiscal 2009. The adoption of SFAS 159 did not have a material impact on our consolidated financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS No. 133 (SFAS 161). This statement changes the disclosure requirements for derivative instruments and hedging activities. SFAS 161 requires us to provide enhanced disclosures about (a) how and why we use derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133, Accounting for Derivative Instruments and Hedging Activities, and its related interpretations, and (c) how derivative instruments and related hedged items affect our financial position, financial performance, and cash flows. We adopted SFAS 161 in our second quarter of fiscal 2009. The adoption of SFAS 161 did not have a material impact on our consolidated financial position and results of operations.

In April 2008, the FASB issued FASB Staff Position No. SFAS 142-3, Determination of the Useful Life of Intangible Assets (FSP SFAS 142-3). FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142). The intent of FSP SFAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R and other applicable accounting literature. FSP SFAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and must be applied prospectively to intangible assets acquired after the effective date. We will evaluate the potential impact of FSP SFAS 142-3 on acquisitions on a prospective basis.

In May 2008, the FASB issued SFAS No. 162 The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). This statement is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements of nongovernmental entities that are presented in conformity with GAAP. This statement will be effective 60 days following the U.S. Securities and Exchange Commission s approval of the Public Company Accounting Oversight Board amendment to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. We do not expect that the adoption of SFAS 162 will have a significant impact on our consolidated financial position, results of operations and cash flows.

In April 2009, the FASB issued FSP FAS 141(R)-1 Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies (FSP 141(R)-1) which amends the guidance in SFAS No. 141(R) to require contingent assets acquired and liabilities assumed in a business combination to be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the measurement period. If fair value cannot be reasonably estimated during the measurement period, the contingent asset or liability would be recognized in accordance with SFAS No. 5 Accounting for Contingencies , and FASB Interpretation (FIN) No. 14 Reasonable Estimation of the Amount of a Loss . Further, this FSP eliminated the specific subsequent accounting guidance for contingent assets and liabilities from SFAS No. 141(R), without significantly revising the guidance in SFAS No. 141. However, contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination would still be initially and subsequently measured at fair value in accordance with SFAS No. 141(R). This FSP is effective for all business acquisitions occurring on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are currently evaluating the potential impact, if any, of the adoption of FAS 141(R)-1 on our consolidated financial position, results of operations and cash flows.

In April 2009, the FASB issued FSP FAS No. 107-1 and Accounting Principles Board (APB) Opinion No. 28-1 (FSP FAS 107-1 & APB 28-1), Interim Disclosures about Fair Value of Financial Instruments. This FSP amends SFAS No. 107, Disclosures About Fair Value of Financial

Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. This FSP is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. We do not expect that the adoption of FSP FAS 107-1 & APB 28-1 will have a significant impact on our consolidated financial position, results of operations and cash flows.

Table of Contents

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. This FSP amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. We do not expect that the adoption of FSP FAS 115-2 and FAS 124-2 will have a significant impact on our consolidated financial position, results of operations and cash flows.

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP provides additional guidance for estimating fair value in accordance with SFAS No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. We do not expect that the adoption of FSP FAS 157-4 will have a significant impact on our consolidated financial position, results of operations and cash flows.

3. FAIR VALUE OF CASH EQUIVALENTS AND MARKETABLE SECURITIES

We measure our cash equivalents and marketable securities at fair value. The fair values of our financial assets and liabilities are determined using quoted market prices of identical assets or quoted market prices of similar assets from active markets. Level 1 valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Level 2 valuations are obtained from quoted market prices in active markets involving similar assets. Level 3 valuations would be based on unobservable inputs to a valuation model and include our own data about assumptions market participants would use in pricing the asset or liability based on the best information available under the circumstances; as of April 4, 2009, we did not have any assets or liabilities valued based on Level 3 valuations.

Financial assets and liabilities measured at fair value as of April 4, 2009 are summarized below (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Total Fair Value
Money market fund deposits (1)	$ 22,462	$	$ 22,462
Certificates of deposit (2)		120,909	120,909
U.S. Treasury and agency obligations (3)		25,764	25,764
Corporate notes and obligations (4)		749	749
Commercial paper (5)		11,464	11,464
Foreign currency contracts (6)		(162)	(162)
Total net assets measured at fair value	$ 22,462	$ 158,724	$ 181,186

(1) Included in cash and cash equivalents on the Condensed Consolidated Balance Sheet.

(2) Includes $115,467 recorded in cash and cash equivalents and $5,442 recorded in short-term investments on the Condensed Consolidated Balance Sheet.

(3) Includes $10,198 recorded in cash and cash equivalents and $15,566 recorded in short-term investments on the Condensed Consolidated Balance Sheet.

(4) Included in short-term investments on the Condensed Consolidated Balance Sheet.

(5) Includes $9,372 recorded in cash and cash equivalents and $2,092 recorded in short-term investments on the Condensed Consolidated Balance Sheet.

(6) Includes $201 recorded in prepaid expenses and other assets and $363 recorded in other current liabilities on the Condensed Consolidated Balance Sheet.

Table of Contents

4. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities , as amended, requires that all derivatives, whether designated in hedging relationships or not, be recorded on the balance sheet at fair value. We enter into foreign exchange forwards to minimize the risks of foreign currency fluctuation of specific assets and liabilities on the balance sheet; these are not designated as hedging instruments under FAS 133.

Effective December 28, 2008, we adopted the changes to the disclosure requirements for derivative and hedging activities of SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 requires us to provide enhanced disclosures about (a) how and why we use derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect our financial position, financial performance, and cash flows.

We maintain operations in various countries outside of the United States and foreign subsidiaries that manufacture and sell our products in various global markets. The majority of our sales are transacted in U.S. dollars. However, we do generate revenues in other currencies, primarily the Euro and the Japanese Yen. As a result, our earnings and cash flows are exposed to fluctuations in foreign currency exchange rates. We attempt to limit these exposures through financial market instruments. We utilize derivative instruments, primarily forward contracts with maturities of two months or less, to manage our exposure associated with anticipated cash flows and net asset and liability positions denominated in foreign currencies. Gains and losses on the forward contracts are mitigated by gains and losses on the underlying instruments. We do not use derivative financial instruments for speculative or trading purposes. If a financial counterparty to any of our hedging arrangements experiences financial difficulties or is otherwise unable to honor the terms of the foreign currency hedge, we may experience material financial losses.

For derivative instruments that are not designated as hedging instruments under SFAS 133, gains and losses are recognized in other income (expense).

The outstanding notional amounts of hedge contracts, with maximum maturity of 2 months, are as follows (in thousands):

	April 4, 2009	September 27, 2008
Other foreign currency hedge contracts		
Purchase	**$ 10,447**	$ 22,310
Sell	**(4,093)**	(8,470)
Net	**$ 6,354**	$ 13,840

Table of Contents

The location and fair value amounts of our derivative instruments reported in our Condensed Consolidated Balance Sheets as of April 4, 2009 were as follows (in thousands):

	Asset Derivatives April 4, 2009		Liability Derivatives April 4, 2009	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives not designated as hedging instruments under SFAS 133				
Foreign exchange contracts	Prepaid expenses and other assets	$ 201	Other current liabilities	$ 363

The location and amounts of non-designated derivative instruments gains and losses in the Condensed Consolidated Statements of Operations for the three and six months ended April 4, 2009 are as follows (in thousands):

	Location of Gain (Loss) Recognized in Income on Derivatives	Amount of Gain or (Loss) Recognized in Income on Derivatives	
		Three Months Ended April 4, 2009	Six Months Ended April 4, 2009
Derivatives not designated as hedging instruments under SFAS 133			
Foreign exchange contracts	Other income (expense)	$ (1,417)	$ (1,726)

5. REVENUE RECOGNITION

We recognize revenue when all four revenue recognition criteria have been met: persuasive evidence of an arrangement exists, the product has been delivered or the service has been rendered, the price is fixed or determinable and collection is probable. Revenue from product sales is recorded when all of the foregoing conditions are met and risk of loss and title passes to the customer. Our products typically include a warranty and the estimated cost of product warranty claims (based on historical experience) is recorded at the time the sale is recognized. Sales to customers are generally not subject to any price protection or return rights.

The vast majority of our sales are made to original equipment manufacturers (OEMs), distributors, resellers and end-users in the non-scientific market. Sales made to these customers do not require installation of the products by us and are not subject to other post-delivery obligations, except in occasional instances where we have agreed to perform installation or provide training. In those instances, we defer revenue related to installation services or training until these services have been rendered. We allocate revenue from multiple element arrangements to the various elements based upon relative fair values.

Our sales to distributors, resellers and end-user customers typically do not have customer acceptance provisions and only certain of our sales to OEM customers have customer acceptance provisions. Customer acceptance is generally limited to performance under our published product specifications. For the few product sales that have customer acceptance provisions because of other than published specifications, (1) the

products are tested and accepted by the customer at our site or by the customer s acceptance of the results of our testing program prior to shipment to the customer, or (2) the revenue is deferred until customer acceptance occurs.

Sales to end-users in the scientific market typically require installation and, thus, involve post-delivery obligations; however, our post-delivery installation obligations are not essential to the functionality of our products. We defer revenue related to installation services until completion of these services.

For most products, training is not provided; therefore, no post-delivery training obligation exists. However, when training is provided to our customers, it is typically priced separately and is recognized as revenue after these services have been provided.

Table of Contents

6. SHORT-TERM INVESTMENTS

We consider all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Marketable short-term investments in debt securities are classified and accounted for as available-for-sale securities and are valued based on quoted market prices in active markets involving similar assets. Investments classified as available-for-sale are reported at fair value with unrealized gains and losses, net of related income taxes, recorded as a separate component of other comprehensive income (OCI) 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).

Cash, cash equivalents and short-term investments consist of the following (in thousands):

	April 4, 2009			
	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	$ 182,947	$ 4	$	$ 182,951
Short-term investments:				
Available-for-sale securities:				
Commercial paper	$ 2,092	$	$	$ 2,092
Certificates of deposit	5,404	38		5,442
U.S. Treasury and agency obligations	15,552	14		15,566
Corporate notes and obligations	755	1	(7)	749
Total short-term investments	$ 23,803	$ 53	$ (7)	$ 23,849

	September 27, 2008			
	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	$ 216,474	$ 2	$ (5)	$ 216,471
Less: restricted cash				(2,645)
				$ 213,826
Short-term investments:				
Available-for-sale securities:				
Commercial paper	$ 1,496	$	$	$ 1,496
Certificates of deposit	900	5		905
U.S. Treasury and agency obligations	607	5		612
Corporate notes and obligations	1,254	7	(6)	1,255
Total short-term investments	$ 4,257	$ 17	$ (6)	$ 4,268

At September 27, 2008, $2.6 million of cash was restricted for remaining close out costs associated with our purchase of the remaining outstanding shares of Lambda Physik. The cash was paid during the first fiscal quarter and no cash was restricted as of April 4, 2009.

7. GOODWILL AND INTANGIBLE ASSETS

During the three months ended December 27, 2008, our stock price declined substantially, which combined with expectations of declines in forecasted operating results due to the slowdown in the global economy, led the Company to conclude that a triggering event for review for potential goodwill impairment had occurred. Accordingly, as of December 27, 2008, we performed an interim goodwill impairment evaluation, as required under SFAS No. 142. Under SFAS No. 142, goodwill is tested for impairment first by comparing each reporting unit s fair value to its respective carrying value. If such comparison indicates a potential impairment, then the impairment is determined as the difference between the recorded value of goodwill and its fair value. The performance of this test is a two-step process.

Step 1 of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. If the carrying amount of a reporting unit exceeds the reporting unit s fair value, we perform Step 2 of the goodwill impairment test to determine the amount of impairment loss. Step 2 of the goodwill impairment test involves comparing the fair value of the affected reporting unit s goodwill against the carrying value of that goodwill.

Table of Contents

The reporting units we evaluated for goodwill impairment have been determined to be the same as our operating segments in accordance with SFAS No. 142 and include Commercial Lasers and Components (CLC) and Specialty Lasers and Systems (SLS). We determined the fair value of our reporting units for the Step 1 test using a weighting of the Income (discounted cash flow), Market and Transaction approach valuation methodologies. We completed Step 1 of the impairment test. Management reviewed the results of the Step 1 analysis and concluded that a Step 2 analysis was required only for the CLC reporting unit. Due to the extensive work involved in performing the Step 2 analysis, the Company had not completed its analysis for the CLC reporting unit at the time the Company s quarterly report on Form 10-Q for the first quarter of fiscal 2009 was due. Our preliminary analysis indicated that the entire balance of the goodwill in the CLC reporting unit at that date was impaired and we recorded a non-cash goodwill impairment charge of $19.3 million in the first quarter of fiscal 2009. During the three months ended April 4, 2009, we completed the Step 2 analysis for the CLC reporting unit at December 27, 2008 and determined that the entire balance of goodwill in the CLC reporting unit at that date was impaired. The estimated fair value of our SLS reporting unit exceeded its carrying value so no further impairment analysis was required for this reporting unit.

The non-cash impairment of goodwill of $19.3 million was recorded in the three months ended December 27, 2008.

During the three months ended April 4, 2009, our expectations of declines in forecasted operating results due to the slowdown in the global economy and the further declines in our stock price led the Company to conclude that a triggering event for review for potential goodwill impairment had occurred. Accordingly, as of April 4, 2009, we performed an interim goodwill impairment evaluation, as required under SFAS No. 142. This interim impairment evaluation utilized the same valuation techniques used in our impairment valuation in the first quarter of fiscal 2009. Based on the results of our Step 1 analysis, we determined that no additional goodwill impairment was indicated.

The changes in the carrying amount of goodwill by segment for the period from September 27, 2008 to April 4, 2009 are as follows (in thousands):

	Commercial Lasers and Components	Specialty Lasers and Systems	Total
Balance as of September 27, 2008	$ 23,786	$ 63,032	$ 86,818
Reclassification (see Note 17)	(4,500)	4,500	
Impairment loss	(19,286)		(19,286)
Translation adjustments and other		(4,019)	(4,019)
Balance as of April 4, 2009	$	$ 63,513	$ 63,513

Components of our amortizable intangible assets are as follows (in thousands):

	April 4, 2009			September 27, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Existing technology	$ 53,128	$ (35,377)	$ 17,751	$ 54,615	$ (33,370)	$ 21,245
Patents	9,605	(7,859)	1,746	10,496	(8,090)	2,406
Drawings	1,311	(1,311)		1,433	(1,433)	
Order backlog	4,637	(4,623)	14	5,052	(5,034)	18
Customer lists	5,231	(3,410)	1,821	5,440	(3,253)	2,187

Trade name	3,556	(2,272)	1,284	3,861	(2,236)	1,625
Non-compete agreement	2,315	(2,279)	36	2,454	(2,379)	75
Total	$ 79,783	$ (57,131)	$ 22,652	$ 83,351	$ (55,795)	$ 27,556

Table of Contents

Amortization expense for intangible assets for the six months ended April 4, 2009 and March 29, 2008 was $3.8 million and $4.4 million, respectively. At April 4, 2009, estimated amortization expense for the remainder of fiscal 2009, the next five succeeding fiscal years and all fiscal years thereafter are as follows (in thousands):

	Estimated Amortization Expense
2009 (remainder)	$ 3,741
2010	6,419
2011	4,929
2012	3,232
2013	1,953
2014	1,089
Thereafter	1,289
Total	$ 22,652

8. BALANCE SHEET DETAILS

Inventories consist of the following (in thousands):

	April 4, 2009	September 27, 2008
Purchased parts and assemblies	**$ 37,103**	$ 36,919
Work-in-process	**35,585**	46,128
Finished goods	**41,551**	37,472
Inventories	**$ 114,239**	$ 120,519

Prepaid expenses and other assets consist of the following (in thousands):

	April 4, 2009	September 27, 2008
Prepaid and refundable income taxes	**$ 20,420**	$ 23,277
Prepaid expenses and other	**27,894**	18,516
Total prepaid expenses and other assets	**$ 48,314**	$ 41,793

Other assets consist of the following (in thousands):

	April 4, 2009	September 27, 2008
Assets related to deferred compensation arrangements	**$ 18,395**	$ 28,122
Deferred tax assets	**58,651**	50,208

Other assets		**2,839**		2,900
Total other assets	**$**	**79,885**	$	81,230

Other current liabilities consist of the following (in thousands):

		April 4, 2009		**September 27, 2008**
Accrued payroll and benefits	**$**	**20,493**	$	30,807
Reserve for warranty		**11,638**		13,214
Deferred income		**12,317**		12,096
Accrued expenses and other		**8,547**		12,252
Other taxes payable		**14,588**		4,858
Accrued restructuring charges		**3,754**		3,587
Customer deposits		**2,912**		2,324
Total other current liabilities	**$**	**74,249**	$	79,138

On April 16, 2008, we announced that we entered into an agreement to sell certain assets of our Auburn Optics (Auburn) manufacturing operation to Research Electro-Optics, Inc. (REO), a privately held optics manufacturing and technology company. We also entered into a strategic supply agreement with REO. REO is providing optical manufacturing capabilities for us, including fabrication and coating of optical components. The transition of the optics manufacturing assets from Auburn to REO was substantially completed by the end of the second quarter of fiscal 2009. The transition has resulted in charges primarily for employee terminations, supplier qualification, moving costs for related equipment, and other exit related costs associated with a plan approved by management.

Table of Contents

During the second quarter of fiscal 2009, we announced our plans to close our facilities in Tampere, Finland and St. Louis, Missouri. The closure of our Finland and St. Louis sites are scheduled for completion by the end of fiscal 2010 and fiscal 2009, respectively. These closure plans have resulted in charges primarily for employee termination and other costs associated with a plan approved by management.

During fiscal 2008, we consolidated our German DPSS manufacturing into our Lübeck, Germany site. The transfer was completed in the fourth quarter of fiscal 2008. On October 13, 2008, we announced the consolidation of the remainder of our Munich facility into our Göttingen site. The transfer is scheduled for completion by the end of our third quarter of fiscal 2009. The consolidation and transfers have resulted in charges primarily for employee terminations, other exit related costs associated with a plan approved by management and a grant repayment liability.

We recognize restructuring costs in accordance with SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. Restructuring charges in the first six months of fiscal 2009 and 2008 are recorded in cost of sales, research and development and selling, general and administrative expenses in our consolidated statements of operations.

The following table presents our current liability as accrued on our balance sheet for restructuring charges. The table sets forth an analysis of the components of the restructuring charges, payments made against the accrual and other provisions for the first six months of fiscal 2009 and 2008 (in thousands):

	Severance Related	Facilities-related Charges	Other Restructuring Costs	Total
Balance at September 29, 2007	$	$ 476	$	$ 476
Provisions				
Deductions		(476)		(476)
Balance at March 29, 2008	$	$	$	$
Balance at September 27, 2008	$ 2,581	$ 19	$ 987	$ 3,587
Provisions	5,862	950	2,275	9,087
Deductions	(5,668)	(607)	(2,645)	(8,920)
Balance at April 4, 2009	$ 2,775	$ 362	$ 617	$ 3,754

The severance related costs for the first six months of fiscal 2009 are primarily comprised of severance pay, outplacement services, medical and other related benefits for employees being terminated due to the transition of activities out of Auburn, California, Munich, Germany, St. Louis, Missouri and Tampere, Finland. The remaining severance related restructuring accrual balance of approximately $2.8 million at April 4, 2009 is expected to result in cash expenditures through the fourth quarter of fiscal 2010. The other restructuring costs are primarily for a grant repayment liability, project management fees and other exit related costs associated with a plan approved by management.

We provide warranties on certain of our product sales and allowances for estimated warranty costs are recorded during the period of sale. The determination of such allowances requires us to make estimates of product return rates and expected costs to repair or replace the products under warranty. We currently establish warranty reserves based on historical warranty costs for each product line. The weighted average period covered is nearly 15 months. If actual return rates and/or repair and replacement costs differ significantly from our estimates, adjustments to cost of sales may be required in future periods.

15

Table of Contents

Components of the reserve for warranty costs during the first six months of fiscal 2009 and 2008 were as follows (in thousands):

	Six Months Ended	
	April 4, 2009	March 29, 2008
Beginning balance	$ 13,214	$ 13,660
Additions related to current period sales	6,178	10,571
Warranty costs incurred in the current period	(7,222)	(11,099)
Adjustments to accruals related to prior period sales	(532)	658
Ending balance	$ 11,638	$ 13,790

Other long-term liabilities consist of the following (in thousands):

	April 4, 2009	September 27, 2008
Long-term taxes payable	$ 47,090	$ 45,343
Deferred compensation	18,654	28,459
Deferred tax liabilities	10,162	13,738
Deferred income	1,948	1,800
Asset retirement obligations liability	1,454	1,464
Other long-term liabilities	4,017	3,802
Total other long-term liabilities	$ 83,325	$ 94,606

The following table reconciles changes in our asset retirement obligations liability (in thousands):

	Six Months Ended	
	April 4, 2009	March 29, 2008
Beginning balance	$ 1,464	$ 1,256
Adjustment to asset retirement obligations recognized	388	(16)
Accretion recognized	53	34
Changes due to foreign currency exchange	(50)	158
Ending balance	$ 1,855	$ 1,432

At April 4, 2009, $401,000 of the asset retirement liability is reported in other current liabilities and $1,454,000 is reported in other long-term liabilities on our condensed consolidated balance sheets. At March 29, 2008, the asset retirement liability is reported in other long-term liabilities on our condensed consolidated balance sheets.

9. SHORT-TERM BORROWINGS

We have several lines of credit which allow us to borrow in the applicable local currency. At April 4, 2009, these foreign lines of credit totaled $15.7 million, of which $14.1 million was unused and available. These credit facilities were used in Europe during the first six months of fiscal 2009 as guarantees. In addition, our domestic line of credit, which was opened on March 31, 2008, includes a $40 million unsecured revolving credit account with Union Bank of California, which expires on March 31, 2010 and is subject to covenants related to financial ratios and tangible net worth with which we are currently in compliance. No amounts have been drawn upon our domestic line of credit as of April 4, 2009.

10. STOCK-BASED COMPENSATION

Stock-Based Benefit Plans

We have two Stock Option Plans for which all employees and service providers are eligible participants and a non-employee Directors Stock Option Plan for which only non-employee directors are eligible participants. The Directors Stock Option Plan is designed to work automatically without administration, however to the extent administration is necessary, it will be performed by the Board of Directors (or an independent committee thereof). Under these three plans, we may grant options to purchase up to an aggregate of 5,500,000, 6,300,000 and 689,000 shares of common stock, respectively of which zero, 2,867,003 and 129,000 shares, respectively, remain available for grant at April 4, 2009. Employee options are generally exercisable between two and four years from the grant date at a price equal to the fair market value of the common stock on the date of the grant and generally vest 25% to 50% annually. The Company settles stock option exercises with newly issued shares of common stock. Grants under employee plans generally expire six years from the original grant date. Director options are automatically granted to our non-employee directors. Such directors initially receive a stock option for 24,000 shares exercisable over a three-year period and an award of restricted stock units of 2,000 shares. Additionally, the non-employee directors receive an annual stock option grant of 6,000 shares exercisable as to 50% of the shares on the day prior to each of the next two annual stockholder meetings. Grants under the Directors Stock Option Plan expire ten years from the original grant date. In addition, each non-employee director receives an annual grant of 2,000 shares of restricted stock units that vest on the day prior to the annual stockholder meeting held in the third calendar year following the date of grant.

Table of Contents

Under one of our Stock Option Plans, certain employees and non-employee directors are eligible for grants of restricted stock awards and/or restricted stock units. Restricted stock awards and restricted stock units are independent of option grants and are subject to restrictions. All of the shares of restricted stock outstanding at April 4, 2009 are subject to forfeiture if employment terminates prior to the release of restrictions. During this period, ownership of the shares cannot be transferred. The service-based restricted awards generally vest three years from the date of grant. The Company granted performance-based restricted stock units during the second quarter of fiscal 2008 which have a single vesting measurement date of November 14, 2010, which vest as to anywhere between 0% and 300% of the targeted amount based upon achievement by the Company of (a) an annual revenue threshold amount and (b) adjusted EBITDA percentage targets. Restricted stock (not including performance-based restricted stock and restricted stock units) has the same cash dividend and voting rights as other common stock and is considered to be currently issued and outstanding. The cost of the awards and units, determined to be the fair market value of the shares at the date of grant, is expensed ratably over the period the restrictions lapse. We had 409,561 shares and units of restricted stock outstanding at April 4, 2009 and 341,015 shares and units of restricted stock outstanding at September 27, 2008.

We have an Employee Stock Purchase Plan (ESPP) whereby eligible employees may authorize payroll deductions of up to 10% of their regular base salary to purchase shares at the lower of 85% of the fair market value of the common stock on the date of commencement of the offering or on the last day of the six-month offering period. At April 4, 2009, 670,324 shares of our common stock were reserved for future issuance under the plan.

In the second quarter of fiscal 2007, the ESPP was suspended and employee contributions made to the ESPP were returned while a voluntary review of our historical stock option practices was conducted. The ESPP was reopened with an 8 month offering period ending October 31, 2008 and employees began making contributions during the second quarter of fiscal 2008.

SFAS 123(R)

In accordance with the fair value recognition provisions of SFAS No. 123 (Revised 2004), Share-Based Payment, (SFAS 123(R)), we recognize compensation expense for all share-based payment awards on a straight-line basis over the respective requisite service period of the awards.

Determining Fair Value

Valuation and amortization method We estimate the fair value of stock options granted using the Black-Scholes-Merton option-pricing formula and a single option award approach. This fair value is then amortized on a straight-line basis over the requisite service periods of the awards, which is generally the vesting period.

Expected Term The expected term represents the period that our stock-based awards are expected to be outstanding and was determined based on historical experience of similar awards, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expectations of future employee behavior as influenced by changes to the terms of its stock-based awards.

Expected Volatility Our computation of expected volatility is based on a combination of historical volatility and market-based implied volatility.

Risk-Free Interest Rate The risk-free interest rate used in the Black-Scholes-Merton valuation method is based on the implied yield currently available on U.S. Treasury zero-coupon issues with an equivalent remaining term.

Expected Dividend The expected dividend assumption is based on our current expectations about our anticipated dividend policy.

Table of Contents

The fair values of our stock options granted to employees and shares purchased under the employee stock purchase plan for the three months ended April 4, 2009 and March 29, 2008 were estimated using the following weighted-average assumptions:

	Employee Stock Option Plans				Employee Stock Purchase Plan			
	Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
	April 4, 2009	March 29, 2008	April 4, 2009	March 29, 2008	April 4, 2009	March 29, 2008	April 4, 2009	March 29, 2008 (1)
Expected life in years	5.6	3.1	4.2	3.5	0.5	0.7	0.5	0.7
Expected volatility	48.0%	29.5%	48.0%	29.5%	44.1%	31.9%	40.5%	31.9%
Risk-free interest rate	2.1%	2.1%	1.95%	3.9%	1.1%	1.8%	1.3%	1.8%
Expected dividends								
Weighted average fair value per share	$ 7.27	$ 6.47	$ 8.92	$ 8.78	$ 6.95	$ 7.31	$ 7.06	$ 7.31

(1) During the second quarter of fiscal 2007, the ESPP was suspended and employee contributions were returned while a voluntary review of our historical stock option practices was conducted; therefore there are no fair values for the first quarter of fiscal 2008. There was no activity under the ESPP during the first quarter of fiscal 2008. The ESPP reopened in March 2008.

Stock Compensation Expense

The following table shows total stock-based compensation expense included in the condensed consolidated statements of operations for the three and six months ended April 4, 2009 and March 29, 2008 (in thousands):

	Three Months Ended		Six Months Ended	
	April 4, 2009	March 29, 2008	April 4, 2009	March 29, 2008
Cost of sales	177	$ 759	$ 461	$ 1,144
Research and development	239	808	434	1,127
Selling, general and administrative	2,009	3,382	3,220	5,383
Income tax benefit	(453)	(1,215)	(990)	(1,987)
	$ 1,972	$ 3,734	$ 3,125	$ 5,667

During the three and six months ended April 4, 2009, $0.3 million and $0.5 million, respectively, for all stock plans was capitalized into inventory, $0.2 million and $0.5 million, respectively, was amortized to cost of sales and $0.3 million remained in inventory at April 4, 2009. During the three and six months ended March 29, 2008, $0.4 million and $0.6 million, respectively, for all stock plans was capitalized into inventory, $0.3 million and $0.5 million, respectively, was amortized to cost of sales and $0.4 million remained in inventory at March 29, 2008. As required by SFAS 123(R), management made an estimate of expected forfeitures and is recognizing compensation costs only for those equity awards expected to vest.

At April 4, 2009, the total compensation cost related to unvested stock-based awards granted to employees under the Company s stock option plans but not yet recognized was approximately $9.6 million, net of estimated forfeitures of $1.3 million. This cost will be amortized on a straight-line basis over a weighted-average period of approximately 2.3 years and will be adjusted for subsequent changes in estimated forfeitures.

At April 4, 2009, total compensation cost related to options to purchase common shares under the ESPP but not yet vested was approximately $0.1 million, which will be recognized over the offering period.

In accordance with SFAS 123(R), the cash flows resulting from excess tax benefits (tax benefits related to the excess of proceeds from an employee s exercises of stock options over the stock-based compensation cost recognized for those options) are classified as financing cash flows. During the first six months of fiscal 2009 and fiscal 2008, we recorded an immaterial amount of excess tax benefits as cash flows from financing activities.

Table of Contents

Stock Options & Awards Activity

The following is a summary of option activity for our Stock Option Plans (in thousands, except per share amounts and remaining contractual term in years):

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term in Years	Aggregate Intrinsic Value
Outstanding at September 27, 2008	2,880	$ 30.31		
Granted	467	22.44		
Exercised	(9)	25.37		
Forfeitures	(14)	28.42		
Expirations	(332)	24.36		
Outstanding at April 4, 2009	2,992	$ 29.77	3.3	$ 120
Vested and expected to vest at April 4, 2009	2,940	$ 29.88	3.3	$ 115
Exercisable at April 4, 2009	2,133	$ 30.87	2.5	$

The aggregate intrinsic value is calculated as the difference between the exercise price of the underlying options and the quoted price of our common stock. There were less than 0.1 million outstanding options that were in-the-money at April 4, 2009. No options were exercised under the Company s stock option plans during the second fiscal quarter of 2009, therefore there was no intrinsic value realized in that period. During the first quarter of fiscal 2009, the aggregate intrinsic value of options exercised under the Company s stock option plans was less than $0.1 million, determined as of the date of option exercise. During the second quarter of fiscal 2008, the aggregate intrinsic value of options exercised under the Company s stock option plans was $0.4 million, determined as of the date of option exercise. There were no options that were exercised under the Company s stock option plans during the first fiscal quarter of 2008, therefore there was no intrinsic value realized in that period.

The following table summarizes our restricted stock award and restricted stock unit activity for the first six months of fiscal 2009 (in thousands, except per share amounts):

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Nonvested stock at September 27, 2008	341	$ 29.70
Granted	173	22.46
Vested	(64)	29.60
Forfeited	(40)	31.15
Nonvested stock at April 4, 2009	410	$ 26.52

11. COMMITMENTS AND CONTINGENCIES

We are subject to legal claims and litigation arising in the ordinary course of business, such as product liability, employment or intellectual property claims, including, but not limited to, the matters described below. The outcome of any such matters is currently not determinable. Although we do not expect that such legal claims and litigation will ultimately have a material adverse effect on our consolidated financial position or results of operations, an adverse result in one or more matters could negatively affect our results in the period in which they occur.

Table of Contents

Derivative Lawsuits Between February 15, 2007 and March 2, 2007, three purported shareholder derivative lawsuits were filed in the United States District Court for the Northern District of California against certain of Coherent s current and former officers and directors. Coherent is named as a nominal defendant. The complaints generally allege that the defendants breached their fiduciary duties and violated the securities laws in connection with the granting of stock options, the accounting treatment for such grants, and the issuance of allegedly misleading public statements and stock sales by certain of the individual defendants. On May 29, 2007, these lawsuits were consolidated under the caption *In re Coherent, Inc. Shareholder Derivative Litigation*, Lead Case No. C-07-0955-JF (N.D. Cal.). On June 25, 2007, plaintiffs filed an amended consolidated complaint. The consolidated complaint asserts causes of action for alleged violations of federal securities laws, violations of California securities laws, breaches of fiduciary duty and/or aiding and abetting breaches of fiduciary duty, abuse of control, gross mismanagement, constructive fraud, corporate waste, unjust enrichment, insider selling and misappropriation of information. The consolidated complaint seeks, among other relief, disgorgement and damages in an unspecified amount, an accounting, rescission of allegedly improper stock option grants, punitive damages and attorneys fees and costs. Motions to dismiss the consolidated complaint have been filed by defendants and those motions have not been ruled upon by the court.

The Company s Board of Directors has appointed a Special Litigation Committee (SLC) comprised of independent director Sandeep Vij to investigate and evaluate the claims asserted in the derivative litigation and to determine what action(s) should be taken with respect to the derivative litigation. The SLC s investigation is ongoing.

Income Tax Audits The Internal Revenue Service (IRS) is conducting an audit of our 2003 and 2004 tax returns. The IRS has issued a number of Notices of Proposed Adjustments (NOPAs) to these returns. Among other items, the IRS has challenged our research and development credits and our extraterritorial income (ETI) exclusion. We have agreed to the various adjustments proposed by the IRS and we believe that we have adequately provided for these exposures and any other items identified by the IRS as a result of the audit of these tax years. As part of its audit of our 2003 and 2004 years, the IRS has requested information related to our stock option investigation and we intend to comply with this request and address any issues that are raised in a timely manner. The IRS has also indicated that it may consider an audit of our 2005 and 2006 tax returns and has requested stock option investigation information for these years.

The IRS is also auditing the research and development credits generated in the years 1999 through 2001 and carried forward to future tax years. We received a NOPA from the IRS in October 2008 to decrease the amount of research and development credits generated in years 2000 and 2001. We responded to this NOPA and intend to dispute the adjustment with the IRS through the appeals process available to us. While we believe that we have adequately provided for any adjustments that may be proposed by the IRS related to these credits, there exists the possibility of a material adverse impact on our results of operations in the event that this issue is resolved unfavorably to us.

The German tax authorities are conducting an audit of our subsidiary in Göttingen for the tax years 1999 through 2005. We believe that we have adequately provided for any adjustments that may be proposed by the German tax authorities.

Table of Contents

12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended		Six Months Ended	
	April 4, 2009	**March 29, 2008**	**April 4, 2009**	**March 29, 2008**
Net income (loss)	**$ (9,130)**	$ 6,125	**$ (23,809)**	$ 10,854
Other comprehensive income (loss):				
Translation adjustment	**(10,437)**	28,028	**(20,598)**	31,214
Net gain on derivative instruments, net of taxes	**2**	2	**4**	1
Changes in unrealized gains (losses) on available-for-sale securities, net of taxes		(25)	**7**	129
Other comprehensive income (loss), net of tax	**(10,435)**	28,005	**(20,587)**	31,344
Comprehensive income (loss)	**$ (19,565)**	$ 34,130	**$ (44,396)**	$ 42,198

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

Balance, September 30, 2007	$ (98)
Changes in fair value of derivatives	
Net losses reclassified from OCI	3
Balance, March 29, 2008	$ (95)
Balance, September 27, 2008	$ (93)
Changes in fair value of derivatives	
Net losses reclassified from OCI	4
Balance, April 4, 2009	$ (89)

Accumulated other comprehensive income (net of tax) at April 4, 2009 is comprised of accumulated translation adjustments of $58.6 million and net loss on derivative instruments of $0.1 million. Accumulated other comprehensive income (net of tax) at September 27, 2008 is comprised of accumulated translation adjustments of $79.2 million and net loss on derivative instruments of $0.1 million.

13. EARNINGS PER SHARE

Basic earnings per share is computed based on the weighted average number of shares outstanding during the period, excluding unvested restricted stock. Diluted earnings per share is computed based on the weighted average number of shares outstanding during the period increased by the effect of dilutive employee stock awards, including stock options, restricted stock awards and stock purchase contracts, using the treasury stock method.

Table of Contents

The following table presents information necessary to calculate basic and diluted earnings (loss) per share (in thousands, except per share data):

	Three Months Ended		Six Months Ended	
	April 4, 2009	March 29, 2008	April 4, 2009	March 29, 2008
Weighted average shares outstanding basic (1)	**24,258**	31,394	**24,202**	31,406
Dilutive effect of employee stock awards		480		510
Weighted average shares outstanding diluted	**24,258**	31,874	**24,202**	31,916
Net income (loss)	**$ (9,130)**	$ 6,125	**$ (23,809)**	$ 10,854
Net income (loss) per basic share	**$ (0.38)**	$ 0.20	**$ (0.98)**	$ 0.35
Net income (loss) per diluted share	**$ (0.38)**	$ 0.19	**$ (0.98)**	$ 0.34

(1) Net of restricted stock

As the Company incurred a net loss for the second quarter and first six months of fiscal 2009, all potentially dilutive securities from stock options, employee stock purchase plan and restricted stock awards have been excluded from the diluted net loss per share computation as their effects were deemed anti-dilutive. A total of 2,348,968 and 2,430,969 potentially dilutive securities have been excluded from the dilutive share calculation for the second quarter and first six months of fiscal 2008, respectively, as their effect was anti-dilutive.

14. STOCK REPURCHASE

On February 12, 2008, the Company announced that the Board of Directors had authorized the Company to repurchase up to $225 million of its common stock through a modified Dutch Auction tender offer and an additional $25 million of its common stock, following the completion or termination of the tender offer, under its stock repurchase program, terminating no later than February 11, 2009. On March 17, 2008, we completed our tender offer, repurchased and retired 7,972,313 shares of outstanding common stock at a price of $28.50 per share for a total of $228.2 million, including expenses. Such repurchases were accounted for as a reduction in additional paid in capital. There were no repurchases during fiscal 2009. The remaining repurchase program expired on February 11, 2009.

15. OTHER INCOME (EXPENSE)

Other income (expense) is as follows (in thousands):

	Three Months Ended	Six Months Ended

	April 4, 2009	March, 29, 2008	April 4, 2009	March, 29, 2008
Interest and dividend income	**$ 689**	$ 3,368	**$ 2,133**	$ 7,437
Interest expense	**(32)**	(184)	**(109)**	(345)
Foreign exchange gain (loss)	**(1,806)**	1,082	**(1,304)**	2,506
Loss on investments, net	**(1,222)**	(1,139)	**(8,020)**	(177)
Other net	**771**	1,136	**1,470**	723
Other income (expense), net	**$ (1,600)**	$ 4,263	**$ (5,830)**	$ 10,144

16. INCOME TAXES

The Company accounts for income taxes under the provisions of SFAS No. 109, Accounting for Income Taxes (SFAS 109). Under the provisions of SFAS 109, deferred tax assets and liabilities are recognized based on the differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases, utilizing the currently enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Table of Contents

Income tax expense includes a provision for federal, state and foreign taxes based on the annual estimated effective tax rate applicable to us and our subsidiaries. Our estimated effective tax rate for the three months and six months ended April 4, 2009 was (22.4%) and (13.7%), respectively. The difference between the statutory rate of 35% and our effective tax rate of (22.4%) for the three months ended April 4, 2009 was due primarily to permanent differences related to an increase in valuation allowance against California research and development tax credits as a result of California legislation enacted in February 2009, an unrealized loss on life insurance policy investments related to our deferred compensation plan and deemed dividend inclusions under the Subpart F tax rules. These amounts are partially offset by permanent differences related to the benefit of foreign tax credits and federal research and development credits. The difference between the statutory rate of 35% and our effective tax rate of (13.7%) for the six months ended April 4, 2009 was due primarily to permanent differences related to the non-deductibility of the goodwill impairment, an increase in valuation allowance against California research and development tax credits as a result of California legislation enacted in February 2009 and certain foreign net operating loss carryforwards, an unrealized loss on life insurance policy investments related to our deferred compensation plan and deemed dividend inclusions under the Subpart F tax rules. These amounts are partially offset by permanent differences related to the benefit of foreign tax credits and the benefit of federal research and development tax credits, including additional credits reinstated from fiscal 2008 resulting from the enactment of the Emergency Economic Stabilization Act of 2008.

Determining the consolidated provision for income taxes, income tax liabilities and deferred tax assets and liabilities involves judgment. We calculate and provide for income taxes in each of the tax jurisdictions in which we operate, which involves estimating current tax exposures as well as making judgments regarding the recoverability of deferred tax assets in each jurisdiction. The estimates used could differ from actual results, which may have a significant impact on operating results in future periods.

As of April 4, 2009, the total amount of gross unrecognized tax benefits was $52.6 million, of which $28.3 million, if recognized, would affect our effective tax rate. Our total gross unrecognized tax benefits were classified as other long-term liabilities in the condensed consolidated balance sheets.

Our policy is to include interest and penalties related to unrecognized tax benefits within the provision for income taxes. As of April 4, 2009, the total amount of gross interest and penalties accrued was $7.3 million, which is classified as other long-term liabilities in the condensed consolidated balance sheets.

We are subject to taxation and file income tax returns in the U.S. federal jurisdiction and in many state and foreign jurisdictions. For U.S. federal income tax purposes, all years prior to 1999 are closed. The years 2003 and 2004 are currently under examination by the IRS. The IRS is also auditing the research and development credits generated in the years 1999 through 2001 and carried forward to future years. We responded to a NOPA issued by the IRS in October 2008 to decrease the amount of research and development credits generated in 2000 and 2001 and we intend to dispute the proposed adjustment with the IRS through the appeals process available to us. The IRS has also indicated that it may consider an audit of our 2005 and 2006 tax returns. In our major state jurisdiction and our major foreign jurisdiction, the years subsequent to 1998 remain open and could be subject to examination by the taxing authorities.

Management believes that it has adequately provided for any adjustments that may result from tax examinations. However, the outcome of tax audits cannot be predicted with certainty. Should any issues addressed in our tax audits be resolved in a manner not consistent with management s expectations, we could be required to adjust our provision for income tax in the period such resolution occurs. Although timing of the resolution and/or closure of audits is highly uncertain, we do not believe it is reasonably possible that our unrecognized tax benefits would materially change in the next 12 months.

The Emergency Economic Stabilization Act of 2008, which contains the Tax Extenders and Alternative Minimum Tax Relief Act of 2008, was enacted on October 3, 2008. Under the Act, the federal research and development credit was retroactively extended for amounts paid or incurred after December 31, 2007 and before January 1, 2010. The effects of the change in the tax law are recognized in our first quarter of fiscal 2009, which is the quarter that the law was enacted. In addition to the federal legislation, California Assembly Bill 1452 was enacted on September 30, 2008. This legislation limits the utilization of the California research and development credit to 50% of the California tax liability for tax years beginning on or after January 1, 2008 and before January 1, 2010. New California budget legislation was also signed on February 20, 2009 that allows taxpayers to make an annual election of a single sales factor apportionment formula for tax years beginning on or after January 1, 2011. The effects of the new California budget legislation are recognized in our second quarter of fiscal 2009.

Table of Contents

17. SEGMENT INFORMATION

We are organized into two reportable operating segments: Commercial Lasers and Components (CLC) and Specialty Lasers and Systems (SLS). CLC focuses on higher volume products that are offered in set configurations. The product architectures are designed for easy exchange at the point of use such that product service and repairs are generally based upon advanced replacement and depot (i.e., factory) repair. CLC s primary markets include OEM components and instrumentation and materials processing. SLS develops and manufacturers configurable, advanced-performance products largely serving the microelectronics and scientific research markets. The size and complexity of many of the SLS products generally require service to be performed at the customer site by factory-trained field service engineers.

Effective as of the beginning of the first quarter of fiscal 2009, in order to align all of our diode-pumped solid state (DPSS) technology into the same reportable operating segment, management moved the DPSS Germany and Crystal product families from the CLC segment into the SLS segment, including $4.5 million of goodwill. This allows for leverage and efficiencies in many parts of the business. Crystal is primarily an internal supplier that supports the DPSS product family. This concentrates all DPSS product families in the SLS segment effective as of the first quarter of fiscal 2009. All of reporting has been aligned to reflect the revised reportable operating segments (CLC and SLS) and prior periods have been restated.

We have identified CLC and SLS as operating segments for which discrete financial information is available. Both operating segments have engineering, marketing, product business management and product line management. A small portion of our outside revenue is attributable to projects and recently developed products for which a segment has not yet been determined. The associated direct and indirect costs are presented in the category of Corporate and other, along with other corporate costs as described below.

Pursuant to SFAS 131, Disclosures about Segments of an Enterprise and Related Information , our Chief Executive Officer has been identified as the chief operating decision maker (CODM) as he assesses the performance of the segments and decides how to allocate resources to the segments. Income (loss) from operations is the measure of profit and loss that our CODM uses to assess performance and make decisions. Assets by segment are not a measure used to assess the performance of the company by the CODM; therefore we do not report assets by segment internally or in our disclosures. Income (loss) from operations represents the net sales less the cost of sales and direct operating expenses incurred within the operating segments as well as allocated expenses such as shared sales and manufacturing costs. We do not allocate to our operating segments certain operating expenses which we manage separately at the corporate level. These unallocated costs include stock-based compensation and corporate functions (certain research and development, management, finance, legal and human resources) and are included in the results below under Corporate and other in the reconciliation of operating results. Management does not consider unallocated Corporate and other costs in its measurement of segment performance.

The following table provides net sales and income (loss) from operations for our operating segments (in thousands):

	Three Months Ended		Six Months Ended	
	April 4, 2009	March 29, 2008	April 4, 2009	March 29, 2008
Net sales:				
Commercial Lasers and Components	$ 30,828	$ 53,871	$ 68,208	$ 101,119
Specialty Laser Systems	74,569	102,046	161,552	199,069
Corporate and other	25	25	50	50
Total net sales	$ 105,422	$ 155,942	$ 229,810	$ 300,238

Income (loss) from operations:				
Commercial Lasers and Components	$ (7,508)	$ 4,652	$ (31,276)	$ 5,474
Specialty Laser Systems	7,891	14,963	21,624	28,864
Corporate and other	(6,242)	(11,532)	(5,453)	(25,104)
Total income (loss) from operations	$ (5,859)	$ 8,083	$ (15,105)	$ 9,234

Table of Contents

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

COMPANY OVERVIEW

BUSINESS BACKGROUND

We are one of the world s leading suppliers of photonics-based solutions in a broad range of commercial and scientific research applications. We design, manufacture and market lasers, 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 businesses, technologies, intellectual property, manufacturing processes and product offerings.

We are organized into two operating segments: Commercial Lasers and Components (CLC) and Specialty Lasers and Systems (SLS). This segmentation reflects the go-to-market strategies for various products and markets. While both segments work to deliver cost-effective photonics solutions, CLC focuses on higher volume products that are offered in set configurations. The product architectures are designed for easy exchange at the point of use such that substantially all product service and repairs are based upon advanced replacement and depot (i.e., factory) repair. CLC s primary markets include OEM components and instrumentation and materials processing. SLS develops and manufactures configurable, advanced-performance products largely serving the microelectronics and scientific research markets. The size and complexity of many of the SLS products generally require service to be performed at the customer site by factory-trained field service engineers.

Effective as of the beginning of the first quarter of fiscal 2009, in order to align all of our diode-pumped solid state (DPSS) technology into the same reportable operating segment, management moved the DPSS Germany and Crystal product families from the CLC segment into the SLS segment. This allows for leverage and efficiencies in many parts of the business. Crystal is primarily an internal supplier that supports the DPSS product family. This concentrates all DPSS product families in the SLS segment effective as of the first quarter of fiscal 2009. All of reporting has been aligned to reflect the revised reportable operating segments (CLC and SLS) and prior periods have been restated.

Income (loss) from operations is the measure of profit and loss that our chief operating decision maker (CODM) uses to assess performance and make decisions. Income (loss) from operations represents the net sales less the cost of sales and direct operating expenses incurred within the operating segments as well as allocated expenses such as shared sales and manufacturing costs. We do not allocate to our operating segments certain operating expenses which we manage separately at the corporate level. These unallocated costs include stock-based compensation and corporate functions (certain research and development, management, finance, legal and human resources) and are included in Corporate and Other. Management does not consider unallocated Corporate and Other costs in its measurement of segment performance.

MARKET APPLICATIONS

Our products address a broad range of applications that we group into the following markets: Microelectronics, Materials Processing, OEM Components and Instrumentation, and Scientific Research and Government Programs.

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 portfolio and application engineering to lead the proliferation of photonics into broader markets** We will continue to identify opportunities in which our technology portfolio and application engineering can be used to offer innovative solutions and gain access to new markets.

- **Optimize 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 optimize our financial returns from these markets.

- **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 customer relationships and develop new ones with customers who are industry leaders and work together with these customers to design and develop innovative product systems and solutions as they develop new technologies.

Table of Contents

- **Develop and acquire new technologies and market share** We will continue to enhance our market position through 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.

- **Focus on long-term improvement of adjusted EBITDA expressed as a percentage of net sales** We define adjusted EBITDA as earnings before interest, taxes, depreciation, amortization, stock compensation expenses and certain other non-operating income and expense items. Key initiatives to reach our goals for EBITDA improvements include our program of consolidating manufacturing locations, rationalizing our supply chain and logistics and selective outsourcing of manufacturing operations.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

Our discussion and analysis of financial condition and results of operations are based upon our condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America and pursuant to the rules and regulations of the SEC. 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. We have identified the following as the items that require the most significant judgment and often involve complex estimation: revenue recognition, accounting for long-lived assets (including goodwill and intangible assets), inventory valuation, warranty reserves, stock-based compensation and accounting for income taxes.

Revenue Recognition

We recognize revenue when all four revenue recognition criteria have been met: persuasive evidence of an arrangement exists, the product has been delivered or the service has been rendered, the price is fixed or determinable and collection is probable. Revenue from product sales is recorded when all of the foregoing conditions are met and risk of loss and title passes to the customer. Our products typically include a warranty and the estimated cost of product warranty claims (based on historical experience) is recorded at the time the sale is recognized. Sales to customers are generally not subject to any price protection or return rights.

The vast majority of our sales are made to original equipment manufacturers (OEMs), distributors, resellers and end-users in the non-scientific market. Sales made to these customers do not require installation of the products by us and are not subject to other post-delivery obligations, except in occasional instances where we have agreed to perform installation or provide training. In those instances, we defer revenue related to installation services or training until these services have been rendered. We allocate revenue from multiple element arrangements to the various elements based upon relative fair values.

Should changes in conditions cause management to determine these criteria are not met for certain future transactions, revenue recognized for any reporting period could be adversely affected. Failure to obtain anticipated orders due to delays or cancellations of orders could have a

material adverse effect on our revenue. In addition, pressures from customers to reduce our prices or to modify our existing sales terms may have a material adverse effect on our revenue in future periods.

Our sales to distributors, resellers and end-user customers typically do not have customer acceptance provisions and only certain of our sales to OEM customers have customer acceptance provisions. Customer acceptance is generally limited to performance under our published product specifications. For the few product sales that have customer acceptance provisions because of higher than published specifications, (1) the products are tested and accepted by the customer at our site or by the customer s acceptance of the results of our testing program prior to shipment to the customer, or (2) the revenue is deferred until customer acceptance occurs.

Sales to end-users in the scientific market typically require installation and, thus, involve post-delivery obligations; however our post-delivery installation obligations are not essential to the functionality of our products. We defer revenue related to installation services until completion of these services.

For most products, training is not provided; therefore, no post-delivery training obligation exists. However, when training is provided to our customers, it is typically priced separately and recognized as revenue after these services have been provided.

Long-Lived Assets

We evaluate long-lived assets and amortizable intangible assets whenever events or changes in business circumstances or our planned use of assets indicate that their carrying amounts may not be fully recoverable or that their useful lives are no longer appropriate. Reviews are performed to determine whether the carrying values of assets are impaired based on comparison to the undiscounted expected future cash flows identifiable to such long-lived and amortizable intangible assets. If the comparison indicates that impairment exists, the impaired asset is written down to its fair value.

Table of Contents

In accordance with paragraph 30 of SFAS 142, Goodwill and Other Intangible Assets (SFAS 142), we have determined that our reporting units are the same as our operating segments as each constitutes a business for which discrete financial information is available and for which segment management regularly reviews the operating results. We make this determination in a manner consistent with how the operating segments are managed. Based on this analysis, we have identified two reporting units which are our reportable segments: CLC and SLS.

In accordance with SFAS No. 142, goodwill is tested for impairment on an annual basis and between annual tests in certain circumstances, and written down when impaired (see Note 7 in the Notes to Condensed Consolidated Financial Statements). We perform our annual impairment tests at the beginning of the fourth quarter of each fiscal year using the opening balance sheet as of the first day of the fourth quarter, with any resulting impairment recorded in the fourth quarter of the fiscal year.

During the three months ended December 27, 2008, our stock price declined substantially which, combined with expectations of declines in forecasted operating results due to the slowdown in the global economy, led the Company to conclude that a triggering event for review for potential goodwill impairment had occurred. Accordingly, as of December 27, 2008, we performed an interim goodwill impairment evaluation, as required under SFAS No. 142. Under SFAS No. 142, goodwill is tested for impairment by comparing the respective fair value with the respective carrying value of the reporting unit. If such comparison indicates a potential impairment, then the impairment is determined as the difference between the recorded value of goodwill and its fair value. The performance of this test is a two-step process.

Step 1 of the impairment test involves comparing the fair values of the applicable reporting units with their aggregate carrying values, including goodwill. If the carrying amount of a reporting unit exceeds the reporting unit s fair value, we perform Step 2 of the goodwill impairment test to determine the amount of impairment loss. Step 2 of the goodwill impairment test involves comparing the implied fair value of the affected reporting unit s goodwill against the carrying value of that goodwill.

We rely on the following three valuation approaches to determine the fair value of both of our reporting units. (1) The Income approach utilizes the discounted cash flow model to provide an estimation of fair value based on the cash flows that a business expects to generate. These cash flows are based on forecasts developed internally by management which are then discounted at an after tax rate of return required by equity and debt market participants of a business enterprise. This rate of return or cost of capital is weighted based on the capitalization of comparable companies. (2) The Market approach determines fair value by comparing the reporting units to comparable companies in similar lines of business that are publicly traded. Total Enterprise Value (TEV) multiples such as TEV to revenues and TEV to earnings (if applicable) before interest and taxes of the publicly traded companies are calculated. These multiples are then applied to the reporting unit s operating results to obtain an estimate of fair value. (3) The Transaction approach estimates the fair value of the reporting unit based on market prices in actual transactions. A comparison is done between the reporting units and other similar businesses. Total Enterprise Value multiples for revenue and earnings as noted in the Market approach above are calculated from the comparable companies and then applied to the reporting unit s operating results to obtain an estimate of fair value. Each of these three approaches captures aspects of value in each reporting unit. The Income approach captures our expected future performance, the Market approach captures how investors view the reporting units through other competitors; and, the Transaction approach captures value through transactions for sales of similar types of companies. We believe these valuation approaches are proven valuation techniques and methodologies for our industry and are widely accepted by investors.

We weighted each of these approaches equally as none are perceived by us to deliver any greater indication of value than the other. The sensitivity analysis performed by management determined that by changing the weighting placed on the three approaches, the result of the Step 1 test for both reporting units was not affected.

The valuation analysis requires significant judgments and estimates to be made by management in particular related to the forecast. The assumed growth rates and gross margins as well as period expenses were determined based on internally developed forecasts considering future plans of the Company. The assumptions used were management s best estimates based on projected results and market conditions as of the date of testing. In order to test the sensitivity of these fair values, management further reviewed other scenarios relative to these assumptions to see if the resulting impact on fair values would have resulted in a different Step 1 conclusion for the CLC and SLS reporting units.

Based on these forecast scenarios, the fair value of both reporting units was re-calculated. In addition, this sensitivity analysis applied more conservative assumptions with regard to control premiums as well as multipliers used in the Market approach and the Transaction approach. In each of the sensitivity analyses performed, the CLC reporting unit failed and the SLS reporting unit passed. None of the outcomes of the sensitivity analyses performed would have impacted our Step 1 conclusions or the non-cash impairment charge for goodwill of $19.3 million recorded in the three months ended December 27, 2008.

Table of Contents

Sensitivity was also applied to the discount rate used in the Income approach for both the CLC and SLS reporting units. At December 27, 2008, the discount rate for the CLC reporting unit could have been reduced by more than 40% and still resulted in a failure. For the SLS reporting unit, the discount rate could have been increased by more than 40% and still resulted in no impairment.

During the three months ended April 4, 2009, our expectations of declines in forecasted operating results due to the slowdown in the global economy and the further declines in our stock price led the Company to conclude that a triggering event for review for potential goodwill impairment had occurred. Accordingly, as of April 4, 2009, we performed an interim goodwill impairment evaluation, as required under SFAS No. 142. This interim impairment evaluation utilized the same valuation techniques used in our impairment valuation in the first quarter of fiscal 2009. A similar sensitivity analysis was also done at April 4, 2009 where we determined that the discount rate used in the Income approach for the SLS reporting unit could have been increased by approximately 20% and still resulted in no impairment. Based on the results of our Step 1 analysis, we determined that no additional goodwill impairment was indicated.

At April 4, 2009, we had $63.5 million of goodwill on our condensed consolidated balance sheet. At April 4, 2009, we had $100.1 million of property and equipment and $22.7 million of purchased intangible assets on our condensed consolidated balance sheet.

It is reasonably possible that the estimates of anticipated future net revenue, the remaining estimated economic life of the products and technologies, or both, could differ from those used to assess the recoverability of these assets. In addition, if the price of our common stock were to significantly decrease combined with any other adverse change in market conditions, thus indicating that the underlying fair value of our reporting units or other long-lived assets may have decreased, we may be required to assess the recoverability of such assets in the period such circumstances are identified. In that event, additional impairment charges or shortened useful lives of certain long-lived assets may be required.

Inventory Valuation

We record our inventory at the lower of cost (computed on a first-in, first-out basis) or market. We write-down our inventory to its estimated market value based on assumptions about future demand and market conditions. Inventory write-downs are generally recorded within guidelines set by management when the inventory for a device exceeds 12 months of its demand 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 our future results of operations. Due to rapidly changing forecasts and orders, additional write-downs for excess or obsolete inventory, while not currently expected, could be required in the future. In the event that alternative future uses of fully written down inventories are identified, we may experience better than normal profit margins when such inventory is sold. Differences between actual results and previous estimates of excess and obsolete inventory could materially affect our future results of operations. We write-down our demo inventory by amortizing the cost of demo inventory over a twenty month period starting from the fourth month after such inventory is placed in service.

Warranty Reserves

We provide warranties on certain of our product sales and allowances for estimated warranty costs are recorded during the period of sale. The determination of such allowances requires us to make estimates of product return rates and expected costs to repair or replace the products under warranty. We currently establish warranty reserves based on historical warranty costs for each product line. The weighted average warranty

period covered is nearly 15 months. If actual return rates and/or repair and replacement costs differ significantly from our estimates, adjustments to cost of sales may be required in future periods.

Stock-Based Compensation

We account for share-based compensation using the fair value recognition provisions of SFAS 123(R). We estimate the fair value of stock options granted using the Black-Scholes Merton model. We use historical data to estimate pre-vesting option forfeitures and record share-based compensation expense only for those awards that are expected to vest. We amortize the fair value of stock options on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods. We value restricted stock units using the intrinsic value method. We amortize the value of restricted stock units on a straight-line basis over the restriction period.

Table of Contents

SFAS 123(R) requires the use of option pricing models that were not developed for use in valuing employee stock options. The Black-Scholes option-pricing model was developed for use in estimating the fair value of short-lived exchange traded options that have no vesting restrictions and are fully transferable. In addition, option-pricing models require the input of highly subjective assumptions, including the option s expected life, the expected price volatility of the underlying stock and an estimate of expected forfeitures. Our computation of expected volatility considers historical volatility and market-based implied volatility. Our estimate of expected forfeitures is based on historical employee data and could differ from actual forfeitures.

See Note 10 in the Notes to the Condensed Consolidated Financial Statements for a description of our share-based employee compensation plans and the assumptions we use to calculate the fair value of share-based employee compensation.

Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income tax provision (benefit) in each of the jurisdictions in which we operate. This process involves estimating our current income tax provision (benefit) together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets.

We record a valuation allowance to reduce our deferred tax assets to an amount that more likely than not will be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the allowance for the deferred tax assets would increase income in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax assets in the future, an adjustment to the valuation allowance for the deferred tax assets would be charged to income in the period such determination was made.

Effective September 30, 2007, we adopted the provisions of FIN 48, which creates a single model to address accounting for uncertainty in tax positions by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 establishes a two-step approach for evaluating tax positions. The first step, recognition, occurs when a company concludes (based solely on the technical aspects of the matter) that a tax position is more likely than not to be sustained upon examination by a taxing authority. The second step, measurement, is only considered after step one has been satisfied and measures any tax benefit at the largest amount that is deemed more likely than not to be realized upon ultimate settlement of the uncertainty. These determinations involve significant judgment by management. Tax positions that fail to qualify for initial recognition are recognized in the first subsequent interim period that they meet the more likely than not standard or when they are resolved through negotiation or litigation with factual interpretation, judgment and certainty. Tax laws and regulations themselves are complex and are subject to change as a result of changes in fiscal policy, changes in legislation, evolution of regulations and court filings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from our estimates, which could result in the need to record additional tax liabilities or potentially to reverse previously recorded tax liabilities.

KEY PERFORMANCE INDICATORS

The following is a summary of some of the quantitative performance indicators (as defined below) that may be used to assess our results of operations and financial condition:

Table of Contents

	Three Months Ended			
	April 4, 2009	March 29, 2008	Change	% Change
	(Dollars in thousands)			
Bookings	$ 93,843	$ 148,578	$ (54,735)	(36.8)%
Net sales Commercial Lasers and Components	$ 30,828	$ 53,871	$ (23,043)	(42.8)%
Net sales Specialty Lasers and Systems	$ 74,569	$ 102,046	$ (27,477)	(26.9)%
Gross profit as a percentage of net sales Commercial Lasers and Components	22.7%	44.3%	(21.6)%	(48.7)%
Gross profit as a percentage of net sales Specialty Lasers and Systems	44.0%	43.2%	0.8%	1.7%
Research and development as a percentage of net sales	14.8%	12.5%	2.3%	18.9%
Income (loss) before income taxes	$ (7,459)	$ 12,346	$ (19,805)	(160.4)%
Net cash provided by operating activities	$ 16,925	$ 15,564	$ 1,361	8.7%
Days sales outstanding in receivables	69.4	65.0	4.4	6.7%
Days sales outstanding in inventories	97.5	67.3	30.2	45.0%
Capital spending as a percentage of net sales	5.0%	2.9%	2.1%	71.3%

	Six Months Ended			
	April 4, 2009	March 29, 2008	Change	% Change
	(Dollars in thousands)			
Bookings	$ 197,162	$ 303,435	$ (106,273)	(35.0)%
Net sales CLC	$ 68,208	$ 101,119	$ (32,911)	(32.5)%
Net sales SLS	$ 161,552	$ 199,069	$ (37,517)	(18.8)%
Gross profit as a percentage of net sales CLC	26.7%	41.9%	(15.2)%	(36.2)%
Gross profit as a percentage of net sales SLS	44.5%	43.5%	1.0%	2.4%
Research and development as a percentage of net sales	13.2%	12.6%	0.6%	5.2%
Income before income taxes	$ (20,935)	$ 19,378	$ (40,313)	(208.0)%
Net cash provided by operating activities	$ 7,527	$ 28,641	$ (21,114)	(73.7)%
Capital spending as a percentage of net sales	6.2%	3.1%	3.1%	100.7%

Definitions and analysis of these performance indicators are as follows:

Bookings

Bookings represent orders expected to be shipped within 12 months and services to be provided pursuant to service contracts. While we generally have not experienced a significant rate of cancellation, bookings are generally cancelable by our customers without substantial penalty and, therefore, we can not assure all bookings will be converted to net sales.

Second quarter bookings decreased 36.8% and bookings for the six months ended April 4, 2009 decreased 35.0% from the same periods one year ago. For both the quarter and six months, decreases in the OEM components and instrumentation, microelectronics, and materials processing markets were partially offset by increases in the scientific and government programs market.

OEM Components and Instrumentation

Orders for OEM components and instrumentation decreased 53% and 47% for the quarter and six months ended April 4, 2009 compared to the same periods one year ago. There is continuing pressure in the medical OEM market due to a reduction in discretionary spending. We are seeing a general trend among integrators towards reducing safety stock to conserve cash. We believe many customers are at or near the bottom of the demand curve, which should translate into replenishment orders in the next few quarters.

Instrumentation orders decreased in the second quarter of fiscal 2009 due to the impact of decreased spending from clinical users. Our customers are moving quickly to reduce their inventory levels as they await the benefits from the U.S. stimulus package, especially from the National Institutes of Health.

Table of Contents

While the market works its way to recovery, we are focusing on optimizing our product portfolio. We have introduced a new version of our OPSL platform that produces red output enabling the creation of high-brightness RGB output. The lightshow industry has adopted this new device, which is part of our Taipan series. We expect lightshow bookings to increase significantly in fiscal 2009.

Microelectronics

Microelectronics bookings decreased 44% and 43% for the quarter and six months ended April 4, 2009 compared to the same periods one year ago, as the drop in consumer confidence and spending continues to depress the microelectronics market. Orders from semiconductor capital equipment applications weakened as fab utilization rates dropped, including service bookings as many fabs are cannibalizing spares from one line to keep another running. We believe that some customers have or are close to depleting safety stocks, leading to limited spot orders.

Advanced packaging customers are having experiences similar to those in semiconductor capital equipment applications, although there is significant emphasis on next generation technologies. Customers are stressing the need to increase throughput, which typically correlates with higher power lasers, as well as the ability to process new and thinner materials.

Orders for flat panel display manufacturing (FPD) doubled from the first quarter of fiscal 2009 due to bookings for three new LTPS annealing systems. All three will be used in LCD production for mobile, touch screen displays for smart phones. This is the one segment of the FPD market forecasted to grow in 2009.

Bookings for solar cell manufacturing were lower in the second quarter of fiscal 2009 following an all-time high in the first quarter of fiscal 2009. The credit crunch has slowed solar expansion, but our year-to-date bookings have increased 16% form the same period in fiscal 2008. While credit worries could lead to a choppy market for several quarters, we believe crystalline silicon manufacturers are focusing on conversion efficiency rather than capacity expansion. We expect this to be a good opportunity for us since lasers have proven useful in increasing efficiency.

Materials Processing

Materials processing orders decreased 44% and 43% for the quarter and six months ended April 4, 2009 compared to the same periods one year ago, however increased from the first quarter of fiscal 2009, predominantly due to a one-time, multi-unit upgrade of a customer s installed base.

The materials processing market has been largely dependent on the European and Chinese markets over the past few years. While economic conditions in Europe show little sign of recovery, customers in China are re-engaging in the sales process. The discussions cover a range of applications from low-power marking to high-power cutting. We believe the renewed confidence may stem from the Chinese economic stimulus package.

While we are uncertain as to when and how the materials processing market will recover, we believe the long-term key is improving the dollars per Watt ratio across all wavelengths. We plan to introduce new products as well as describe emerging technologies at Lasers 2009 in Munich that emphasize the benefits of cost of ownership to our solutions.

Scientific and Government Programs

Scientific and government programs orders increased 5% and 3% for the quarter and six months ended April 4, 2009 compared to the same periods one year ago. The scientific market continues to perform well as basic research and development has been largely unaffected by the economic downturn. Researchers are optimistic about the near-term future as benefits from U.S. and international stimulus packages are beginning to flow. For example, both the National Institutes of Health and the National Science Foundation expect to see double digit gains in funding. This has led to a significant increase in grant applications, which are expected to create new business opportunities as early as the fourth quarter of fiscal 2009.

Our product portfolio remains well-positioned with recently-released products like the Chameleon Vision and Libra HE amplifier gaining solid traction among users. We plan to introduce several new products over the next few months that offer new and enhanced capabilities for researchers. These include extensions of our ultrafast and OPS product lines.

Competitive behavior in the scientific market is largely unchanged and we see customers continuing to value performance and sustainability.

Table of Contents

Net Sales

Net sales include sales of lasers, precision optics, related accessories and service contracts. Net sales for the second fiscal quarter decreased 42.8% in our CLC segment and decreased 26.9% in our SLS segment from the same quarter one year ago. Net sales for the first six months of fiscal 2009 decreased 32.5% in our CLC segment and decreased 18.8% in our SLS segment from the same quarter one year ago. For a description of the reasons for changes in net sales refer to the Results of Operations section of this quarterly report.

Gross Profit as a Percentage of Net Sales

Gross profit as a percentage of net sales (gross profit percentage) is calculated as gross profit for the period divided by net sales for the period. Gross profit percentage in the second quarter decreased from 44.3% to 22.7% in our CLC segment and increased from 43.2% to 44.0% in our SLS segment from the same quarter one year ago. Gross profit percentage for the first six months of fiscal 2009 decreased from 41.9% to 26.7% in our CLC segment and increased from 43.5% to 44.5% in our SLS segment from the same period one year ago. For a more complete description of the reasons for changes in gross profit refer to the Results of Operations section of this quarterly report.

Research and Development as a Percentage of Net Sales

Research and development as a percentage of net sales (R&D percentage) is calculated as research and development expense for the period divided by net sales for the period. Management considers R&D percentage to be an important indicator in managing our business as investing in new technologies is a key to future growth. R&D percentage increased to 14.8% from 12.5% in the second fiscal quarter and to 13.2% from 12.6% for the first six months of fiscal 2009 from the same periods one year ago. For a more complete description of the reasons for changes in R&D percentage refer to the Results of Operations section of this quarterly report.

Net Cash Provided by Operating Activities

Net cash provided by operating activities shown on our Condensed Consolidated Statements of Cash Flows primarily represents the excess or shortfall of cash collected from billings to our customers and other receipts over cash paid to our vendors for expenses and inventory purchases to run our business. We believe that cash flows from operations is an important performance indicator because cash generation over the long term is essential to maintaining a healthy business and providing funds to help fuel growth. For a more complete description of the reasons for changes in Net Cash Provided by Operating Activities refer to the Liquidity and Capital Resources section of this quarterly report.

Days Sales Outstanding in Receivables

We calculate days sales outstanding (DSO) in receivables as net receivables at the end of the period divided by net sales during the period and then multiplied by the number of days in the period, using 90 days for quarters. DSO in receivables indicates how well we are managing our collection of receivables, with lower DSO in receivables resulting in more cash flow available. The more money we have tied up in receivables, the less money we have available for research and development, acquisitions, expansion, marketing and other activities to grow our business. Our DSO in receivables for the second quarter of fiscal 2009 increased 4.4 days from the same quarter one year ago primarily due to slower collections due to the current economic climate, particularly in Europe and Japan, an increase in deferred revenue and the impact of foreign exchange rates.

Days Sales Outstanding in Inventories

We calculate DSO in inventories as net inventories at the end of the period divided by net sales during the period and then multiplied by the number of days in the period, using 90 days for quarters. DSO in inventories indicates how well we are managing our inventory levels, with lower DSO in inventories resulting in more cash flow available. The more money we have tied up in inventory, the less money we have available for research and development, acquisitions, expansion, marketing and other activities to grow our business. Our DSO in inventories for the second quarter of fiscal 2009 increased 30.2 days from the same quarter one year ago primarily due to inventory increases in preparation for product outsourcing and manufacturing consolidation and lower revenues in the first six months of fiscal 2009.

Table of Contents

Capital Spending as a Percentage of Net Sales

Capital spending as a percentage of net sales (capital spending percentage) is calculated as capital expenditures for the period divided by net sales for the period. Capital spending percentage indicates the extent to which we are expanding or improving our operations, including investments in technology. Our capital spending percentage increased to 5.0% for the second quarter from 2.9% and to 6.2% from 3.1% for first six months of fiscal 2009 compared to the same periods one year ago primarily due to the purchase of assets in support of a more effective business model for our semiconductor business and building investments related to our footprint reduction programs as well as lower sales volumes. As a result of our multiple manufacturing consolidation programs, we anticipate capital spending for fiscal 2009 to be higher than our historical spending number.

SIGNIFICANT EVENTS

During the three months ended December 27, 2008, our stock price declined substantially, which combined with expectations of declines in forecasted operating results due to the slowdown in the global economy, led the Company to conclude that a triggering event for review for potential goodwill impairment had occurred. Accordingly, as of December 27, 2008, we performed an interim goodwill impairment evaluation, as required under SFAS No. 142. The performance of this test is a two-step process. We completed Step 1 of the impairment test. Management reviewed the results of the Step 1 analysis and concluded that a Step 2 analysis was required only for the CLC reporting unit. Due to the extensive work involved in performing the Step 2 analysis, the Company had not completed its analysis for the CLC reporting unit at the time the Company s quarterly report on Form 10-Q for the first quarter of fiscal 2009 was due. Our preliminary analysis indicated that the entire balance of the goodwill in the CLC reporting unit at that date was impaired and we recorded a non-cash goodwill impairment charge of $19.3 million in the first quarter of fiscal 2009. During the three months ended April 4, 2009, we completed the Step 2 analysis for the CLC reporting unit at December 27, 2008 and determined that the entire balance of goodwill in the CLC reporting unit at that date was impaired. The estimated fair value of our SLS reporting unit exceeded its carrying value so no further impairment analysis was required for this reporting unit.

On February 4, 2009, we announced that we will be exiting our facilities in Tampere, Finland and St. Louis, Missouri. We plan to merge the St. Louis, Missouri development and manufacturing operations into our Santa Clara, California operations as part of our semiconductor business, with applications marketing supported by our Bloomfield organization. We expect this transfer to be completed within the fourth quarter of fiscal 2009. We have initiated the planning phase of a multiyear project, with a targeted completion date of September 2010, to exit our epitaxial growth facility in Tampere, Finland and establish enhanced capabilities in Santa Clara, California.

RESULTS OF OPERATIONS

CONSOLIDATED SUMMARY

The following table sets forth, for the periods indicated, the percentage of total net sales represented by the line items reflected in our condensed consolidated statements of operations:

	Three Months Ended		Six Months Ended	
	April 4, 2009	March 29, 2008	April 4, 2009	March 29, 2008
Net sales	**100.0%**	100.0%	**100.0%**	100.0%
Cost of sales	**62.4%**	57.0%	**60.8%**	57.5%
Gross profit	**37.6%**	43.0%	**39.2%**	42.5%
Operating expenses:				
Research and development	**14.8%**	12.5%	**13.2%**	12.6%
Selling, general and administrative	**26.5%**	24.0%	**22.4%**	25.3%
Impairment of goodwill	**%**	%	**8.4%**	%
Amortization of intangible assets	**1.8%**	1.4%	**1.7%**	1.5%
Total operating expenses	**43.1%**	37.9%	**45.7%**	39.4%
Income (loss) from operations	**(5.5)%**	5.1%	**(6.5)%**	3.1%
Other income (net)	**(1.5)%**	2.8%	**(2.5)%**	3.4%
Income (loss) before income taxes	**(7.0)%**	7.9%	**(9.0)%**	6.5%
Provision for income taxes	**1.6%**	4.0%	**1.3%**	2.9%
Net income (loss)	**(8.6)%**	3.9%	**(10.3)%**	3.6%

Table of Contents

Net loss for the second quarter of fiscal 2009 was $9.1 million ($0.38 per share) including $4.5 million of after-tax restructuring costs, a $2.7 million tax expense due to a recently enacted change in state tax law, $2.0 million of after-tax stock-related compensation expense and $0.4 million of after-tax costs related to litigation resulting from our internal stock option investigation. Net income for the second quarter of fiscal 2008 was $6.1 million ($0.19 per diluted share) including a $1.4 million tax expense in connection with an internal dividend from one of our European subsidiaries, $1.5 million of after-tax costs related to our restatement of financial statements and litigation resulting from our internal stock option investigation and $3.7 million of after-tax stock-related compensation expense. Net loss for the first six months of fiscal 2009 was $23.8 million ($0.98 per share) including a charge for goodwill impairment of $19.3 million, $7.1 million of after-tax restructuring costs, $3.1 million of after-tax stock-related compensation expense, a $2.7 million tax expense due to a recently enacted change in state tax law and $0.6 million of after-tax costs related to litigation resulting from our internal stock option investigation. Net income for the first six months of fiscal 2008 was $10.9 million ($0.34 per diluted share) including $4.4 million of after-tax costs related to our restatement of financial statements and litigation resulting from our internal stock option investigation $5.7 million of after-tax stock-related compensation expense and a $1.4 million tax expense in connection with an internal dividend from one of our European subsidiaries.

NET SALES

Market Application

The following tables set forth, for the periods indicated, the amount of net sales and their relative percentages of total net sales by market application (dollars in thousands):

	Three Months Ended			
	April 4, 2009		March 29, 2008	
	Amount	Percentage of total net sales	Amount	Percentage of total net sales
Consolidated:				
Microelectronics	**$ 25,721**	**24.4%**	$ 58,595	37.6%
OEM components and instrumentation	**30,940**	**29.4%**	43,072	27.6%
Materials processing	**15,852**	**15.0%**	23,381	15.0%
Scientific and government programs	**32,909**	**31.2%**	30,894	19.8%
Total	**$ 105,422**	**100.0%**	$ 155,942	100.0%

	Six Months Ended			
	April 4, 2009		March 29, 2008	
	Amount	Percentage of total net sales	Amount	Percentage of total net sales
Consolidated:				
Microelectronics	**$ 65,699**	**28.6%**	$ 107,268	35.7%
OEM components and instrumentation	**67,678**	**29.4%**	84,053	28.0%
Materials processing	**33,294**	**14.5%**	47,884	15.9%
Scientific and government programs	**63,139**	**27.5%**	61,033	20.4%
Total	**$ 229,810**	**100.0%**	$ 300,238	100.0%

Quarterly

Net sales for the second quarter of fiscal 2009 decreased by $50.5 million, or 32%, including a decrease of $2.7 million due to the impact of foreign currency exchange rates, compared to the second quarter of fiscal 2008. Sales decreased in the microelectronics, OEM components and instrumentation and materials processing markets and increased slightly in the scientific and government programs market.

The decrease in the microelectronics market of $32.9 million, or 56%, was primarily due to lower sales in advanced packaging, micro-materials processing, semiconductor and flat panel display applications. As indicated before, a drop in consumer confidence and spending continues to impact this market negatively. The decrease in the OEM components and instrumentation market of $12.1 million, or 28%, was due primarily to reduced consumer spending for medical applications and lower shipments for military applications primarily due to the outsourcing of our optics manufacturing. Sales in the material processing market decreased $7.5 million, or 32%, primarily due to lower commercial laser shipments for consumer applications.

Table of Contents

Year-to-date

Net sales for the first six months of fiscal 2009 decreased by $70.4 million, or 23%, including a decrease of $4.3 million due to the impact of foreign currency exchange rates, compared to the first six months of fiscal 2008. Sales decreased in the microelectronics, OEM components and instrumentation and materials processing markets and increased slightly in the scientific and government programs market.

The decrease in the microelectronics market of $41.6 million, or 39%, was primarily due to lower sales in advanced packaging, micro-materials processing, semiconductor and flat panel display applications. As indicated before, a drop in consumer confidence and spending continues to impact this market negatively. The decrease in the OEM components and instrumentation market of $16.4 million, or 19%, was due primarily to reduced consumer spending for medical applications, lower shipments for military applications primarily due to the outsourcing of our optics manufacturing and lower shipments for graphic arts and display applications. Sales in the material processing market decreased $14.6 million, or 30%, primarily due to lower commercial laser shipments for consumer applications.

Although we continue to have a sizeable backlog of orders, current market conditions make it difficult to predict future orders.

Segments

The following tables set forth, for the periods indicated, the amount of net sales and their relative percentages of total net sales by segment (dollars in thousands):

	Three Months Ended			
	April 4, 2009		March 29, 2008	
	Amount	Percentage of total net sales	Amount	Percentage of total net sales
Consolidated:				
Commercial Lasers and Components (CLC)	**$ 30,828**	**29.2%**	$ 53,871	34.6%
Specialty Lasers and Systems (SLS)	**74,569**	**70.8%**	102,046	65.4%
Corporate and Other	**25**	**0.0%**	25	0.0%
Total	**$ 105,422**	**100.0%**	$ 155,942	100.0%

	Six Months Ended			
	April 4, 2009		March 29, 2008	
	Amount	Percentage of total net sales	Amount	Percentage of total net sales
Consolidated:				
Commercial Lasers and Components (CLC)	**$ 68,208**	**29.7%**	$ 101,119	33.7%
Specialty Lasers and Systems (SLS)	**161,552**	**70.3%**	199,069	66.3%

Corporate and Other	**50**	**0.0%**		50	0.0%
Total	**$ 229,810**	**100.0%**	$	300,238	100.0%

Quarterly

Net sales for the second quarter of fiscal 2009 decreased by $50.5 million, or 32%, compared to the second quarter of fiscal 2008, with decreases of $23.0 million, or 43%, in our CLC segment and decreases of $27.5 million, or 27%, in our SLS segment.

The decrease in our CLC segment sales was primarily due to lower advanced packaging, materials processing and semiconductor application sales. The decrease in our SLS segment sales was primarily due to lower revenue for medical, microelectronics and semiconductor applications.

Table of Contents

Year-to-date

Net sales for the first six months of fiscal 2009 decreased by $70.4 million, or 23%, compared to the first six months of fiscal 2008, with decreases of $32.9 million, or 33%, in our CLC segment and decreases of $37.5 million, or 19%, in our SLS segment.

The decrease in our CLC segment sales was primarily due to lower advanced packaging, materials processing and semiconductor application sales. The decrease in our SLS segment sales was primarily due to lower revenue for medical, microelectronics and semiconductor applications.

GROSS PROFIT

Consolidated

Our gross profit rate decreased to 37.6% from 43.0% in the second fiscal quarter and decreased to 39.2% from 42.5% for the first six months of fiscal 2009 compared to the same periods one year ago.

The second quarter 5.4% decrease in gross profit was primarily due to higher other costs (3.3%) due to higher inventory provisions, higher freight and higher duty costs, the impact of current quarter restructuring activities (3.0%) and higher warranty costs (0.7%) partially offset by the benefit of a weakened Euro, lower manufacturing spending and improved product mix in the scientific market net of unfavorable product mix from lower revenues in the microelectronics and medical markets and a higher percentage of scientific revenue (1.4%).

The 3.3% gross profit decrease during the first six months of fiscal 2009 was primarily due to higher other costs (2.9%) due to higher inventory provisions, higher freight and higher duty costs and the impact of current year restructuring activities (2.7%) partially offset by the benefit of a weakened Euro, lower manufacturing spending and improved product mix within the scientific market net of unfavorable product mix from lower revenue in the microelectronics and medical markets and a higher percentage of scientific revenue (1.9%) and lower stock-related compensation expense (0.3%).

Our gross profit rate has been and will continue to be affected by a variety of factors including market mix, manufacturing efficiencies, excess and obsolete inventory write-downs, warranty costs, pricing by competitors or suppliers, new product introductions, production volume, customization and reconfiguration of systems, commodity prices and foreign currency fluctuations.

Commercial Lasers and Components

The gross profit rate in our CLC segment decreased to 22.7% from 44.3% in the second fiscal quarter and decreased to 26.7% from 41.9% in the first six months of fiscal 2009 compared to the same periods one year ago.

The second quarter 21.6% decrease in gross profit was primarily due to higher other costs (8.7%) primarily due to higher inventory provisions, the impact of current year restructuring activities (6.0%), unfavorable product mix from lower revenue in the microelectronics market and the impact of lower volume (5.7%) and higher warranty and installation costs (1.1%).

The 15.2% decrease in gross profit during the first six months of fiscal 2009 was primarily due to higher other costs (6.9%) due to higher inventory provisions, the impact of current year restructuring activities (5.5%), higher product costs primarily due to the impact of lower volume (2.2%) and higher warranty and installation costs (0.4%).

Specialty Lasers and Systems

The gross profit rate in our SLS segment increased to 44.0% from 43.2% in the second fiscal quarter and increased to 44.5% from 43.5% in the first six months of fiscal 2009 compared to the same periods one year ago.

The second quarter 0.8% increase in gross profit was primarily due to a more favorable product mix in the scientific market, a favorable impact from a weakened Euro, and lower materials costs net of unfavorable product mix from lower revenues in the microelectronics and medical markets and a higher percentage of scientific revenue (4.2%) partially offset by the impact of current quarter restructuring activities (1.7%), higher other costs (1.2%) due to higher inventory provisions and higher warranty and installation costs (0.6%).

Table of Contents

The 1.0% increase in gross profit during the first six months of fiscal 2009 was primarily due to a more favorable product mix in the scientific market, a favorable impact from a weakened Euro, and lower materials costs net of unfavorable product mix from lower revenue in the microelectronics and medical markets and a higher percentage of scientific revenue (3.7%) partially offset by the impact of current year restructuring activities (1.5%) and higher other costs (1.3%) due to higher inventory provisions.

OPERATING EXPENSES:

	Three Months Ended			
	April 4, 2009		March 29, 2008	
	Amount	Percentage of total net sales	Amount	Percentage of total net sales
	(Dollars in thousands)			
Research and development	**$ 15,610**	**14.8%**	$ 19,428	12.5%
Selling, general and administrative	**27,962**	**26.5%**	37,384	24.0%
Impairment of goodwill				
Amortization of intangible assets	**1,894**	**1.8%**	2,229	1.4%
Total operating expenses	**$ 45,466**	**43.1%**	$ 59,041	37.9%

	Six Months Ended			
	April 4, 2009		March 29, 2008	
	Amount	Percentage of total net sales	Amount	Percentage of total net sales
	(Dollars in thousands)			
Research and development	**$ 30,388**	**13.2%**	$ 37,747	12.6%
Selling, general and administrative	**51,590**	**22.4%**	76,202	25.3%
Impairment of goodwill	**19,286**	**8.4%**		
Amortization of intangible assets	**3,837**	**1.7%**	4,435	1.5%
Total operating expenses	**$ 105,101**	**45.7%**	$ 118,384	39.4%

Research and development (R&D) expenses decreased $3.8 million, or 20%, during the second fiscal quarter ended April 4, 2009 and decreased $7.4 million, or 19%, during the six months ended April 4, 2009 compared to the same periods one year ago. The second quarter decrease was primarily due to lower payroll and bonus spending ($2.6 million), lower project spending ($2.0 million), the impact of foreign currency exchange rates ($0.7 million) and $0.6 million lower stock-related compensation expense partially offset by higher restructuring costs ($0.8 million), lower net reimbursements from customers for development projects ($0.5 million), lower benefit due to losses on deferred compensation plan liabilities ($0.1 million) with the related loss on deferred compensation plan assets recorded in other income (expense) and $0.7 million lower other discretionary spending. The decrease for the first six months of fiscal 2009 was primarily due to lower payroll and bonus spending ($4.0 million), lower project spending ($4.0 million), the impact of foreign currency exchange rates ($1.1 million), higher benefit due to losses on deferred compensation plan liabilities ($1.1 million) with the related loss on deferred compensation plan assets recorded in other income (expense) and $0.7 million lower stock-related compensation expense partially offset by higher restructuring costs ($1.3 million), lower net reimbursements from customers for development projects ($0.7 million) and $1.5 million lower other discretionary spending. On a quarterly segment basis as compared to the prior year period, CLC project spending decreased $2.9 million, including lower project spending and lower payroll and bonus spending. SLS research and development spending decreased $0.7 million, including lower spending on projects, lower payroll and bonus spending and the impact of foreign currency exchange rates. Corporate and Other spending decreased $0.2 million due to lower stock-related compensation expense partially offset by higher other spending. On a segment basis for the first six months of fiscal 2009 as compared to the prior year, CLC project spending decreased $4.2 million, including lower project spending and lower payroll and bonus spending. SLS research and development spending decreased $1.6 million, including lower spending on projects, lower payroll and bonus spending and the impact of foreign currency exchange rates. Corporate and Other spending decreased $1.6 million due to $1.1 million higher benefit due to losses on deferred compensation plan liabilities and lower stock-related compensation expense.

37

Table of Contents

Selling, general and administrative (SG&A) expenses decreased $9.4 million or 25%, during the second fiscal quarter ended April 4, 2009 and decreased $24.6 million, or 32%, during the six months ended April 4, 2009 compared to the same periods one year ago. The second quarter decrease in SG&A expenses was primarily due to $4.9 million lower payroll and bonus spending, $2.1 million lower costs related to our restatement of financial statements and litigation resulting from our internal stock option investigation, $1.4 million lower stock-related compensation expense, the impact of foreign currency exchange rates ($1.2 million) and $1.2 million lower other net spending, partially offset by current quarter restructuring costs ($1.0 million) and $0.4 million lower benefit due to losses on deferred compensation plan liabilities with the related loss on deferred compensation plan assets recorded in other income (expense). The decrease for the first six months of fiscal 2009 was primarily due to $7.8 million lower payroll and bonus spending, $6.4 million lower costs related to our restatement of financial statements and litigation resulting from our internal stock option investigation, $6.4 million higher benefit due to losses on deferred compensation plan liabilities with the related loss on deferred compensation plan assets recorded in other income (expense), $2.1 million lower stock-related compensation expense, the impact of foreign currency exchange rates ($1.9 million) and $1.6 million lower other net spending, partially offset by current year restructuring costs ($1.6 million). On a quarterly segment basis as compared to the prior year, CLC segment expenses decreased $1.7 million and SLS segment expenses decreased $3.3 million, both primarily due to lower payroll and bonus spending and the impact of foreign currency exchange rates. Spending for Corporate and other for the second quarter of fiscal 2009 decreased $4.4 million primarily due to lower costs related to our restatement of financial statements and litigation resulting from our internal stock option investigation ($2.1 million), lower stock-related compensation expense ($1.4 million) and lower payroll and bonus spending. On a segment basis for the first six months of fiscal 2009 as compared to the prior year, CLC segment expenses decreased $2.5 million and SLS segment expenses decreased $5.3 million, both primarily due to lower payroll and bonus spending and the impact of foreign currency exchange rates. Spending for Corporate and other for the first six months of fiscal 2009 decreased $16.9 million primarily due to the higher benefit due to losses on deferred compensation plan liabilities ($6.4 million), lower costs related to our restatement of financial statements and litigation resulting from our internal stock option investigation ($6.4 million), lower stock-related compensation expense ($2.1 million) and lower payroll and bonus spending.

In accordance with SFAS No. 142, goodwill is tested for impairment on an annual basis and between annual tests in certain circumstances, and written down when impaired. During the three months ended December 27, 2008, our stock price declined substantially, which combined with expectations of declines in forecasted operating results due to the slowdown in the global economy, led the Company to conclude that a triggering event for review for potential goodwill impairment had occurred. Accordingly, as of December 27, 2008, we performed an interim goodwill impairment evaluation, as required under SFAS No. 142 and we recorded a non-cash goodwill impairment charge of $19.3 million in the CLC reporting unit in the first quarter of fiscal 2009.

Amortization of intangible assets decreased $0.3 million, or 15%, and $0.6 million, or 13%, during the three and six months ended April 4, 2009, respectively, compared to the same periods one year ago. The decrease was primarily due to the completion of amortization of certain intangibles related to prior acquisitions.

OTHER INCOME (EXPENSE) NET

Other income, net of other expense, decreased $5.9 million and $16.0 million during the three and six months ended April 4, 2009, respectively, compared to the same periods one year ago. The quarterly decrease was primarily due to lower interest income ($2.7 million) as a result of lower cash, cash equivalents and short-term investment balances as well as lower rates of return and higher foreign exchange losses ($2.9 million). The decrease for the first six months of fiscal 2009 was primarily due to higher net losses on deferred compensation plan assets ($7.8 million), lower interest income ($5.3 million) as a result of lower cash, cash equivalents and short-term investment balances as well as lower rates of return and higher foreign exchange losses ($3.8 million).

INCOME TAXES

The difference between the statutory rate of 35% and our effective tax rate of (22.4%) on income (loss) before income taxes for the second quarter of fiscal 2009 was due primarily to permanent differences related to an increase in valuation allowance against California research and development tax credits as a result of California legislation enacted in February 2009, an unrealized loss on life insurance policy investments related to our deferred compensation plan and deemed dividend inclusions under the Subpart F tax rules. These amounts are partially offset by permanent differences related to benefit of foreign tax credits and federal research and development tax credits. The difference between the statutory rate of 35% and our effective tax rate of (13.7%) on income (loss) before income taxes for the six months ended April 4, 2009 was due primarily to permanent differences related to the non-deductibility of the goodwill impairment charge, an increase in valuation allowance against California research and development tax credits as a result of California legislation enacted in February 2009 and certain foreign net operating loss carryforwards, an unrealized loss on life insurance policy investments related to our deferred compensation plan and deemed dividend inclusions under the Subpart F tax rules. These amounts are partially offset by permanent differences related to the benefit of foreign tax credits and the benefit of federal research and development tax credits, including additional credits reinstated from fiscal 2008 resulting from the enactment of the Emergency Economic Stabilization Act of 2008.

Table of Contents

The effective tax rate on income before income taxes for the second quarter of fiscal 2008 of 50.4% was higher than the statutory rate of 35.0% due primarily to permanent differences related to foreign currency exchange gains on previously taxed income distributions to us from our foreign subsidiaries and deemed dividend inclusions under the Subpart F tax rules, partially offset by the benefit of foreign tax credits. The effective tax rate on income before income taxes for the first six months of fiscal 2008 of 44.0% was higher than the statutory rate of 35.0% due primarily to permanent differences related to foreign currency exchange gains on previously taxed income distributions to us from our foreign subsidiaries and deemed dividend inclusions under the Subpart F tax rules, partially offset by the benefit of foreign tax credits and research and development tax credits.

DEFERRED INCOME TAXES

As of April 4, 2009, our condensed consolidated balance sheet included net deferred tax assets, before valuation allowance, of approximately $77.0 million, which consists of tax credit carryovers, deferred gain on subsidiary stock issuance, accruals and reserves, competent authority offset to transfer pricing tax reserve, employee stock-based compensation expenses, depreciation and amortization, and certain other liabilities. Management periodically evaluates the realizability of our net deferred tax assets based on all available evidence, both positive and negative. The realization of net deferred tax assets is solely dependent on our ability to generate sufficient future taxable income during periods prior to the expiration of tax statutes to fully utilize these assets. After evaluating all available evidence, we have determined that it is more likely than not that a portion of the deferred tax assets related to the California research & development credits and the Finland net deferred tax assets would not be realized. As such, we have established a valuation allowance of $3.4 million in the current quarter. This amount is included in the total valuation allowance of $5.8 million reported as of April 4, 2009. We intend to maintain the valuation allowance until sufficient positive evidence exists to support reversal of the valuation allowance.

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

Historically, our primary source of cash has been provided through operations. Other sources of cash in the past three fiscal years include proceeds received from the sale of stock through employee stock option and purchase plans, as well as through debt borrowings. Our historical uses of cash have primarily been for the repurchase of our common stock, capital expenditures, acquisitions of businesses and technologies and payments of principal and interest on outstanding debt obligations. Supplemental information pertaining to our historical sources and uses of cash is presented as follows and should be read in conjunction with our condensed consolidated statements of cash flows and the notes to condensed consolidated financial statements:

	Six Months Ended	
	April 4, 2009	March 29, 2008
	(in thousands)	
Net cash provided by operating activities	**$ 7,527**	$ 28,641
Sales of shares under employee stock plans	**3,544**	1,362

Repurchase of common stock		(228,147)
Capital expenditures	**(14,156)**	(9,213)
Net debt borrowings (payments)	**(4)**	(6)

Net cash provided by operating activities decreased by $21.1 million for the first six months of fiscal 2009 compared to the same period one year ago. The decrease in cash provided by operating activities compared to the first six months of fiscal 2008 was primarily due to lower net income, lower cash flows from accounts payable and other current liabilities partially offset by higher cash flows from accounts receivable. We believe that our existing cash, cash equivalents and short term investments combined with cash to be provided by operating activities will be adequate to cover our working capital needs and planned capital expenditures for at least the next 12 months to the extent such items are known or are reasonably determinable based on current business and market conditions. However, we may elect to finance certain of our capital expenditure requirements through borrowings under our bank credit facilities or other sources of capital. We continue to follow our strategy to further strengthen our financial position by using available cash flow to fund operations.

Table of Contents

We intend to continue pursuing acquisition opportunities at valuations we believe are reasonable based upon market conditions. However, we cannot accurately predict the timing, size and success of our acquisition efforts or our associated potential capital commitments. Furthermore, we cannot assure you that we will be able to acquire businesses on terms acceptable to us. We expect to fund future acquisitions through unrestricted cash balances and cash flows from operations. If required, we will look for additional borrowings or consider the issuance of securities. The extent to which we will be willing or able to use our common stock to make acquisitions will depend on its market value at the time and the willingness of potential sellers to accept it as full or partial payment.

During fiscal 2008, we initiated restructuring plans to decrease costs by reducing our workforce and by consolidating facilities. As of April 4, 2009, we had made payments in connection with the restructuring plans in the amount of $10.2 million and we expect to pay an additional amount of $6.1 million in the remainder of fiscal 2009. We expect to complete payments for substantially all anticipated costs related to the restructuring plans by the end of fiscal 2010.

Additional sources of cash available to us included a multi-currency line of credit and domestic lines of credit and bank credit facilities totaling $55.7 million as of April 4, 2009, of which $54.1 million was unused and available. These credit facilities were used in Europe during the first six months of fiscal 2009 as guarantees. Our domestic line of credit includes a $40 million unsecured revolving credit account with Union Bank of California, which expires on March 31, 2010 and is subject to covenants related to financial ratios and tangible net worth. No amounts have been drawn upon our domestic or multi-currency lines of credit as of April 4, 2009.

Our ratio of current assets to current liabilities was 4.9:1 at April 4, 2009 compared to 4.5:1 at September 27, 2008. The increase in our ratio from September 27, 2008 to April 4, 2009 is primarily due to larger decreases in income taxes payable, accounts payable and other current liabilities than in accounts receivable and cash, cash equivalents and short-term investments. Our cash position, short-term investments, working capital and current debt obligations are as follows:

	April 4, 2009	September 27, 2008
	(in thousands)	
Cash and cash equivalents	**$ 182,951**	$ 213,826
Short-term investments	**23,849**	4,268
Restricted cash, current		2,645
Working capital	**378,525**	396,456
Total debt obligations	**17**	24

Current Restricted Cash

As part of our tender offer to purchase the remaining outstanding shares of Lambda Physik, we were required by local regulations to have funds available for the offer in an account located in Germany. As of September 27, 2008, we had $2.6 million restricted for remaining close out costs associated with our purchase of the remaining outstanding shares of Lambda Physik, which were included in current restricted cash on our condensed consolidated balance sheet. We completed the transaction during the first fiscal quarter ended December 27, 2008, and have no restricted funds remaining on our balance sheet as of April 4, 2009.

Contractual Obligations and Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as defined under Regulation S-K of the Securities Act of 1933. Information regarding our long-term debt payments, operating lease payments, obligations under SFAS 143, purchase commitments with suppliers and purchase obligations is provided in Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K for the fiscal year ended September 27, 2008. There have been no material changes in contractual obligations since September 27, 2008. In December 2008, we entered into a lease agreement for an additional building in Sunnyvale, California. The future minimum lease payments for the building total $5.0 million over ten years. Information regarding our other financial commitments at April 4, 2009 is provided in the notes to the condensed consolidated financial statements in this filing.

Changes in Financial Condition

Cash provided by operating activities during the first six months of fiscal 2009 was $7.5 million, which included the non-cash charge for impairment of goodwill of $19.3 million, depreciation and amortization of $13.6 million, stock-based compensation expense of $4.2 million and $0.5 million other, partially offset by net loss of $23.8 million, cash used in operating assets and liabilities of $4.7 million and increases in net deferred tax assets of $1.6 million.

Table of Contents

Cash used in investing activities during the first six months of fiscal 2009 was $29.8 million, which included $19.5 million, net purchases of available-for-sale securities and $14.2 million used to acquire property and equipment and improve buildings, partially offset by a $2.5 million decrease in restricted cash and $1.4 million in proceeds from dispositions of property and equipment.

Cash provided by financing activities during the first six months of fiscal 2009 was $3.6 million, which included $3.6 million generated from our employee stock option and stock purchase plans.

Changes in exchange rates during the first six months of fiscal 2009 used $12.1 million, primarily due to the weakening of the Euro against the U.S. dollar, partially offset by the strengthening of the Japanese Yen in relation to the U.S. dollar.

RECENT ACCOUNTING STANDARDS

In December 2007, the Financial Accounting Standards Board (FASB) ratified the Emerging Issues Task Force (EITF) s Consensus for Issue No. 07-1, Accounting for Collaborative Arrangements (EITF 07-1), which defines collaborative arrangements and establishes reporting requirements for transactions between participants in a collaborative arrangement and between participants in the arrangement and third parties. We adopted EITF 07-1 for our fiscal year beginning September 28, 2008. The adoption of EITF 07-1 did not have a material impact on our consolidated financial position and results of operations.

In December 2007, the FASB issued Statement of Financial Accounting Standards (SFAS) No. 141 (revised 2007) Business Combinations (SFAS 141(R)). SFAS 141(R) retains the fundamental requirements of the original pronouncement requiring that the purchase method be used for all business combinations. SFAS 141(R) defines the acquirer as the entity that obtains control of one or more businesses in the business combination, establishes the acquisition date as the date that the acquirer achieves control and requires the acquirer to recognize the assets acquired, liabilities assumed and any noncontrolling interest at their fair values as of the acquisition date. SFAS 141(R) also requires that acquisition related costs be recognized separately from the acquisition and recorded as an expense. SFAS 141(R) is effective for us for acquisitions after the beginning of our fiscal year 2010. We are currently evaluating the potential impact, if any, of the adoption of FAS 141(R) on our consolidated financial position, results of operations and cash flows.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with GAAP, and expands disclosures about fair value measurements. We adopted SFAS 157 in our first quarter of fiscal 2009. The adoption of SFAS 157 for financial assets and financial liabilities did not have a significant impact on our consolidated financial position and results of operations.

In February 2008, the FASB issued FASB Staff Position (FSP) FAS 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2) which delayed the effective date of SFAS 157 for all non-financial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. FSP 157-2 is effective for us for our fiscal year beginning October 4, 2009. We are currently evaluating the impact of the adoption of those provisions of SFAS 157 on our consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 expands the use of fair value accounting but does not affect existing standards, which require assets or liabilities to be carried at fair value. Under SFAS 159, a company may elect to use fair value to measure certain financial assets and financial liabilities, on an instrument-by-instrument basis. If the fair value option is elected, changes in fair value are recognized in earnings. We adopted SFAS 159 in our first quarter of fiscal 2009. The adoption of SFAS 159 did not have a material impact on our consolidated financial position and results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS No. 133 (SFAS 161). This statement changes the disclosure requirements for derivative instruments and hedging activities. SFAS 161 requires us to provide enhanced disclosures about (a) how and why we use derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS 133, Accounting for Derivative Instruments and Hedging Activities, and its related interpretations, and (c) how derivative instruments and related hedged items affect our financial position, financial performance, and cash flows. We adopted SFAS 161 in our second quarter of fiscal 2009. The adoption of SFAS 161 did not have a material impact on our consolidated financial position and results of operations.

Table of Contents

In April 2008, the FASB issued FASB Staff Position No. SFAS 142-3, Determination of the Useful Life of Intangible Assets (FSP SFAS 142-3). FSP SFAS 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets (SFAS 142). The intent of FSP SFAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141R and other applicable accounting literature. FSP SFAS 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008 and must be applied prospectively to intangible assets acquired after the effective date. We will evaluate the potential impact of FSP SFAS 142-3 on acquisitions on a prospective basis.

In May 2008, the FASB issued SFAS No. 162 The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). This statement is intended to improve financial reporting by identifying a consistent framework, or hierarchy, for selecting accounting principles to be used in preparing financial statements of nongovernmental entities that are presented in conformity with GAAP. This statement will be effective 60 days following the U.S. Securities and Exchange Commission s approval of the Public Company Accounting Oversight Board amendment to AU Section 411, The Meaning of Present Fairly in Conformity with Generally Accepted Accounting Principles. We do not expect that the adoption of SFAS 162 will have a significant impact on our consolidated financial position, results of operations and cash flows.

In April 2009, the FASB issued FSP FAS 141(R)-1 Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies (FSP 141(R)-1) which amends the guidance in SFAS No. 141(R) to require contingent assets acquired and liabilities assumed in a business combination to be recognized at fair value on the acquisition date if fair value can be reasonably estimated during the measurement period. If fair value cannot be reasonably estimated during the measurement period, the contingent asset or liability would be recognized in accordance with SFAS No. 5 Accounting for Contingencies , and FASB Interpretation (FIN) No. 14 Reasonable Estimation of the Amount of a Loss . Further, this FSP eliminated the specific subsequent accounting guidance for contingent assets and liabilities from SFAS No. 141(R), without significantly revising the guidance in SFAS No. 141. However, contingent consideration arrangements of an acquiree assumed by the acquirer in a business combination would still be initially and subsequently measured at fair value in accordance with SFAS No. 141(R). This FSP is effective for all business acquisitions occurring on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are currently evaluating the potential impact, if any, of the adoption of FAS 141(R)-1 on our consolidated financial position, results of operations and cash flows.

In April 2009, the FASB issued FSP FAS No. 107-1 and Accounting Principles Board (APB) Opinion No. 28-1 (FSP FAS 107-1 & APB 28-1), Interim Disclosures about Fair Value of Financial Instruments. This FSP amends SFAS No. 107, Disclosures About Fair Value of Financial Instruments, to require disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends APB Opinion No. 28, Interim Financial Reporting, to require those disclosures in summarized financial information at interim reporting periods. This FSP is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. We do not expect that the adoption of FSP FAS 107-1 & APB 28-1 will have a significant impact on our consolidated financial position, results of operations and cash flows.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. This FSP amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. We do not expect that the adoption of FSP FAS 115-2 and FAS 124-2 will have a significant impact on our consolidated financial position, results of operations and cash flows.

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP provides additional guidance for estimating fair value in accordance with SFAS No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The FSP does not require disclosures for earlier periods presented for comparative purposes at initial adoption. In periods after initial adoption, this FSP requires comparative disclosures only for periods ending after initial adoption. We do not expect that the adoption of FSP FAS 157-4 will have a significant impact on our consolidated financial position, results of operations and cash flows.

Table of Contents

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk disclosures

We are exposed to market risk related to changes in interest rates and foreign currency exchange rates. We do not use derivative financial instruments for speculative or trading purposes.

Interest rate sensitivity

A portion of our investment portfolio is composed of fixed income securities. These securities are subject to interest rate risk and will fall in value if market interest rates increase. If market interest rates were to increase immediately and uniformly by 10% from levels at April 4, 2009, the fair value of the portfolio, based on quoted market prices in active markets involving similar assets, would decline by an immaterial amount. We have the ability to generally hold our fixed income investments until maturity and therefore we would not expect our operating results or cash flows to be affected to any significant degree by the effect of a sudden change in market interest rates on our securities portfolio. If necessary, we may sell short-term investments prior to maturity to meet our liquidity needs.

At April 4, 2009, the fair value of our available-for-sale debt securities was $18.4 million, all of which were classified as short-term investments. Gross unrealized gains and losses on available-for-sale debt securities were $53,000 and ($7,000), respectively, at April 4, 2009.

Foreign currency exchange risk

We maintain operations in various countries outside of the United States and foreign subsidiaries that manufacture and sell our products in various global markets. The majority of our sales are transacted in U.S. dollars. However, we do generate revenues in other currencies, primarily the Euro and the Japanese Yen. As a result, our earnings and cash flows are exposed to fluctuations in foreign currency exchange rates. We attempt to limit these exposures through financial market instruments. We utilize derivative instruments, primarily forward contracts with maturities of two months or less, to manage our exposure associated with anticipated cash flows and net asset and liability positions denominated in foreign currencies. Gains and losses on the forward contracts are mitigated by gains and losses on the underlying instruments. We do not use derivative financial instruments for speculative or trading purposes.

We do not anticipate any material adverse effect on our consolidated financial position, results of operations or cash flows resulting from the use of these instruments. There can be no assurance that these strategies will be effective or that transaction losses can be minimized or forecasted accurately. If a financial counterparty to any of our hedging arrangements experiences financial difficulties or is otherwise unable to honor the terms of the foreign currency hedge, we may experience material financial losses.

A hypothetical 10% change in foreign currency rates would not have a material impact on our results of operations or financial position.

The following table provides information about our foreign exchange forward contracts at April 4, 2009. The table presents the weighted average contractual foreign currency exchange rates, the value of the contracts in U.S. dollars at the contract exchange rate as of the contract maturity date and fair value. The U.S. notional fair value represents the contracted amount valued at April 4, 2009 rates.

Forward contracts to sell (buy) foreign currencies for U.S. dollars (in thousands, except contract rates):

	Average Contract Rate		U.S. Notional Contract Value		U.S. Notional Fair Value
Euro	1.2909	$	(5,375)	$	(5,577)
Japanese Yen	98.0200	$	(4,960)	$	(4,870)
Korean Won	1,494.0000	$	1,484	$	1,661
British Pound	1.4022	$	1,687	$	1,779
Chinese Renminbi	6.8800	$	649	$	654

Table of Contents

Item 4. CONTROLS AND PROCEDURES

Management s Evaluation of Disclosure Controls and Procedures

We have evaluated the effectiveness of the design and operation of our disclosure controls and procedures; as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as of April 4, 2009 (Evaluation Date). The controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded as of the Evaluation Date that our disclosure controls and procedures were effective in providing reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act of 1934, as amended, is (i) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and (ii) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the quarter ended April 4, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations over Internal Control

Internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. The Company s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The Company s internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company s assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Company s receipts and expenditures are being made only in accordance with authorizations of the Company s management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the financial statements.

Management, including the Company s Chief Executive Officer and Chief Financial Officer, does not expect that the Company s internal controls will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of internal controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected. Also, any evaluation of the effectiveness of controls in future periods are subject to the risk that those internal controls may become inadequate because of changes in business conditions, or that the degree of compliance with the policies or procedures may deteriorate.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are subject to legal claims and litigation arising in the ordinary course of business, such as product liability, employment or intellectual property claims, including, but not limited to, the matters described below. The outcome of any such matters is currently not determinable. Although we do not expect that such legal claims and litigation will ultimately have a material adverse effect on our consolidated financial position or results of operations, an adverse result in one or more matters could negatively affect our results in the period in which they occur.

Table of Contents

Derivative Lawsuits

Between February 15, 2007 and March 2, 2007, three purported shareholder derivative lawsuits were filed in the United States District Court for the Northern District of California against certain of our current and former officers and directors. We are named as a nominal defendant. The complaints generally allege that the defendants breached their fiduciary duties and violated the securities laws in connection with the granting of stock options, the accounting treatment for such grants, the issuance of allegedly misleading public statements and stock sales by certain of the individual defendants. On May 29, 2007, these lawsuits were consolidated under the caption *In re Coherent, Inc. Shareholder Derivative Litigation*, Lead Case No. C-07-0955-JF (N.D. Cal.). On June 25, 2007, plaintiffs filed an amended consolidated complaint. The consolidated complaint asserts causes of action for alleged violations of federal securities laws, violations of California securities laws, breaches of fiduciary duty and/or aiding and abetting breaches of fiduciary duty, abuse of control, gross mismanagement, constructive fraud, corporate waste, unjust enrichment, insider selling and misappropriation of information. The consolidated complaint seeks, among other relief, disgorgement and damages in an unspecified amount, an accounting, rescission of allegedly improper stock option grants, punitive damages and attorneys fees and costs. To date, we have been paying the defense costs of the individual defendants. Motions to dismiss the consolidated complaint have been filed by defendants and those motions have not been ruled upon by the court.

In addition, our Board of Directors has appointed a Special Litigation Committee (SLC) comprised of independent director Sandeep Vij to investigate and evaluate the claims asserted in the derivative litigation and to determine what action(s) should be taken with respect to the derivative litigation. The SLC has retained legal counsel to assist it. The SLC s investigation is ongoing.

Income Tax Audits

The Internal Revenue Service (IRS) is conducting an audit of our 2003 and 2004 tax returns. The IRS has issued a number of Notices of Proposed Adjustments (NOPAs) to these returns. Among other items, the IRS has challenged our research and development credits and our extraterritorial income (ETI) exclusion. We have agreed to the various adjustments proposed by the IRS and we believe that we adequately provided for these exposures and any other items identified by the IRS as a result of the audit of these tax years. As part of its audit of our 2003 and 2004 years, the IRS has requested information related to our stock option investigation and we intend to comply with this request and address any issues that are raised in a timely manner. The IRS has also indicated that it may consider an audit of our 2005 and 2006 tax returns and has requested stock option investigation information for these years.

The IRS is also auditing the research and development credits generated in the years 1999 through 2001 and carried forward to future tax years. We received a NOPA from the IRS in October 2008 to decrease the amount of research and development credits generated in years 2000 and 2001. We responded to this NOPA and intend to dispute the adjustment with the IRS through the appeals process available to us. While we believe that we have adequately provided for any adjustments that may be proposed by the IRS related to these credits, there exists the possibility of a material adverse impact on our results of operations in the event that this issue is resolved unfavorably to us.

The German tax authorities are conducting an audit of our subsidiary in Göttingen for the tax years 1999 through 2005. We believe that we have adequately provided for any adjustments that may be proposed by the German tax authorities.

Table of Contents

ITEM 1A. RISK FACTORS

BUSINESS ENVIRONMENT AND INDUSTRY TRENDS

Risks Associated with Our Industry, Our Business and Market Conditions

Our operating results, including net sales and adjusted EBITDA percentage, and our stock price have varied in the past, and our future operating results will continue to be subject to quarterly and annual fluctuations based upon numerous factors, including those listed in this section and throughout this quarterly report. Our stock price will continue to be subject to daily variations as well. In addition, our future operating results and stock price may not follow any past trends or meet our guidance and expectations.

Our net sales and operating results, such as adjusted EBITDA percentage and costs, and our stock price may vary significantly from quarter to quarter and from year to year in the future. In particular we typically experience seasonality in our first fiscal quarter, resulting in lower net sales. We believe a number of factors, many of which are outside of our control, could cause these variations and make them difficult to predict, including:

- general economic uncertainties in the macroeconomic and local economies facing us, our customers and the markets we serve;
- access to applicable credit markets by us, our customers and their end customers;
- fluctuations in demand for, and sales of, our products or prolonged downturns in the industries that we serve, including as a result of the current challenging macroeconomic climate;
- the ability of our suppliers, both internal and external, 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;

- commodity pricing, including increases in oil prices;

- 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;

- delay of achievement of our footprint consolidation effort;

- the rate of market acceptance of our new products;

- the ability of our customers to pay for our 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;

- maintenance of supply relating to products sold to the government on terms which we would prefer not to accept;

- our ability to control expenses;

Table of Contents

- the level of capital spending of our customers;

- potential excess and/or obsolescence of our inventory;

- costs and timing of adhering to current and developing governmental regulations and reviews relating to our products and business;

- stockholder litigation related to our internal investigation of our practices related to historical stock option grants and the related restatement of our consolidated financial statements;

- re-evaluation of the value of goodwill and intangible assets;

- costs related to acquisitions of technology or businesses; and

- distraction of management related to acquisition or divestment activities.

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 enough 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 historical 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 stock to fall. In addition, over the past several years, the stock market has experienced extreme price and volume fluctuations that have affected the stock prices of many technology companies. There has not always been a direct correlation between this volatility and the performance of particular companies subject to these stock price fluctuations. Further, over the last nine months, equity markets around the world have significantly fluctuated across most sectors. These factors, as well as general economic and political conditions or investors concerns regarding the credibility of corporate financial statements, may have a material adverse affect on the market price of our stock in the future.

We are exposed to risks associated with worldwide economic conditions and related uncertainties.

Increased concerns about credit markets, consumer confidence, economic conditions, volatile corporate profits and reduced capital spending could negatively impact demand for our products. In particular, it is difficult to develop and implement strategy, sustainable business models and efficient operations, as well as effectively manage supply chain relationships in the face of such conditions including the ability of some of our suppliers to continue operations and provide us with uninterrupted supply flow. Additionally, given the breadth of our product offering, our ability to maintain or increase our research and development investments may be adversely impacted in the event our sales continue to be suppressed and do not increase in the future. Spending and the timing thereof by consumers and businesses has a significant impact on our results and, where such spending is delayed or canceled, it could cause a material negative impact on our operating results. We do not know how long the current challenging economic conditions will last. Continued or increased weakness in our end markets could negatively impact our revenue, gross margin and operating expenses, and consequently have a material adverse effect on our business, financial condition and results of operations.

The current financial turmoil affecting the banking system and financial markets and the possibility that additional financial institutions may consolidate or go out of business have resulted in a tightening in the credit markets, and a low level of liquidity in many financial markets. There could be a number of follow-on effects from the credit crisis on our business, including the insolvency of key suppliers or their inability to obtain credit to finance development and/or manufacture products resulting in product delays; inability of customers to obtain credit to finance purchases of our products and/or customer insolvencies; and failure of financial institutions negatively impacting our treasury operations. Other income and expense also could vary materially from expectations depending on gains or losses realized on the sale or exchange of financial instruments; impairment charges resulting from revaluations of debt and equity securities and other investments; interest rates; cash balances; and changes in fair value of derivative instruments. The current volatility in the financial markets and overall economic uncertainty increase the risk that the actual amounts realized in the future on our financial instruments could differ significantly from the fair values currently assigned to them. Uncertainty about current global economic conditions could also continue to increase the volatility of our stock price.

Table of Contents

Our business could also be impacted by international conflicts, terrorist and military activity, civil unrest and pandemic illness which could cause a slowdown in customer orders or cause customer order cancellations. In addition, political and social turmoil related to international conflicts and terrorist acts may put further pressure on economic conditions in the United States and abroad.

Unstable economic, political and social conditions make it difficult for our customers, our suppliers and us to accurately forecast and plan future business activities. If such conditions persist, our business, financial condition and results of operations could suffer. Additionally, unstable economic conditions can provide significant pressures and burdens on individuals, thus fostering an atmosphere of greater potential exposure for inappropriate business conduct. See Part I, Item 4. CONTROLS AND PROCEDURES Inherent Limitations over Internal Control.

Our cash and cash equivalents and short-term investments are managed through various banks around the world and the current capital and credit market conditions are extremely volatile, putting pressure on the ability of banks to provide service levels and in some cases to fail, both of which would likely have an adverse affect on our ability to timely access funds.

The capital and credit markets have been experiencing extreme volatility and disruption. In recent months, the volatility and disruption have reached unprecedented levels. In some cases, the markets have exerted downward pressure on stock prices and credit capacity for certain issuers, as well as pressured the solvency of some financial institutions. These financial institutions, including banks, have had difficulty timely performing regular services and in some cases have failed or otherwise been largely taken over by governments. We maintain our cash, cash equivalents and short-term investments with a number of financial institutions around the world. Should some or all of these financial institutions fail or otherwise be unable to timely perform requested services, we would likely have a limited ability to quickly access our cash deposited with such institutions. If we are unable to quickly access such funds, we may need to increase our use of our existing credit lines or access more expensive credit, if available. If we are unable to access our cash or if we access existing or additional credit or are unable to access additional credit, it could have a negative impact on our operations, including our reported net income.

We are exposed to credit risk and fluctuations in the market values of our investment portfolio.

Although we have not recognized any material losses on our cash, cash equivalents and short-term investments, future declines in their market values could have a material adverse effect on our financial condition and operating results. Given the global nature of our business, we have investments both domestically and internationally. Additionally, our overall investment portfolio is often concentrated in the financial sector, which has been negatively impacted by the recent market liquidity conditions. Credit ratings and pricing of these investments can be negatively impacted by liquidity, credit deterioration or losses, financial results, or other factors. As a result, the value or liquidity of our cash, cash equivalents and short-term investments could decline and result in a material impairment, which could have a material adverse effect on our financial condition and operating results. See Item 3. Quantitative and Qualitative Disclosures about Market Risk.

If our goodwill or intangible assets become impaired, we may be required to record a significant charge to earnings.

Under accounting principles generally accepted in the United States, we review our intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment at least annually. Factors that may be considered a change in circumstances indicating that the carrying value of our goodwill or other intangible assets may not be recoverable include declines in our stock price and market capitalization or future cash flows projections. We recorded a material charge during the quarter

ended December 27, 2008 related to the estimated impairment of goodwill in our CLC operating segment. A further decline in our stock price, or any other adverse change in market conditions, particularly if such change has the effect of changing one of the critical assumptions or estimates we used to calculate the estimated fair value of our reporting units, could result in a change to the estimation of fair value that could result in an additional impairment charge. Any such additional material charges, whether related to goodwill or purchased intangible asset impairment, may have a material negative impact on our financial condition and operating results.

Table of Contents

We depend on sole source or limited source suppliers, both internal and external, for some of our key components and materials, including exotic materials and crystals, in our products, which make 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, both internal and external. Some of these suppliers are relatively small private companies that may discontinue their operations at any time and which may be particularly susceptible to the current economic conditions. We typically purchase our components and materials through purchase orders or agreed upon terms and conditions and we do not have guaranteed supply arrangement with many 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. We would experience further delays while identifying, 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. Additionally, we are in the process of managing multiple projects moving certain suppliers internally to different locations. When we transition locations we may increase our inventory of such products as a safety stock during the transition, which may cause the amount of inventory reflected on our balance sheet to increase. 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, or our failure to properly manage these moves, would impair our ability to meet scheduled product deliveries to our customers and could cause customers to cancel orders.

We have historically relied exclusively on our own production capability to manufacture certain strategic components, optics and optical systems (which has recently been outsourced to a third party), 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 of these items 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 (ASPs) 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 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 supplier of laser systems. We have, in the past, experienced decreases in the ASPs of some of our products. We anticipate that as competing products become more widely available, the ASPs of our products may decrease. If we are unable to offset the anticipated decrease in our ASPs 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 manufacturing our products while maintaining their high quality. From time to time, our products, like many complex technological products, may fail in greater frequency than anticipated. This can lead to further charges, which can result in higher costs, lower gross margins and lower operating results. Furthermore, as average ASPs 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 ASPs 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 research 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 disrupting technologies or products that replace them or render them obsolete. Furthermore, the new and enhanced products generally continue to be smaller in size and have lower ASPs, and therefore, we have to sell more units to maintain revenue levels.

Table of Contents

During fiscal years 2008, 2007 and 2006, our research and development expenses have been in the range of 12% to 13% of net sales. 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 transfer production processes effectively, 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 foreign sales that could harm our financial condition and results of operations.

For the three and six months ended April 4, 2009, 68% and 67% of our net sales were derived from customers outside of the United States. For fiscal years 2008, 2007, and 2006, 68% of our net sales were derived from customers outside of the United States. We anticipate that foreign sales will continue to account for a significant portion of our revenues in the foreseeable future. A global economic slowdown could have a negative effect on various foreign markets in which we operate. Such a slowdown may cause us to reduce our presence in certain countries, which may negatively affect the overall level of business in such countries. The majority of our foreign sales occur through our foreign sales subsidiaries and the remainder of our foreign sales result from exports to foreign distributors, resellers and customers. Our foreign operations and sales are subject to a number of risks, including:

- longer accounts receivable collection periods;
- the impact of recessions and other economic conditions in economies outside the United States;
- unexpected changes in regulatory requirements;
- certification requirements;
- environmental regulations;
- 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 foreign subsidiaries. While we use forward exchange contracts and other risk management techniques to hedge our foreign currency exposure, we remain exposed to the economic risks of foreign currency fluctuations.

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

Maintenance of intellectual property rights and the protection thereof is important to our business. 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 may, in the future, initiate claims or litigation against third parties or be subject to claims or litigation from 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. Adverse resolution of litigation may harm our operating results or financial condition.

Table of Contents

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. From time to time, like many other technology companies, we have received communications from other parties asserting the existence of patent rights, copyrights, trademark rights or other intellectual property rights which such third parties believe may cover certain of our products, processes, technologies or information. 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 could also 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 are exposed to lawsuits in the normal course of business which could have a material adverse effect on our business, operating results, or financial condition.

We are exposed to lawsuits in the normal course of our business, including product liability claims, if personal injury, death or commercial losses occur from the use of our products. While we typically maintain customary levels of business insurance, including directors and officers policies, litigation can be expensive, lengthy, and disruptive to normal business operations, including the potential impact of indemnification obligations for individuals named in any such lawsuits. We may not, however, be able to secure insurance coverage on terms acceptable to us in the future. Moreover, the results of complex legal proceedings are difficult to predict. An unfavorable resolution of a particular lawsuit, including a recall or redesign of products if ultimately determined to be defective, could have a material adverse effect on our business, operating results, or financial condition.

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 when needed, our ability to develop and sell our products could be harmed.

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. Recruiting and retaining highly skilled personnel in certain functions continues to be difficult. At certain locations where we operate, the cost of living is extremely high and it may be difficult to retain key employees and management at a reasonable cost. 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.

Our future success depends upon the continued services of our executive officers and other key engineering, sales, marketing, manufacturing and support personnel, any of whom may leave, which could harm our business and our results of operations.

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 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 such 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.

Table of Contents

Competition in the various photonics markets in which we provide products is very intense. We compete against a number of large public and private companies, including Newport Corporation; GSI Group, Inc., which includes the former business of Excel Technology, Inc.; JDS Uniphase Corporation; Rofin-Sinar Technologies, Inc.; Trumpf GmbH; IPG Photonics Corporation; and Cymer, Inc., as well as other smaller companies. 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. Some of our competitors 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 may encounter potential customers that, due to existing relationships with our competitors, are committed to the products offered by these competitors or customers which determine to develop and produce products for their own use which are competitive to our products. As a result of the foregoing factors, we expect that competitive pressures may result in price reductions, reduced margins and loss of market share. For example, in markets where there are a limited number of customers, such as the microelectronics market, competition is particularly intense.

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 technological complexity of our products, changes in our or our suppliers manufacturing processes or the inadvertent use of defective 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 and maintain our projected yields or product reliability, our business, operating results, financial condition and customer relationships would be adversely affected. We provide warranties on certain of our product sales, and allowances for estimated warranty costs are recorded during the period of sale. The determination of such allowances requires us to make estimates of failure rates and expected costs to repair or replace the products under warranty. We currently establish warranty reserves based on historical warranty costs for each product line. If actual return rates and/or repair and replacement costs differ significantly from our estimates, adjustments to cost of sales may be required in future periods.

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 identify and 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 and/or their end users.

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 or operating results.

Table of Contents

Our increased reliance on contract manufacturing and other outsourcing may adversely impact our financial results and operations due to our decreased control over the performance and timing of certain aspects of our manufacturing.

Our manufacturing strategy includes partnering with contract manufacturers to outsource non-core subassemblies and less complex turnkey products, including some performed at international sites located in Asia and Eastern Europe. Additionally, we have outsourced the manufacture of certain of our optics components to a third party. Our ability to resume internal manufacturing operations for certain products and components in a timely manner may be eliminated. The cost, quality, performance and availability of contract manufacturing operations are and will be essential to the successful production and sale of many of our products. Our financial condition or results of operation could be adversely impacted if any contract manufacturer is unable for any reason, including as a result of the impact of current worldwide economic conditions, to meet our cost, quality, performance, and availability standards. We may not be able to provide contract manufacturers with product volumes that are high enough to achieve sufficient cost savings. If shipments fall below forecasted levels, we may incur increased costs or be required to take ownership of the inventory. Also, our ability to control the quality of products produced by contract manufacturers may be limited and quality issues may not be resolved in a timely manner, which could adversely impact our financial condition or results of operations.

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

We have previously announced our intent to reduce our global operating footprint, including the closing of our Auburn, California (completed in the second fiscal quarter of 2009), Munich, Germany, Tampere, Finland, and St. Louis, Missouri, operations. If we are not able to effectively transition the business activities from one site to another it could have an adverse impact on our results of operations.

If we fail to manage our growth or, alternatively, our spending during downturns, 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. In economic downturns, we must effectively manage our spending and operations to ensure our position during the downturn as well as for future opportunity when the economy improves. The failure to effectively manage our spending and operations could disrupt our business and harm our operating results. The growth in sales, combined with the challenges of managing geographically-dispersed operations, has placed a significant strain on our management systems and resources, and our anticipated growth in future operations could continue to place such a strain. The failure to effectively manage our growth could disrupt our business and harm our operating results.

Historically, acquisitions have been an important element of our strategy. However, we may not find suitable acquisition candidates in the future and we may not be able to successfully integrate and manage acquired businesses. 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 entities, including asset purchases, 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, impairment of goodwill and amortization.

Table of Contents

Acquisitions also involve numerous risks, including:

- problems combining the acquired operations, technologies or products;
- an inability to realize expected operating efficiencies or product integration benefits;
- difficulties in coordinating geographically separated organizations, systems and facilities;
- writing off goodwill or other intangible assets;
- unanticipated costs or liabilities, including the costs associated with improving the internal controls of the acquired company;
- diversion of management s attention from our core businesses;
- adverse effects on existing business relationships with suppliers and customers;
- potential loss of key employees, particularly those of the purchased organizations;
- incurring unforeseen obligations or liabilities in connection with acquisitions; and
- the failure to complete acquisitions even after signing definitive agreements which, among other things, would result in the expensing of potentially significant professional fees and other charges in the period in which the acquisition or negotiations are terminated.

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 or achieve the anticipated benefits of such transactions, 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, if a facility fire were to occur at our Tampere, Finland and Sunnyvale, California sites and were to spread to a reactor used to grow semiconductor wafers, it could release highly toxic emissions. We believe that our safety procedures for handling and disposing of such materials comply with all federal, state and offshore 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 damages and such liability could exceed the amount of our liability insurance coverage and the resources of our business.

Compliance or the failure to comply with current and future environmental regulations could cause us significant expense.

We are subject to a variety of federal, state, local and foreign environmental regulations relating to the use, storage, discharge and disposal of hazardous chemicals used during our manufacturing process or requiring design changes or recycling of products we manufacture. If we fail to comply with any present and future regulations, we could be subject to future liabilities, the suspension of production or a prohibition on the sale of products we manufacture. In addition, such regulations could restrict our ability to expand our facilities or could require us to acquire costly equipment, or to incur other significant expenses to comply with environmental regulations, including expenses associated with the recall of any non-compliant product and the management of historical waste.

Table of Contents

From time to time new regulations are enacted, and it is difficult to anticipate how such regulations will be implemented and enforced. We continue to evaluate the necessary steps for compliance with regulations as they are enacted. These regulations include, for example, the Registration, Evaluation, Authorization and Restriction of Chemical substances (REACH), the Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Directive (RoHS) and the Waste Electrical and Electronic Equipment Directive (WEEE) enacted in the European Union which regulate the use of certain hazardous substances in, and require the collection, reuse and recycling of waste from, certain products we manufacture. This and similar legislation that has been or is in the process of being enacted in Japan, China, Korea and various states of the United States may require us to re-design our products to ensure compliance with the applicable standards, for example by requiring the use of different types of materials. These redesigns or alternative materials may detrimentally impact the performance of our products, add greater testing lead-times for product introductions or have other similar effects. We believe we comply with all such legislation where our products are sold and we will continue to monitor these laws and the regulations being adopted under them to determine our responsibilities. In addition, we are monitoring legislation relating to the reduction of carbon emissions from industrial operations to determine whether we may be required to incur any additional material costs or expenses associated with our operations. We are not currently aware of any such material costs or expenses. Our failure to comply with any of the foregoing regulatory requirements or contractual obligations could result in our being directly or indirectly liable for costs, fines or penalties and third-party claims, and could jeopardize our ability to conduct business in the United States and foreign countries.

If our facilities or those of our suppliers and contract manufacturers were to experience catastrophic loss, our operations would be seriously harmed.

Our facilities and those of our suppliers and contract manufacturers could be subject to a catastrophic loss from fire, flood, earthquake, work stoppages, acts of war, energy shortages, other natural disasters 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, we 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 and Delaware law, 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; 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. If a change of control occurs, our successor or acquirer will be required to assume and agree to perform all of our obligations under the change of control severance plan.

Changes in tax rates, tax liabilities or tax accounting rules could affect future results.

As a global company, we are subject to taxation in the United States and various other countries and jurisdictions. Significant judgment is required to determine worldwide tax liabilities. Our future tax rates could be affected by changes in the composition of earnings in countries with differing tax rates, changes in the valuation of our deferred tax assets and liabilities, or changes in the tax laws. In addition, we are subject to regular examination of our income tax returns by the Internal Revenue Service (IRS) and other tax authorities. From time to time the United States, foreign and state governments make substantive changes to tax rules and the application of rules to companies, including the recent announcement from the United States government potentially impacting our ability to defer taxes on international earnings. We regularly assess the likelihood of favorable or unfavorable outcomes resulting from these examinations to determine the adequacy of our provision for income taxes. Although we believe our tax estimates are reasonable, there can be no assurance that any final determination will not be materially different than the treatment reflected in our historical income tax provisions and accruals, which could materially and adversely affect our operating results and financial condition.

Table of Contents

We could incur tax liabilities under Section 409A of the Internal Revenue Code and other tax penalties

As a result of our investigation into our historical stock option granting practices, we have determined that a number of our outstanding stock option awards were granted at exercise prices below the fair market value of our stock on the appropriate accounting measurement date. The primary adverse tax consequence is that the re-measured options vesting after December 31, 2004, or options that are materially modified after October 3, 2004, are potentially subject to option holder excise tax under Section 409A of the Internal Revenue Code (and, as applicable, similar excise taxes under state law or foreign law). Option holders who hold options which are determined to have been granted with exercise prices below the fair market value of the underlying shares of common stock on the appropriate measurement date would be subject to taxes, penalties and interest under Section 409A if no action is taken to cure the options from exposure under Section 409A before December 31, 2008. We took action in fiscal year 2008 to cure certain options from exposure under Section 409A. There can be no assurance that such action cured all potential circumstances in which Section 409A would apply. Should it be found that excise taxes under Section 409A apply to option holders subsequent to our ability to cure the options from exposure to Section 409A, and we decide to reimburse option holders for such taxes, our results of operations may be materially adversely affected.

Also as a result of our investigation into our historical stock option granting practices, we have determined that certain payroll taxes, interest and penalties apply under various sections of the Internal Revenue Code, various state tax statutes, and tax statutes in various foreign jurisdictions. We have reviewed these potential liabilities and accrued the estimated probable amount of the liability. There can be no assurance that Coherent s accruals covered all potential circumstances in which additional payroll taxes, interest and penalties would apply. Should it be found that additional payroll taxes, interest and penalties would apply, our results of operations may be materially adversely affected.

Compliance with changing regulation of corporate governance and public disclosure may create uncertainty regarding compliance matters.

Federal securities laws, rules and regulations, as well as the rules and regulations of self-regulatory organizations such as Nasdaq and the NYSE, require companies to maintain extensive corporate governance measures, impose comprehensive reporting and disclosure requirements, set strict independence and financial expertise standards for audit and other committee members and impose civil and criminal penalties for companies and their chief executive officers, chief financial officers and directors for securities law violations. These laws, rules and regulations have increased and will continue to increase the scope, complexity and cost of our corporate governance, reporting and disclosure practices, which could harm our results of operations and divert management s attention from business operations. Changing laws, regulations and standards relating to corporate governance and public disclosure may create uncertainty regarding compliance matters. New or changed laws, regulations and standards are subject to varying interpretations in many cases. As a result, their application in practice may evolve over time. We are committed to maintaining high standards of ethics, corporate governance and public disclosure. Complying with evolving interpretations of new or changed legal requirements may cause us to incur higher costs as we revise current practices, policies and procedures, and may divert management time and attention from revenue generating to compliance activities. If our efforts to comply with new or changed laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, our reputation may also be harmed.

Governmental regulations affecting the import or export of products could negatively affect our revenues.

The United States and various foreign governments have imposed controls, export license requirements and restrictions on the import or export of some technologies, especially encryption technology. In addition, from time to time, governmental agencies have proposed additional regulation of encryption technology, such as requiring the escrow and governmental recovery of private encryption keys. Governmental

regulation of encryption technology and regulation of imports or exports, or our failure to obtain required import or export approval for our products, could harm our international and domestic sales and adversely affect our revenues.

We may experience difficulties with our enterprise resource planning (ERP) system and other IT systems. System failure or malfunctioning may result in disruption of operations and the inability to process transactions, and this could adversely affect our ability to timely or accurately provide our financial results.

System failure or malfunctioning could disrupt our ability to timely and accurately process and report key components of our results of operations, financial position and cash flows. Any disruptions or difficulties that may occur in connection with our ERP system or other systems could also adversely affect our ability to complete important business processes such as the evaluation of our internal controls and attestation activities pursuant to Section 404 of the Sarbanes-Oxley Act of 2002. If we encounter unforeseen problems with regard to our ERP system or other systems, our business and resulting financial reporting could be adversely affected.

Table of Contents

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 three and six months ended April 4, 2009, our research and development costs were $15.6 million (14.8% of net sales) and $30.4 million (13.2% of net sales), respectively. For our fiscal years 2008, 2007 and 2006, our research and development costs were $74.3 million (12.4% of net sales), $74.6 million (12.4% of net sales) and $73.1 million (12.5% 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.

Continued volatility 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 market has historically been characterized by sudden and severe cyclical variations in product supply and demand, which have often severely affected the demand for semiconductor manufacturing equipment, including laser-based tools and systems. The timing, severity and duration of these market cycles are difficult to predict, and we may not be able to respond effectively to these cycles. The continuing uncertainty in this market severely limits our ability to predict our business prospects or financial results in this market.

During industry downturns, our revenues from this market may decline suddenly and significantly. Our ability to rapidly and effectively reduce our cost structure in response to such downturns is limited by the fixed nature of many of our expenses in the near term and by our need to continue our investment in next-generation product technology and to support and service our products. In addition, due to the relatively long manufacturing lead times for some of the systems and subsystems we sell to this market, we may incur expenditures or purchase raw materials or components for products we cannot sell. Accordingly, downturns in the semiconductor capital equipment market may materially harm our operating results. Conversely, when upturns in this market occur, we must be able to rapidly and effectively increase our manufacturing capacity to meet increases in customer demand that may be extremely rapid, and if we fail to do so we may lose business to our competitors and our

relationships with our customers may be harmed.

We participate in the microelectronics market, which requires significant research and development expenses to develop and maintain products and a failure to achieve market acceptance for our products could have a significant negative impact on our business and results of operations.

The microelectronics market is characterized by rapid technological change, frequent product introductions, changing customer requirements and evolving industry standards. The nature of this market requires significant research and development expenses to participate, with substantial resources invested in advance of material sales of our products to our customers in this market. In the event either our customers or our products fail to gain market acceptance, or the microelectronics market failed to grow, it would likely have a significant negative effect on our business and results of operations.

Table of Contents

We have been named as a nominal party to a consolidated shareholder derivative lawsuit relating to our historical stock option practices, and we may be named in additional lawsuits in the future. In addition, a number of our current and former directors and officers were also named in this lawsuit. This litigation could become time consuming and expensive and could result in the payment of significant judgments and settlements, which could have a material adverse effect on our financial condition and results of operations.

In connection with our historical stock option practices and resulting restatement, three derivative actions were filed against certain of our current and former directors and officers purporting to assert claims on the Company s behalf, which were consolidated into a single action. Please see Part II, Item 1 Legal Proceedings. There may be additional lawsuits of this nature filed in the future. We cannot predict the outcome of these lawsuits, nor can we predict the amount of time and expense that will be required to resolve these lawsuits. If these lawsuits become time consuming and expensive, or if there are unfavorable outcomes in any of these cases, there could be a material adverse effect on our business, financial condition and results of operations.

Our insurance coverage will not cover our total liabilities and expenses in these lawsuits, in part because we have a significant retention on certain aspects of the coverage. In addition, subject to certain limitations, we are obligated to indemnify our current and former directors, officers and employees in connection with the investigation of our historical stock option practices and the related litigation. We currently hold insurance policies for the benefit of our directors and officers, although our insurance coverage may not be sufficient in some or all of these matters. Furthermore, the insurers may seek to deny or limit coverage in some or all of these matters, in which case we may have to self-fund all or a substantial portion of our indemnification obligations.

Failure to maintain effective internal controls may cause us to delay filing our periodic reports with the SEC and adversely affect our stock price.

The SEC, as directed by Section 404 of the Sarbanes-Oxley Act of 2002, adopted rules requiring public companies to include a report of management on internal control over financial reporting in their annual reports on Form 10-K that contain an assessment by management of the effectiveness of the Company s internal control over financial reporting. In addition, our independent registered public accounting firm must attest to and report on the effectiveness of our internal control over financial reporting. Although we review our internal control over financial reporting in order to ensure compliance with the Section 404 requirements, our failure to maintain adequate internal controls over financial reporting could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our financial statements, which ultimately could negatively impact our stock price.

Table of Contents

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

Item 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our annual meeting of stockholders was held on March 11, 2009 (the Annual Meeting) and the following matters were submitted to a vote of our stockholders (with the final vote tabulation set forth below):

1. Election of directors:

The following directors were elected at the meeting to serve as directors for the ensuing year and until their successors are duly qualified and elected:

	Votes Cast For	Authority Withheld
John R. Ambroseo	20,082,890	2,536,968
John H. Hart	16,659,727	5,960,131
Susan M. James	20,083,214	2,536,644
Clifford Press	19,437,928	3,181,930
Garry W. Rogerson	16,692,637	5,927,221
Lawrence Tomlinson	20,085,644	2,534,214
Sandeep Vij	16,677,410	5,942,448

2. Ratification of the appointment of Deloitte & Touche LLP as the Company s independent registered public accounting firm for the fiscal year ended October 3, 2009.

For	Against	Abstained
21,883,548	206,577	529,732

3. Approval of the amended and restated Employee Stock Purchase Plan.

For	Against	Abstained
19,674,396	361,537	529,618

4. Approval of the amended and restated 2001 Stock Plan.

For	Against	Abstained
19,057,300	960,202	548,049

Item 5. OTHER INFORMATION

Not applicable.

Table of Contents

Item 6. EXHIBITS

Exhibit No.	Description
10.1	Change of Control Severance Plan
10.2*	Amended and Restated Employee Stock Purchase Plan (previously filed as Appendix A to Schedule 14 filed on February 9, 2009)
10.3*	Amended and Restated 2001 Stock Plan (previously filed as Appendix B to Schedule 14 filed on February 9, 2009)
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* These exhibits were previously filed with the Commission as indicated and are incorporated herein by reference.

Identifies management contract or compensatory plans or arrangements required to be filed as an exhibit. Portions of this exhibit are redacted and confidential treatment has been requested.

Table of Contents

COHERENT, INC.

SIGNATURES

Pursuant to the requirements of the Securities 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 13, 2009	/s/:	JOHN R. AMBROSEO John R. Ambroseo President and Chief Executive Officer (Principal Executive Officer)
Date: May 13, 2009	/s/:	HELENE SIMONET Helene Simonet Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)

Table of Contents

EXHIBIT INDEX

Exhibit No.	Description
10.1	Change of Control Severance Plan (Amended and restated effective December 10, 2008)
10.2*	Amended Restated Employee Stock Purchase Plan (Amended and restated effective March 11, 2009) (previously filed as Appendix A to Schedule 14 filed on February 9, 2009)
10.3*	Amended and Restated 2001 Stock Plan (Amended and restated effective March 11, 2009) (previously filed as Appendix B to Schedule 14 filed on February 9, 2009)
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* These exhibits were previously filed with the Commission as indicated and are incorporated herein by reference.

Identifies management contract or compensatory plans or arrangements required to be filed as an exhibit. Portions of this exhibit are redacted and confidential treatment has been requested.