

COHERENT INC
Form 10-Q
February 10, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended January 2, 2016

or

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

(State or other jurisdiction of
incorporation or organization)

94-1622541

(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 No

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 No

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

Accelerated filer

Non-accelerated filer

Smaller reporting company

(do not check if a smaller reporting company)

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

The number of shares outstanding of registrant's common stock, par value \$.01 per share, on February 9, 2016 was 24,196,201.

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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,” “outlook,” “forecast” or the negative of or other comparable terminology, including without limitation statements made under “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 “Our Strategy,” “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.

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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		
	January 2, 2016	December 27, 2014	
Net sales	\$190,275	\$200,615	
Cost of sales	106,377	118,296	
Gross profit	83,898	82,319	
Operating expenses:			
Research and development	19,140	19,173	
Selling, general and administrative	36,774	38,141	
Amortization of intangible assets	701	696	
Total operating expenses	56,615	58,010	
Income from operations	27,283	24,309	
Other income (expense):			
Interest income	240	96	
Interest expense	(15) (11)
Other—net	(447) (770)
Total other expense, net	(222) (685)
Income before income taxes	27,061	23,624	
Provision for income taxes	6,775	6,194	
Net income	\$20,286	\$17,430	
Net income per share:			
Basic	\$0.85	\$0.70	
Diluted	\$0.84	\$0.69	
Shares used in computation:			
Basic	23,996	24,936	
Diluted	24,236	25,197	

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	January 2, 2016	December 27, 2014
Net income	\$20,286	\$17,430
Other comprehensive income (loss): ⁽¹⁾		
Translation adjustment, net of taxes ⁽²⁾	(8,506	) (14,519
Net gain (loss) on derivative instruments, net of taxes ⁽³⁾	(30	) 375
Changes in unrealized gains (losses) on available-for-sale securities, net of taxes ⁽⁴⁾	138	(73
Other comprehensive loss, net of tax	(8,398	) (14,217
Comprehensive income	\$11,888	\$3,213

⁽¹⁾ Reclassification adjustments were not significant during the three months ended January 2, 2016 and December 27, 2014.

⁽²⁾ Tax benefit of \$346 and \$752 was provided on translation adjustments during the three months ended January 2, 2016 and December 27, 2014, respectively.

⁽³⁾ Tax expense (benefit) of \$(18) and \$217 was provided on net gain (loss) on derivative instruments during the three months ended January 2, 2016 and December 27, 2014, respectively.

⁽⁴⁾ Tax expense (benefit) of \$80 and \$(39) was provided on changes in unrealized gains (losses) on available-for-sale securities for the three months ended January 2, 2016 and December 27, 2014, respectively.

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	January 2, 2016	October 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 142,343	\$ 130,607
Short-term investments	193,831	194,908
Accounts receivable—net of allowances of \$2,733 and \$3,015, respectively	144,595	142,260
Inventories	158,006	156,614
Prepaid expenses and other assets	32,733	28,294
Total current assets	671,508	652,683
Property and equipment, net	99,732	102,445
Goodwill	100,175	101,817
Intangible assets, net	20,070	22,776
Other assets	93,871	89,226
Total assets	\$985,356	\$968,947
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Short-term borrowings	\$5,000	\$—
Accounts payable	28,858	33,379
Income taxes payable	10,557	4,279
Other current liabilities	79,219	84,932
Total current liabilities	123,634	122,590
Other long-term liabilities	51,483	49,939
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Common stock, Authorized—500,000 shares, par value \$.01 per share:		
Outstanding—24,190 shares and 23,970 shares, respectively	241	238
Additional paid-in capital	130,537	128,607
Accumulated other comprehensive loss	(17,911	) (9,513)
Retained earnings	697,372	677,086
Total stockholders' equity	810,239	796,418
Total liabilities and stockholders' equity	\$985,356	\$968,947

See Accompanying Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended	
	January 2, 2016	December 27, 2014
Cash flows from operating activities:		
Net income	\$20,286	\$17,430
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,385	6,210
Amortization of intangible assets	2,092	2,180
Deferred income taxes	(3,492)	) 6,988
Stock-based compensation	3,745	4,390
Other non-cash expense	165	360
Changes in assets and liabilities, net of effect of acquisitions:		
Accounts receivable	(3,646)	) 2,760
Inventories	(3,713)	) 4,715
Prepaid expenses and other assets	(3,551)	) (8,650)
Other assets	(1,047)	) (658)
Accounts payable	(4,252)	) (5,358)
Income taxes payable/receivable	4,575	) (7,277)
Other current liabilities	(5,128)	) 7,145
Other long-term liabilities	1,843	816
Net cash provided by operating activities	14,262	31,051
Cash flows from investing activities:		
Purchases of property and equipment	(4,765)	) (5,138)
Proceeds from dispositions of property and equipment	50	568
Purchases of available-for-sale securities	(50,151)	) (43,780)
Proceeds from sales and maturities of available-for-sale securities	51,254	77,370
Net cash provided by (used in) investing activities	(3,612)	) 29,020
Cash flows from financing activities:		
Short-term borrowings	17,160	11,542
Repayments of short-term borrowings	(12,160)	) (11,542)
Issuance of common stock under employee stock option and purchase plans	3,521	3,437
Repurchase of common stock	—	) (17,298)
Net settlement of restricted common stock	(5,317)	) (5,200)
Net cash provided by (used in) financing activities	3,204	) (19,061)
Effect of exchange rate changes on cash and cash equivalents	(2,118)	) (2,807)
Net increase in cash and cash equivalents	11,736	38,203
Cash and cash equivalents, beginning of period	130,607	91,217
Cash and cash equivalents, end of period	\$142,343	\$129,420
Noncash investing and financing activities:		
Unpaid property and equipment purchases	\$1,499	\$807

See Accompanying Notes to Condensed Consolidated Financial Statements.

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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”) condensed consolidated financial statements and notes thereto filed on Form 10-K for the fiscal year ended October 3, 2015. 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. Our fiscal year ends on the Saturday closest to September 30 and our first fiscal quarters include 13 weeks of operations in each fiscal year presented. Fiscal year 2016 includes 52 weeks and fiscal year 2015 includes 53 weeks. Certain reclassifications have been made to the prior period amounts to conform to the current period’s presentation related to the \$28.1 million reclassification of current deferred income tax assets to non-current deferred income tax assets.

2. RECENT ACCOUNTING STANDARDS

Adoption of New Accounting Pronouncement

In November 2015, the FASB issued amended guidance that clarifies that in a classified statement of financial position, an entity shall classify deferred tax liabilities and assets as noncurrent amounts. The new guidance supersedes ASC 740-10-45-5 which required the valuation allowance for a particular tax jurisdiction be allocated between current and noncurrent deferred tax assets for that tax jurisdiction on a pro rata basis. The new standard will become effective for our fiscal year beginning October 2, 2017. We elected to early adopt the standard retrospectively in the first quarter of fiscal 2016, which resulted in the reclassification of \$28.1 million from current deferred income tax assets to non-current deferred income tax assets as of October 3, 2015.

Recently Issued Accounting Pronouncements

In January 2016, the FASB issued amended guidance that revises the recognition and measurement of financial instruments. The new guidance requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income, requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset, and eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The new standard will become effective for our fiscal year beginning September 29, 2018. We are currently assessing the impact of this amended guidance and the timing of adoption.

In September 2015, the FASB issued amended guidance that simplifies the accounting for adjustments made to provisional amounts recognized in a business combination. Under previous guidance, the acquirer retrospectively adjusted the provisional amounts recognized at the acquisition date with a corresponding adjustment to goodwill, and

would have to revise comparative information for prior periods presented in financial statements as needed. The update requires an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The new standard will become effective for our fiscal year beginning October 2, 2017. We are currently assessing the impact of this amended guidance and the timing of adoption.

In May 2014, the FASB amended the Accounting Standards Codification and created a new Topic 606, "Revenue from Contracts with Customers". The new guidance establishes a single comprehensive contract-based model for entities to use in accounting for revenue arising from contracts with customers. The new model significantly changes existing GAAP, requires substantial judgment in its application, and will generally require companies to make more disclosures about

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revenue. The core principle of the amendment is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In applying the new guidance, an entity will (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the contract's performance obligations; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The new standard provides for two alternative implementation methods. The first is to apply the new standard retrospectively to each prior reporting period presented. This method does allow the use of certain practical expedients. The second method is to apply the new standard retrospectively in the year of initial adoption and record a cumulative effect adjustment for the impact of adjusting contracts open at the date of adoption. Under this transition method, we would apply this guidance retrospectively only to contracts that are not completed contracts at the date of initial application. We would then recognize the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings. This method also requires us to disclose comparative information for the year of adoption. In July 2015, the FASB approved a one-year deferral of the effective date. The new standard will become effective for our fiscal year beginning September 30, 2018. We are currently evaluating the new guidance and have not determined the impact this standard may have on our financial statements nor have we decided upon the method of adoption.

3. BUSINESS COMBINATIONS

Fiscal 2015 Acquisitions

Raydiance, Inc.

On July 24, 2015, we acquired certain assets of Raydiance, Inc. ("Raydiance") for approximately \$5.0 million, excluding transaction costs. Raydiance manufactured complete tools and lasers for ultrafast processing systems and subsystems in the precision micromachining processing market. The Raydiance assets have been included in our Specialty Lasers and Systems segment.

Our allocation of the purchase price is as follows (in thousands):

Tangible assets	\$1,048
Goodwill	1,552
Intangible assets:	
Existing technology	800
Customer lists	1,600
Total	\$5,000

The purchase price allocated to goodwill was finalized in the first quarter of fiscal 2016 with an increase of \$0.4 million and has been updated from the preliminary allocation in the fourth quarter of fiscal 2015.

Results of operations for the business have been included in our consolidated financial statements subsequent to the date of acquisition and pro forma results of operations in accordance with authoritative guidance for prior periods have not been presented because the effect of the acquisition was not material to our prior period consolidated financial results.

The identifiable intangible assets are being amortized over their respective useful lives of three to five years.

None of the goodwill from this purchase is deductible for tax purposes.

We expensed \$0.1 million of acquisition-related costs as selling, general and administrative expenses in our consolidated statements of operations for our fiscal year 2015.

Tinsley Optics

On July 27, 2015, we acquired the assets and certain liabilities of the Tinsley Optics ("Tinsley") business from L-3 Communications Corporation for approximately \$4.3 million, excluding transaction costs. Tinsley is a specialized manufacturer of high precision optical components and subsystems sold primarily in the aerospace and defense industry. Tinsley manufactures the large form factor optics for our excimer laser annealing systems. Tinsley has been included in our Specialty Lasers and Systems segment.

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Our allocation of the purchase price is as follows (in thousands):

Tangible assets:		
Inventories	\$2,263	
Accounts receivable	2,240	
Prepaid expenses and other assets	1,132	
Property and equipment	2,451	
Liabilities assumed	(1,702)
Deferred tax liabilities	(768)
Gain on business combination	(1,316)
Total	\$4,300	

The purchase price was lower than the fair value of net assets purchased, resulting in a gain of \$1.3 million recorded as a separate line item in our consolidated statements of operations for our fiscal year 2015. The Company reassessed the recognition and measurement of identifiable assets acquired and liabilities assumed and concluded that all acquired assets and assumed liabilities were recognized and that the valuation procedures and resulting measures were appropriate.

Results of operations for the business have been included in our consolidated financial statements subsequent to the date of acquisition and pro forma results of operations in accordance with authoritative guidance for prior periods have not been presented because the effect of the acquisition was not material to our prior period consolidated financial results.

The gain from the bargain purchase is not subject to income taxation.

We expensed \$0.4 million of acquisition-related costs as selling, general and administrative expenses in our consolidated statements of operations for our fiscal year 2015.

4. FAIR VALUES

We have not changed our valuation techniques in measuring the fair value of any financial assets and liabilities during the period. We recognize transfers between levels within the fair value hierarchy, if any, at the end of each quarter. There were no transfers between levels during the periods presented. As of January 2, 2016 and October 3, 2015, we did not have any assets or liabilities valued based on Level 3 valuations.

Financial assets and liabilities measured at fair value as of January 2, 2016 and October 3, 2015 are summarized below (in thousands):

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	Aggregate Fair Value	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Aggregate Fair Value	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs
	January 2, 2016	(Level 1)	(Level 2)	October 3, 2015	(Level 1)	(Level 2)
Assets:						
Cash equivalents:						
Money market fund deposits	\$21,763	\$ 21,763	\$—	\$8,297	\$ 8,297	\$—
Commercial paper ⁽²⁾	9,694	—	9,694	—	—	—
Short-term investments:						
U.S. Treasury and agency obligations ⁽²⁾	\$ 147,487	\$ —	\$ 147,487	\$ 150,748	\$ —	\$ 150,748
Corporate notes and obligations ⁽²⁾	19,803	—	19,803	17,942	—	17,942
Commercial paper ⁽²⁾	9,497	—	9,497	9,740	—	9,740
Equity securities ⁽¹⁾	17,044	17,044	—	16,478	16,478	—
Prepaid and other assets:						
Foreign currency contracts ⁽³⁾	1,780	—	1,780	258	—	258
Mutual funds — Deferred comp and supplemental plan ⁽⁴⁾	14,815	14,815	—	13,891	13,891	—
Total	\$241,883	\$ 53,622	\$ 188,261	\$217,354	\$ 38,666	\$ 178,688
Liabilities:						
Other current liabilities:						
Foreign currency contracts ⁽³⁾	\$(384)	\$ —	\$(384)	\$(239)	\$ —	\$(239)
Short term borrowings	(5,000)	(5,000)	—	—	—	—
Total	\$236,499	\$ 48,622	\$ 187,877	\$217,115	\$ 38,666	\$ 178,449

(1) Valuations are based upon quoted market prices.

Valuations are based upon quoted market prices in active markets involving similar assets. The market inputs used to value these instruments generally consist of market yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency. Pricing sources include industry standard data providers, security master files from large financial institutions, and other third party sources which are input into a distribution-curve-based algorithm to determine a daily market value. This creates a “consensus price” or a weighted average price for each security.

(3) The principal market in which we execute our foreign currency contracts is the institutional market in an over-the-counter environment with a relatively high level of price transparency. The market participants usually are large commercial banks. Our foreign currency contracts’ valuation inputs are based on quoted prices and quoted pricing intervals from public data sources and do not involve management judgment. At January 2, 2016, prepaid expenses and other assets include \$1,780 non-designated forward contracts and \$0 foreign currency contracts designated for cash flow hedges, respectively; other current liabilities include \$380 non-designated forward contracts and \$4 foreign currency contracts designated for cash flow hedges, respectively. At October 3, 2015, prepaid expenses and other assets include \$217 non-designated forward contracts and \$41 foreign currency contracts designated for cash flow hedges, respectively; other current liabilities include \$239 non-designated forward contracts and \$0 foreign currency contracts designated for cash flow hedges, respectively. See Note 6,

"Derivative Instruments and Hedging Activities".

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(4) The fair value of mutual funds is determined based on quoted market prices. Securities traded on a national exchange are stated at the last reported sales price on the day of valuation; other securities traded in over-the-counter markets and listed securities for which no sale was reported on that date are stated as the last quoted bid price.

5. 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. 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):

	January 2, 2016			
	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	\$ 142,343	\$—	\$—	\$ 142,343
Short-term investments:				
Available-for-sale securities:				
Commercial paper	\$9,497	\$—	\$—	\$9,497
U.S. Treasury and agency obligations	146,996	706	(215	) 147,487
Corporate notes and obligations	19,744	104	(45	) 19,803
Equity securities	15,269	1,775	—	17,044
Total short-term investments	\$ 191,506	\$ 2,585	\$(260	) \$ 193,831
	October 3, 2015			
	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	\$ 130,607	\$—	\$—	\$ 130,607
Short-term investments:				
Available-for-sale securities:				
Commercial paper	\$9,740	\$—	\$—	\$9,740
U.S. Treasury and agency obligations	149,708	1,040	—	150,748
Corporate notes and obligations	17,892	52	(2	) 17,942
Equity Securities	15,269	1,209	—	16,478
Total short-term investments	\$ 192,609	\$ 2,301	\$(2	) \$ 194,908

None of the unrealized losses as of January 2, 2016 or October 3, 2015 were considered to be other-than-temporary impairments.

The amortized cost and estimated fair value of available-for-sale investments in debt securities as of January 2, 2016 and October 3, 2015 classified as short-term investments on our condensed consolidated balance sheet were as follows (in thousands):

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	January 2, 2016 Amortized Cost	Estimated Fair Value	October 3, 2015 Amortized Cost	Estimated Fair Value
Investments in available-for-sale debt securities due in less than one year	\$ 140,303	\$ 140,835	\$ 148,088	\$ 149,100
Investments in available-for-sale debt securities due in one to five years ⁽¹⁾	\$ 35,934	\$ 35,952	\$ 29,252	\$ 29,330

(1) Classified as short-term investments because these securities are highly liquid and can be sold at any time.

During the three months ended January 2, 2016, we received proceeds totaling \$15.1 million from the sale of available-for-sale securities and realized gross gains of less than \$0.1 million. During the three months ended December 27, 2014, we received proceeds totaling \$29.6 million from the sale of available-for-sale securities and realized gross gains of less than \$0.1 million.

6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

We maintain operations in various countries outside of the United States and have 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, Japanese Yen, South Korean Won and Chinese Renminbi (RMB). As a result, our earnings, cash flows and cash balances 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. The credit risk amounts represent the Company's gross exposure to potential accounting loss on derivative instruments that are outstanding or unsettled if all counterparties failed to perform according to the terms of the contract, based on then-current currency or interest rates at each respective date.

Non-Designated Derivatives

The outstanding notional contract and fair value asset (liability) amounts of non-designated hedge contracts, with maximum maturity of two months, are as follows (in thousands):

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	U.S. Notional Contract Value		U.S. Fair Value	
	January 2, 2016	October 3, 2015	January 2, 2016	October 3, 2015
Euro currency hedge contracts				
Purchase	\$56,001	\$52,699	\$1,500	\$33
Sell	(2,710	) —	19	—
Japanese Yen currency hedge contracts				
Purchase	\$—	\$558	\$—	\$8
Sell	\$(21,743	) \$(15,804	) \$(340	) \$(84
South Korean Won currency hedge contracts				
Purchase	\$—	\$253	\$—	\$—
Sell	\$(14,034	) \$(17,747	) \$131	\$30
Chinese RMB currency hedge contracts				
Sell	\$(9,957	) \$(10,900	) \$37	\$(106
Other foreign currency hedge contracts				
Purchase	\$5,220	\$3,283	\$(30	) \$(49
Sell	\$(5,597	) \$(5,835	) \$83	\$146

Designated Derivatives

Cash flow hedges related to anticipated transactions are designated and documented at the inception of the hedge when we enter into contracts for specific future transactions. Cash flow hedges are evaluated for effectiveness quarterly. The effective portion of the gain or loss on these hedges is reported as a component of OCI in stockholder's equity and is reclassified into earnings when the underlying transaction affects earnings. The majority of the after-tax net income or loss related to derivative instruments included in OCI at January 2, 2016 is expected to be reclassified into earnings within 12 months. Changes in the fair value of currency forward contracts due to changes in time value are excluded from the assessment of effectiveness and recognized in other income (expense) as incurred. We classify the cash flows from the foreign exchange forward contracts that are accounted for as cash flow hedges in the same section as the underlying item, primarily within cash flows from operating activities since we do not designate our cash flow hedges as investing or financing activities.

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

The outstanding notional contract and fair value asset (liability) amounts of designated cash flow hedge contracts, with maximum maturity of thirteen months, are as follows (in thousands):

	U.S. Notional Contract Value		U.S. Fair Value	
	January 2, 2016	October 3, 2015	January 2, 2016	October 3, 2015
Japanese Yen currency hedge contracts				
Sell	\$(901	) \$(2,093	) \$(4	) \$41

We have entered into certain derivative forward contracts to sell Japanese Yen and buy Euro to hedge revenue exposures related to our photonics-based solutions in Asia. In order to facilitate the hedge, we transact with counterparties in the U.S. directly and then allocate the hedge contracts to our affiliates through a back-to-back relationship with our German subsidiary. The German subsidiary designates these hedge contracts as cash flow hedges

under ASC 815.

The fair value of our derivative instruments is included in prepaid expenses and other assets and in other current liabilities in our Condensed Consolidated Balance Sheets (See Note 4).

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The locations and amounts of designated and non-designated derivative instruments' gains and losses in the condensed consolidated financial statements for the indicated periods were as follows (in thousands):

	Location in financial statements	Three Months Ended	
		January 2, 2016	December 27, 2014
Derivatives designated as hedging instruments			
Gains(losses) in OCI on derivatives (effective portion), after tax	OCI	\$ (30	) \$ 375
Gains(losses) reclassified from OCI into income (effective portion)	Cost of sales	\$ —	\$ (614)
Gains(losses) reclassified from OCI into income (effective portion)	Revenue	\$ —	\$ 300
Gains(losses) recognized in income on derivatives (ineffective portion and amount excluded from effectiveness testing)	Other income(expense)	\$ (29	) \$ 35
Derivatives not designated as hedging instruments			
Losses recognized in income	Other income(expense)	\$ (2,331	) \$ (712)

During the first quarter of fiscal 2016 we recognized a loss of \$31 in other income (expense) as ineffectiveness related to a portion of an anticipated hedged transaction that failed to occur within the original hedge period plus two months. The remainder of the hedged transaction is still expected to occur and the effective portion is recorded in OCI as shown in the above table.

The amounts that will be reclassified from OCI to earnings will generally be offset by the recognition of the hedged transactions (e.g., anticipated cost of sales) in earnings, thereby achieving the realization of prices contemplated by the underlying risk management strategies and will vary from the expected amounts presented above as a result of changes in foreign exchange rates.

To mitigate credit risk in derivative transactions, we enter into master netting arrangements that allow each counterparty in the arrangements to net settle amounts of multiple and separate derivative transactions under certain conditions. We present the fair value of derivative assets and liabilities within our condensed consolidated balance sheet on a gross basis even when derivative transactions are subject to master netting arrangements and may otherwise qualify for net presentation. Our derivative contracts do not contain any credit risk related contingent features and do not require collateral or other security to be furnished by us or the counterparties.

Offsetting of Financial Assets/Liabilities under Master Netting Agreements with Derivative Counterparties as of January 2, 2016 and October 3, 2015 (in thousands):

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	Gross Amounts of Recognized Derivative Assets	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts of Derivative Assets Presented in the Condensed Consolidated Balance Sheets	Financial Instruments (1)	Cash Collateral Received	Net Amounts	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets
As of January 2, 2016:							
Foreign exchange contracts	\$1,780	\$—	\$1,780	\$(384	) \$—	\$1,396	
As of October 3, 2015:							
Foreign exchange contracts	\$258	\$—	\$258	\$(116	) \$—	\$142	

(1) The balances at January 2, 2016 and October 3, 2015 were related to derivative liabilities which are allowed to be net settled against derivative assets in accordance with the master netting agreements.

	Gross Amounts of Recognized Derivative Liabilities	Gross Amounts Offset in the Condensed Consolidated Balance Sheets	Net Amounts of Derivative Liabilities Presented in the Condensed Consolidated Balance Sheets	Financial Instruments (1)	Cash Collateral Paid	Net Amounts	Gross Amounts Not Offset in the Condensed Consolidated Balance Sheets
As of January 2, 2016:							
Foreign exchange contracts	\$(384	) \$—	\$(384	) \$384	\$—	\$—	
As of October 3, 2015:							
Foreign exchange contracts	\$(239	) \$—	\$(239	) \$116	\$—	\$(123)

(1) The balances at January 2, 2016 and October 3, 2015 were related to derivative assets which are allowed to be net settled against derivative liabilities in accordance with the master netting agreements.

7. GOODWILL AND INTANGIBLE ASSETS

During the three months ended January 2, 2016, we noted no indications of impairment or triggering events to cause us to review goodwill for potential impairment. We will conduct our annual goodwill testing during the fourth fiscal quarter.

The changes in the carrying amount of goodwill by segment for the period from October 3, 2015 to January 2, 2016 are as follows (in thousands):

Specialty	Commercial	Total
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	Lasers and Systems	Lasers and Components	
Balance as of October 3, 2015	\$95,454	\$6,363	\$101,817
Translation adjustments and other	(1,642) —	(1,642)
Balance as of January 2, 2016	\$93,812	\$6,363	\$100,175

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

	January 2, 2016			October 3, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Existing technology	\$70,402	\$(56,517)	\$13,885	\$71,365	\$(55,452)	\$15,913
Customer lists	15,803	(10,027)	5,776	16,099	(9,661)	6,438
Trade name	390	(344)	46	399	(349)	50
In-process research & development	363	—	363	375	—	375
Total	\$86,958	\$(66,888)	\$20,070	\$88,238	\$(65,462)	\$22,776

For accounting purposes, when an intangible asset is fully amortized, it is removed from the disclosure schedule.

Amortization expense for intangible assets for the three months ended January 2, 2016 and December 27, 2014 was \$2.1 million and \$2.2 million, respectively, which includes \$1.6 million and \$1.7 million, respectively, for amortization of existing technology. The change in the accumulated amortization also includes \$0.7 million and \$0.9 million of foreign exchange impact for the three months ended January 2, 2016 and December 27, 2014, respectively.

At January 2, 2016, estimated amortization expense for the remainder of fiscal 2016, the next five succeeding fiscal years and all fiscal years thereafter are as follows (in thousands):

	Estimated Amortization Expense
2016 (remainder)	\$5,892
2017	6,902
2018	4,247
2019	2,190
2020	684
2021	52
Thereafter	103
Total	\$20,070

8. BALANCE SHEET DETAILS

Inventories consist of the following (in thousands):

	January 2, 2016	October 3, 2015
Purchased parts and assemblies	\$49,308	\$50,182
Work-in-process	60,225	56,225
Finished goods	48,473	50,207
Total inventories	\$158,006	\$156,614

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

	January 2, 2016	October 3, 2015
Prepaid and refundable income taxes	\$9,570	\$8,846
Other taxes receivable	6,844	6,574

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Prepaid expenses and other assets	16,319	12,874
Total prepaid expenses and other assets	\$32,733	\$28,294

Other assets consist of the following (in thousands):

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	January 2, 2016	October 3, 2015
Assets related to deferred compensation arrangements	\$26,202	\$25,131
Deferred tax assets	64,118	60,254
Other assets	3,551	3,841
Total other assets	\$93,871	\$89,226

On June 8, 2010, we invested \$2.0 million in SiOnyx, a privately-held company. The investment was included in other assets and was being carried on a cost basis. During the third quarter of fiscal 2015 we determined that our investment became other-than temporarily impaired. As a result, during the third quarter of fiscal 2015, we recorded a non-cash charge of \$2.0 million in our results of operations to impair this investment.

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

	January 2, 2016	October 3, 2015
Accrued payroll and benefits	\$27,689	\$35,504
Deferred revenue	16,805	16,474
Warranty reserve	14,645	15,308
Accrued expenses and other	11,792	10,965
Other taxes payable	5,687	4,888
Customer deposits	2,601	1,793
Total other current liabilities	\$79,219	\$84,932

Components of the reserve for warranty costs during the first three months of fiscal 2016 and 2015 were as follows (in thousands):

	Three Months Ended	
	January 2, 2016	December 27, 2014
Beginning balance	\$15,308	\$16,961
Additions related to current period sales	4,954	5,608
Warranty costs incurred in the current period	(5,390)	(5,135)
Adjustments to accruals related to foreign exchange and other	(227)	(830)
Ending balance	\$14,645	\$16,604

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

	January 2, 2016	October 3, 2015
Long-term taxes payable	\$7,691	\$7,651
Deferred compensation	27,753	26,691
Deferred tax liabilities	2,754	2,717
Deferred revenue	3,495	3,149
Asset retirement obligations liability	2,625	2,654
Other long-term liabilities	7,165	7,077
Total other long-term liabilities	\$51,483	\$49,939

9. SHORT-TERM BORROWINGS

We have several lines of credit which allow us to borrow in the applicable local currency. We have a total of \$12.9 million of unsecured foreign lines of credit as of January 2, 2016. At January 2, 2016, we had used \$2.9 million of

these available foreign lines of credit as guarantees. These credit facilities were used in Europe and Japan during the first three months of fiscal 2016. In addition, our domestic line of credit consists of a \$50.0 million unsecured revolving credit account. The

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agreement will expire on May 31, 2017. The line of credit is subject to covenants related to financial ratios and tangible net worth with which we are currently in compliance. We have an outstanding balance of \$5.0 million and have used \$1.1 million for letters of credit against our domestic line of credit as of January 2, 2016.

10. STOCK-BASED COMPENSATION

Fair Value of Stock Compensation

We recognize compensation expense for all share based payment awards based on the fair value of such awards. The expense is recognized on a straight-line basis over the respective requisite service period of the awards.

Determining Fair Value

The fair values of shares purchased under the Employee Stock Purchase Plan (“ESPP”) for the three months ended January 2, 2016 and December 27, 2014, respectively, were estimated using the following weighted-average assumptions:

	Employee Stock Purchase Plan Three Months Ended		
	January 2, 2016	December 27, 2014	
Expected life in years	0.5	0.5	
Expected volatility	28.7	% 24.8	%
Risk-free interest rate	0.19	% 0.10	%
Expected dividend yield	—	% —	%
Weighted average fair value per share	\$13.27	\$13.97	

There were no stock options granted during the three months ended January 2, 2016 and December 27, 2014.

We grant performance restricted stock units to officers and certain employees. The performance restricted stock unit agreements provide for the award of performance restricted stock units with each unit representing the right to receive one share of our common stock to be issued after the applicable award vesting period. The final number of units awarded, if any, for these performance grants will be determined as of the vesting dates, based upon our total shareholder return over the performance period compared to the Russell 2000 Index and could range from no units to a maximum of twice the initial award units. The weighted average fair value for these performance units was determined using a Monte Carlo simulation model incorporating the following weighted average assumptions:

	Three Months Ended		
	January 2, 2016	December 27, 2014	
Risk-free interest rate	1.20	% 0.96	%
Volatility	27.0	% 28.7	%
Weighted average fair value	\$74.48	\$70.57	

We recognize the estimated cost of these awards, as determined under the simulation model, over the related service period, with no adjustment in future periods based upon the actual shareholder return over the performance period.

Stock Compensation Expense

The following table shows total stock-based compensation expense and related tax benefits included in the condensed consolidated statements of operations for the three months ended January 2, 2016 and December 27, 2014 (in thousands):

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	Three Months Ended	
	January 2, 2016	December 27, 2014
Cost of sales	\$605	\$597
Research and development	426	330
Selling, general and administrative	2,714	3,463
Income tax benefit	(351	) (430
	\$3,394	\$3,960

During the three months ended January 2, 2016, \$0.6 million was capitalized into inventory for all stock plans, \$0.6 million was amortized to cost of sales and \$0.7 million remained in inventory at January 2, 2016. During the three months ended December 27, 2014, \$0.7 million was capitalized into inventory for all stock plans, \$0.6 million was amortized to cost of sales and \$0.8 million remained in inventory at December 27, 2014.

At January 2, 2016, the total compensation cost related to unvested stock-based awards granted to employees under the Company's stock plans but not yet recognized was approximately \$30.5 million, net of estimated forfeitures of \$2.9 million. This cost will be amortized on a straight-line basis over a weighted-average period of approximately 1.7 years and will be adjusted for subsequent changes in estimated forfeitures.

At January 2, 2016, total compensation cost related to options to purchase common shares under the ESPP but not yet vested was approximately \$0.6 million, which will be recognized over the six month offering period.

Stock Awards Activity

The following table summarizes the activity of our time-based and performance restricted stock units for the first three months of fiscal 2016 (in thousands, except per share amounts):

	Time Based Restricted Stock Units		Performance Restricted Stock Units	
	Number of Shares	Weighted Average Grant Date Fair Value	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested stock at October 3, 2015	394	\$65.17	199	\$67.09
Granted	231	61.06	57	74.48
Vested ⁽¹⁾	(168	) 60.59	(57	) 48.48
Forfeited	(1	) 65.04	(38	) 48.48
Nonvested stock at January 2, 2016	456	\$64.78	161	\$74.09

(1) Service-based restricted stock units vested during each fiscal year. Performance-based awards and units included at 100% of target goal; under the terms of the awards, the recipient may earn between 0% and 200% of the award.

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. On May 14, 2013, IMRA America ("Imra") filed a complaint for patent infringement against two of our subsidiaries in the Regional Court of Düsseldorf, Germany, captioned In re IMRA America Inc. versus Coherent Kaiserslautern GmbH et. al. 4b O

38/13. The complaint alleges that the use of certain of the Company's lasers infringes upon EP Patent No. 754,103, entitled "Method For Controlling Configuration of Laser Induced Breakdown and Ablation," issued November 5, 1997. The patent, now expired in all jurisdictions, is owned by the University of Michigan and licensed to Imra. The complaint seeks unspecified compensatory damages, the cost of court proceedings and seeks to permanently enjoin the Company from infringing the patent in the future. Following the filing of the infringement suit, our subsidiaries filed a separate nullity action with the Federal Patent Court in Munich, Germany requesting that the court hold that the Patent was invalid based on prior art. On October 1, 2015, the Federal Patent Court ruled that the German portion of the Patent was invalid. Imra has filed a notice

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to appeal this decision to the German Supreme Court. The infringement action is currently stayed pending the outcome of such appeal. Management has made an accrual with respect to this matter and has determined, based on its current knowledge, that the amount or range of reasonably possible losses in excess of the amounts already accrued, is not reasonably estimable. Although we do not expect that such legal claims and litigation will ultimately have a material adverse effect on our consolidated financial position, results of operations or cash flows, an adverse result in one or more matters could negatively affect our results in the period in which they occur.

The United States and many foreign governments impose tariffs and duties on the import and export of certain products we sell. From time to time our duty calculations and payments are audited by government agencies. We are currently under audit in South Korea for customs duties and value added tax for the period March 2009 to March 2014. Although we do not expect that the audit will ultimately have a material adverse effect on our condensed consolidated financial position, results of operations or cash flows, an adverse result in this matter could negatively affect our results in the period in which it occurs. As of January 2, 2016, management has accrued an estimated liability of \$1.6 million related to this matter, of which \$1.5 million had been paid to date in the second quarter of fiscal 2016.

12. STOCK REPURCHASE

On July 25, 2014, the Board of Directors authorized a buyback program whereby we were authorized to repurchase up to \$25.0 million of our common stock from time to time through July 31, 2015. During the first quarter of fiscal 2015, we repurchased and retired 300,441 shares of outstanding common stock at an average price of \$57.55 per share for a total of \$17.3 million, excluding expenses. During the second quarter of fiscal 2015, we repurchased and retired 133,673 shares of outstanding common stock under this plan at an average price of \$57.66 per share for a total of \$7.7 million, completing the repurchase program.

On January 21, 2015, our Board of Directors authorized an additional stock repurchase program to repurchase up to \$25.0 million of our outstanding common stock from time to time through January 31, 2016. During the fourth quarter of fiscal 2015, we repurchased and retired 430,675 shares of outstanding common stock under this plan at an average price of \$58.05 per share for a total of \$25.0 million.

On August 25, 2015, our Board of Directors authorized an additional stock repurchase program to repurchase up to \$25.0 million of our outstanding common stock from time to time through August 31, 2016. During the fourth quarter of fiscal 2015, we repurchased and retired 437,534 shares of outstanding common stock under this plan at an average price of \$57.14 per share for a total of \$25.0 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 plan contracts, using the treasury stock method.

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

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	Three Months Ended	
	January 2, 2016	December 27, 2014
Weighted average shares outstanding —basic	23,996	24,936
Dilutive effect of employee stock awards	240	261
Weighted average shares outstanding—diluted	24,236	25,197
Net income	\$20,286	\$17,430
Net income per basic share	\$0.85	\$0.70
Net income per diluted share	\$0.84	\$0.69

A total of 32,213 and 159,618 potentially dilutive securities have been excluded from the diluted share calculation for the three months ended January 2, 2016 and December 27, 2014, respectively as their effect was anti-dilutive.

14. OTHER INCOME (EXPENSE)

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

	Three Months Ended	
	January 2, 2016	December 27, 2014
Foreign exchange loss	\$(1,322	) \$(1,161
Gain on deferred compensation investments, net	875	384
Other	—	7
Other - net	\$(447	) \$(770

15. INCOME TAXES

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, adjusted for items which are considered discrete to the period. Our effective tax rate for the three months ended January 2, 2016 was 25.0%. Our effective tax rate for the three months ended January 2, 2016 was lower than the statutory rate of 35% primarily due to differences related to the benefit of income subject to foreign tax rates that are lower than U.S. tax rates including the Singapore tax exemption, the benefit of foreign tax credits and the benefit of federal research and development tax credits including renewal of the federal research and development tax credits for fiscal 2015. These amounts are partially offset by deemed dividend inclusions under the Subpart F tax rules, stock-based compensation not deductible for tax purposes and limitations on the deductibility of compensation under IRC Section 162(m).

The effective tax rate on income before income taxes for the first quarter of fiscal 2015 of 26.2% was lower than the statutory rate of 35.0% primarily due to differences related to the benefit of income subject to foreign tax rates that are lower than U.S. tax rates including South Korea and Singapore tax exemptions, the benefit of foreign tax credits and the benefit of federal research and development tax credits including renewal of the federal research and development tax credits for fiscal 2014. These amounts are partially offset by deemed dividend inclusions under the Subpart F tax rules, stock-based compensation not deductible for tax purposes and limitations on the deductibility of compensation under IRC Section 162(m).

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.

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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 2011 are closed. In our major foreign jurisdictions and our major state jurisdictions, the years prior to 2006 and 2011, respectively, are closed to examination. Earlier years in our various jurisdictions may remain open for adjustment to the extent that we have tax attribute carryforwards from those years. In December 2011 and January 2012, three of our German subsidiaries received notices of tax audits for the fiscal years 2006 through 2010. In fiscal year 2013, we received a preliminary assessment for two of the German subsidiaries and the amount is immaterial. In September 2015, the German tax authorities issued preliminary tax findings for Coherent GmbH for the years 2006 to 2010 and Coherent management met with the German tax authorities in December 2015 to discuss the preliminary assessments. In July 2015, Coherent Kaiserslautern GmbH (formerly Lumera Laser GmbH) received a tax audit notice for the years 2010 to 2013. The audit began in August 2015. We acquired the shares of Lumera Laser GmbH in December 2012 and we should not have responsibility for any assessments related to the pre-acquisition period.

Management believes that it has adequately provided reserves for any adjustments that may result from tax examinations. We regularly engage in discussions and negotiations with tax authorities regarding tax matters in various jurisdictions. It is reasonably possible that certain federal, foreign and state tax matters may be concluded in the next 12 months.

The Consolidated Appropriations Act of 2016 (“the Act”), was enacted on December 18, 2015. Under the Act, the federal research and development tax credit was retroactively extended for amounts paid or incurred after December 31, 2014 through December 31, 2015 and the credit was made permanent. The effects of the change in the tax law are recognized in our first quarter of fiscal 2016, which is the quarter that the law was enacted. Accordingly, prior year research and development tax credits of approximately \$1.2 million, after netting with appropriate reserves, were recognized in the first quarter of fiscal 2016.

16. SEGMENT INFORMATION

The following table provides net sales and income from operations for our operating segments and a reconciliation of our total income from operations to net income (in thousands):

	Three Months Ended	
	January 2, 2016	December 27, 2014
Net sales:		
Specialty Laser Systems	\$135,951	\$145,091
Commercial Lasers and Components	54,324	55,524
Total net sales	\$190,275	\$200,615
Income from operations:		
Specialty Laser Systems	\$35,795	\$34,554
Commercial Lasers and Components	1,815	1,825 703
Corporate and other	(10,327	) (10,948
Total income from operations	27,283	24,309
Total other expense, net	(222	) (685
Income before income taxes	27,061	23,624
Provision for income taxes	6,775	6,194
Net Income	\$20,286	\$17,430

Major Customers

We had one major customer during the three months ended January 2, 2016 who accounted for 17.6% of consolidated revenue. We had another major customer who accounted for 10.6% and 18.6% of consolidated revenue for the three months ended January 2, 2016 and December 27, 2014, respectively. The customers purchased primarily from our SLS segment.

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We had one major customer who accounted for 22.8% of accounts receivable at January 2, 2016. We had another major customer who accounted for 16.3% and 21.4% of accounts receivable at January 2, 2016 and October 3, 2015, respectively. The customers purchased primarily from our SLS segment.

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 providers of lasers and laser-based technology in a broad range of scientific, commercial and industrial applications. We design, manufacture, service and market lasers 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: Specialty Lasers and Systems ("SLS") and Commercial Lasers and Components ("CLC"). This segmentation reflects the go-to-market strategies for various products and markets. While both segments deliver cost-effective photonics solutions, SLS develops and manufactures configurable, advanced performance products largely serving the microelectronics, scientific research and government programs and original equipment manufacturer ("OEM") components and instrumentation markets. The size and complexity of many of the SLS products require service to be performed at the customer site by factory trained field service engineers. 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 materials processing, OEM components and instrumentation and microelectronics.

Income from operations is the measure of profit and loss that our chief operating decision maker ("CODM") uses to assess performance and make decisions. Income from operations represents the 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 advanced 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, Scientific Research and Government Programs, OEM Components and Instrumentation and Materials Processing.

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. We plan to utilize our expertise to increase our market share in the mid to high power material processing applications.

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.

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

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efforts, as well as through the acquisition of additional complementary technologies, intellectual property, manufacturing processes and product offerings.

Streamline our manufacturing structure and improve our cost structure—We will focus on optimizing the mix of products that we manufacture internally and externally. We will utilize vertical integration where our internal manufacturing process is considered proprietary and seek to leverage external sources when the capabilities and cost structure are well developed and on a path towards commoditization.

Focus on long-term improvement of adjusted EBITDA, in dollars and as a percentage of net sales—We define adjusted EBITDA as operating income adjusted for depreciation, amortization, stock compensation expenses, major restructuring costs and certain other non-operating income and expense items. Key initiatives to reach our goals for EBITDA improvements include utilization of our Asian manufacturing locations, rationalizing our supply chain and continued leveraging of our infrastructure.

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 condensed consolidated 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 condensed consolidated 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. See Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for our fiscal year ended October 3, 2015.

KEY PERFORMANCE INDICATORS

Below is a summary of some of the quantitative performance indicators (as defined below) that are evaluated by management to assess our financial performance. Some of the indicators are non-GAAP measures and should not be considered as an alternative to any other measure for determining operating performance or liquidity that is calculated in accordance with generally accepted accounting principles.

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	Three Months Ended		Change	% Change	
	January 2, 2016	December 27, 2014			
	(Dollars in thousands)				
Bookings	\$273,004	\$162,524	\$110,480	68.0	%
Book-to-bill ratio	1.43	0.81	0.62	76.5	%
Net sales—Specialty Lasers and Systems	\$135,951	\$145,091	\$(9,140)	(6.3))%
Net sales—Commercial Lasers and Components	\$54,324	\$55,524	\$(1,200)	(2.2))%
Gross profit as a percentage of net sales—Specialty Lasers and Systems	47.6	% 44.0	% 3.6	% 8.2	%
Gross profit as a percentage of net sales—Commercial Lasers and Components	36.4	% 34.7	% 1.7	% 4.9	%
Research and development as a percentage of net sales	10.1	% 9.6	% 0.5	% 5.2	%
Income before income taxes	\$27,061	\$23,624	\$3,437	14.5	%
Net cash provided by operating activities	\$14,262	\$31,051	\$(16,789)	(54.1))%
Days sales outstanding in receivables	68.4	58.5	9.9	16.9	%
Annualized first quarter inventory turns	2.7	2.9	(0.2)	(6.9))%
Capital spending as a percentage of net sales	2.5	% 2.6	% (0.1)	)% (3.8))%
Net income as a percentage of net sales	10.7	% 8.7	% 2.0	% 23.0	%
Adjusted EBITDA as a percentage of net sales	21.3	% 18.7	% 2.6	% 13.9	%

Definitions and analysis of these performance indicators are as follows:

Bookings and Book-to-Bill Ratio

Bookings represent orders received during the current period for products 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 cannot assure all bookings will be converted to net sales.

The book-to-bill ratio is calculated as quarterly bookings divided by quarterly net sales. This is an indication of the strength of our business but can sometimes be impacted by a single large order or a single large shipment. A ratio of greater than 1.0 indicates that demand for our products is greater than what we supply in the quarter whereas a ratio of less than 1.0 indicates that demand for our products is less than what we supply in the quarter.

Bookings were a new quarterly record and increased 68.0% in the first quarter of fiscal 2016 compared to the same quarter one year ago, led by a significant increase in the microelectronics market. Compared to the fourth quarter of fiscal 2015, bookings increased 32.9% with a significant increase in the microelectronics market partially offset by decreases in the materials processing and OEM components and instrumentation markets. The book-to-bill ratio was 1.43 in the first quarter of fiscal 2016.

Backlog represents orders which we expect to be shipped within 12 months and the current portion of service contracts. For a discussion of backlog, see “BACKLOG”.

Microelectronics

Microelectronics bookings were a new quarterly record and increased 162% compared to the same quarter one year ago and 94% from bookings in the fourth quarter of fiscal 2015. The microelectronics book-to-bill ratio for the first quarter of fiscal 2016 was 1.96.

Record flat panel display orders in the first quarter of fiscal 2016 increased 497% from orders in the first quarter of fiscal 2015 and 152% from orders in the fourth quarter of fiscal 2015, primarily due to the timing of order placement by customers, with orders received from multiple customers for large format Linebeam systems to be used in organic light-emitting diode (OLED) production. In the second quarter of fiscal 2016, we have received additional Linebeam system orders and we believe that there

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are additional orders pending for the balance of the second quarter and for the remainder of fiscal 2016. In order to meet our delivery commitments, we are expanding our footprint in Göttingen, Germany, adding optics fabrication capacity at our site in Richmond, California and increasing purchases of certain long-lead time supplies. We expect that deliveries for these large orders already received will begin in the third quarter of fiscal 2016 and run through calendar 2017. Despite the recent increase in orders for flat panel display systems, we expect continued fluctuations in order volumes on a quarterly basis going forward.

Orders in the advanced packaging (API) market decreased 38% from orders in the first quarter of fiscal 2015 and decreased 25% from orders in the fourth quarter of fiscal 2015. API equipment manufacturers have adopted a more cautionary posture for legacy products based on recent trends in the semiconductor market. We believe that flex packaging and system in package ("SiP") are two applications that are promising in the API market. Flex packaging, which relies upon UV lasers, is used in mobile and wearable devices and several systems manufacturers have seen strength in this area. SiP has been building momentum in mobile devices and future smartphones are likely to incorporate more SiP design elements, which we believe will lead to an increase in ultrafast lasers for packaging.

Orders from semiconductor capital equipment OEMs decreased 6% from the first quarter of fiscal 2015 but increased 10% from the fourth quarter of fiscal 2015. The correlation between semiconductor inventories and fab utilization rates was evident in the first quarter of fiscal 2016, with inventories rising and utilization dipping. We experienced a predictable response in our service business skewed towards legacy nodes, but new system orders improved for a second consecutive quarter and we believe these orders are linked to specific capacity expansions rather than signaling the start of a broader cycle.

Materials Processing

Materials processing orders decreased 15% compared to the same quarter one year ago and decreased 39% from the fourth quarter of fiscal 2015. The materials processing book-to-bill ratio for the first quarter of fiscal 2016 was 0.88. Bookings were adversely affected by the timing of certain orders, a slowdown in China and seasonality. We have been working on a number of projects for marking new materials and expected orders in the first or second quarter of fiscal 2016, but these orders have been delayed as final details of the process window and tool configuration are being finalized. China was stable in fiscal 2015, but the market softened in the first quarter of fiscal 2016 and inventories have been trimmed accordingly. Customers are citing volatility of the Chinese stock market and the ensuing impact on consumer confidence as the main reason for the softening market, with some additional contribution from the devaluation of the Chinese currency that have made imports more expensive. This has more of an effect upon the low end of the laser market where local alternatives are available and is less of an issue at higher performance levels. Overall, our outlook for China in fiscal 2016 is neutral with specific projects offsetting market uncertainty. We are scheduled to begin deliveries of our second-generation fiber laser platform in the second quarter of fiscal 2016, an important step towards validating our platform and building a position in the market.

OEM Components and Instrumentation

OEM Components and Instrumentation orders decreased 5% compared to the same quarter one year ago and 27% from the fourth quarter of fiscal 2015. The book-to-bill ratio for the first quarter of fiscal 2016 was 0.76.

Instrumentation orders decreased 20% compared to the same quarter one year ago and 47% compared to the fourth quarter of fiscal 2015 due to timing of orders coming off the high orders in the fourth quarter of fiscal 2015. The large decrease from the fourth quarter of fiscal 2015 is primarily a result of order timing in the instrumentation business with a smaller macro effect in the medical OEM market. Bioinstrumentation customers remain positive on their opportunities in personalized medicine, especially for age-related, chronic diseases and the fight against global epidemics, which is driving growth in dedicated, tabletop instruments. We are seeing our customers increasing their

investment in two areas: expanding their bioassay or reagent portfolio and introducing dedicated tools to support testing. For dedicated tools to support testing, we are developing multi-wavelength, plug-and-play light engines based upon our OBIS™ and BioRay™ platforms.

Orders for medical OEM products decreased 10% compared to the same quarter one year ago and 9% compared to the fourth quarter of fiscal 2015. The medical OEM market experienced some slowdowns from inventory management tied to concerns about China. Much of the market focus is on cataract treatment and dental procedures. Testing of our Monaco™ laser for cataracts is proceeding well and our position for next generation tools is strengthening. Within the dental market, reviews for the CO₂-based procedure have been positive and we believe our products are positioned to be successfully adopted by customers in this market.

Scientific and Government Programs

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Scientific and government programs orders decreased 3% compared to the same quarter one year ago and increased 1% from the fourth quarter of fiscal 2015. The book-to-bill for the first quarter of fiscal 2016 was 1.07.

Demand for amplified ultrafast systems including the Astrella™, Libra™ and Legend™ series remained strong across all regions, with key contributions from the biological imaging market. We saw market share growth in Japan due to the Chameleon™ Discovery being qualified with a major microscope vendor. In addition we see a shift from the traditional microscope companies to smaller players that specialize in neuroscience solutions. On a geographic basis, China was particularly strong as institutions spent the remaining funds in the last quarter of the country's prior five-year plan.

Net Sales

Net sales include sales of lasers, laser tools, related accessories and service. Net sales for the first fiscal quarter decreased 6.3% in our SLS segment and decreased 2.2% in our CLC 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 first quarter increased from 44.0% to 47.6% in our SLS segment and increased from 34.7% to 36.4% in our CLC segment from the same quarter one year ago. For a 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 10.1% from 9.6% in our first fiscal quarter compared to the same period one year ago. For a description of the reasons for changes in R&D spending refer to the "Results of Operations" section of this quarterly report.

Net Cash Provided by Operating Activities

Net cash provided by operating activities as reflected on our Condensed Consolidated Statements of Cash Flows primarily represents the excess 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 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 higher working capital availability. 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 first quarter of fiscal 2016 increased from 58.5 days to 68.4 days compared to the same quarter one year ago primarily due to the timing of flat panel display system sales towards the end of the quarter in Japan, slower collections in the U.S. and Asia, and the unfavorable impact of foreign exchange rates.

Annualized Third Quarter Inventory Turns

We calculate annualized first quarter inventory turns as the cost of sales during the first quarter annualized and divided by net inventories at the end of the first quarter. This indicates how well we are managing our inventory levels, with higher inventory turns resulting in more working capital availability and a higher return on our investments in inventory. 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 annualized inventory turns for the first quarter of fiscal 2016 decreased from 2.9 to 2.7 turns compared to the same quarter one year ago primarily due to the planned build-up of inventory levels in certain business units to support increased demand.

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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 and equipment. Management monitors capital spending levels as this assists management in measuring our cash flows, net of capital expenditures. Our capital spending percentage decreased to 2.5% from 2.6% for the first quarter compared to the same period one year ago primarily due to lower purchases of production-related assets partially offset by lower revenues in the first quarter of fiscal 2016. We expect higher capital spending in the remainder of fiscal 2016 to expand our footprint in Göttingen, Germany and add optics fabrication capacity at our site in Richmond, California.

Adjusted EBITDA as a Percentage of Net Sales

We define adjusted EBITDA as operating income adjusted for depreciation, amortization, stock compensation expenses, major restructuring costs and certain other non-operating income and expense items. Key initiatives to reach our goals for EBITDA improvements include utilization of our Asian manufacturing locations, rationalizing our supply chain and continued leveraging of our infrastructure.

We utilize a number of different financial measures, both GAAP and non-GAAP, such as adjusted EBITDA as a percentage of net sales, in analyzing and assessing our overall business performance, for making operating decisions and for forecasting and planning future periods. We consider the use of non-GAAP financial measures helpful in assessing our current financial performance and ongoing operations. While we use non-GAAP financial measures as a tool to enhance our understanding of certain aspects of our financial performance, we do not consider these measures to be a substitute for, or superior to, the information provided by GAAP financial measures. We provide adjusted EBITDA in order to enhance investors' understanding of our ongoing operations. This measure is used by some investors when assessing our performance.

Below is the reconciliation of our net income as a percentage of net sales to our adjusted EBITDA as a percentage of net sales:

	Three Months Ended		
	January 2, 2016	December 27, 2014	
Net income as a percentage of net sales	10.7	% 8.7	%
Income tax expense	3.5	% 3.1	%
Interest and other income (expense), net	0.6	% 0.6	%
Depreciation and amortization	4.5	% 4.1	%
Stock-based compensation	2.0	% 2.2	%
Adjusted EBITDA as a percentage of net sales	21.3	% 18.7	%

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:

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	Three Months Ended			
	January 2, 2016	December 27, 2014		
Net sales	100.0	% 100.0		%
Cost of sales	55.9	% 59.0		%
Gross profit	44.1	% 41.0		%
Operating expenses:				
Research and development	10.1	% 9.6		%
Selling, general and administrative	19.3	% 19.0		%
Amortization of intangible assets	0.4	% 0.3		%
Total operating expenses	29.8	% 28.9		%
Income from operations	14.3	% 12.1		%
Other expense	(0.1)	)% (0.3))%
Income before income taxes	14.2	% 11.8		%
Provision for income taxes	3.5	% 3.1		%
Net income	10.7	% 8.7		%

Net income for the first quarter of fiscal 2016 was \$20.3 million (\$0.84 per diluted share) including \$3.4 million of after-tax stock-related compensation expense, \$1.4 million amortization of intangible assets and a benefit of \$1.2 million related to the renewal of the federal research and development tax credits for fiscal 2015. Net income for the first quarter of fiscal 2015 was \$17.4 million (\$0.69 per diluted share) including \$4.0 million of after-tax stock-related compensation expense, \$1.6 million amortization of intangible assets and a benefit of \$1.1 million related to the renewal of the federal research and development tax credits for fiscal 2014.

BACKLOG

Backlog represents orders which we expect to be shipped within 12 months and the current portion of service contracts. Orders used to compute backlog are generally cancelable and subject to rescheduling by our customers without substantial penalties. Historically, we have not experienced a significant rate of cancellation or rescheduling, though we cannot guarantee that the rate of cancellations or rescheduling will not increase in the future. We have a backlog of orders shippable within 12 months of \$370.0 million at January 2, 2016, including a significant concentration in the flat panel display market (46%) for customers which are primarily in Asia.

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			December 27, 2014	
	January 2, 2016	Percentage of total net sales		Amount	Percentage of total net sales
Consolidated:					
Microelectronics	\$96,506	50.7	% \$99,311	49.5	%
OEM components and instrumentation	39,333	20.7	% 41,289	20.6	%
Materials processing	23,034	12.1	% 28,758	14.3	%

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Scientific and government programs	31,402	16.5	%	31,257	15.6	%
Total	\$190,275	100.0	%	\$200,615	100.0	%

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Net sales for the first quarter of fiscal 2016 decreased by \$10.3 million, or 5%, compared to the first quarter of fiscal 2015, including decreases due to the unfavorable impact of foreign exchange rates. Sales decreased in the materials processing, microelectronics and OEM components and instrumentation markets.

Sales in the materials processing market decreased \$5.7 million, or 20%, primarily due to lower shipments for cutting and other materials processing applications. The decrease in the microelectronics market of \$2.8 million, or 3%, was primarily due to lower shipments for advanced packaging and micro materials processing applications partially offset by higher shipments for semiconductor applications. The decrease in the OEM components and instrumentation market of \$2.0 million, or 5%, was due primarily to lower shipments for medical and machine vision applications partially offset by higher shipments for military and bio-instrumentation applications. Sales in the scientific and government programs market increased less than 1%.

The timing for shipments of our higher average selling price excimer products in the flat panel display market have historically fluctuated and are in the future expected to fluctuate from quarter-to-quarter due to customer scheduling, our ability to manufacture these products and/or availability of supplies. As a result, the timing to convert orders for these products to net sales will likely fluctuate from quarter-to-quarter.

Segments

We are organized into two reportable operating segments: SLS and CLC. SLS develops and manufactures configurable, advanced-performance products largely serving the microelectronics, scientific research and government programs and OEM components and instrumentation markets. CLC focuses on higher volume products that are offered in set configurations. CLC's primary markets include materials processing, OEM components and instrumentation and microelectronics.

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		December 27, 2014		
	January 2, 2016	Percentage of total net sales	Amount	Percentage of total net sales	
Consolidated:					
Specialty Lasers and Systems (SLS)	\$135,951	71.4	% \$145,091	72.3	%
Commercial Lasers and Components (CLC)	54,324	28.6	% 55,524	27.7	%
Total	\$190,275	100.0	% \$200,615	100.0	%

Net sales for the first quarter of fiscal 2016 decreased by \$10.3 million, or 5%, compared to the first quarter of fiscal 2015, with decreases of \$9.1 million, or 6%, in our SLS segment and decreases of \$1.2 million, or 2%, in our CLC segment. The decreases in both SLS and CLC segment sales included decreases due to the unfavorable impact of foreign exchange rates.

The decrease in our SLS segment sales was primarily due to lower advanced packaging, medical and materials processing application sales. The decrease in our CLC segment sales was primarily due to lower materials processing and machine vision application sales partially offset by higher sales to the bio-instrumentation market.

GROSS PROFIT

Consolidated

Our gross profit rate increased to 44.1% in the first quarter of fiscal 2016 from 41.0% in the first quarter of fiscal 2015.

The increase in the gross profit rate was primarily due to favorable product margins (2.8%) as a result of favorable mix for both service and systems in the microelectronics market, particularly in flat panel display applications, and the favorable impact from foreign currency fluctuations partially offset by the unfavorable impact of the acquisitions of Tinsley and Raydiance in the fourth quarter of fiscal 2015. Also contributing to the increase in gross profit rate were lower warranty costs (0.2%) due to fewer warranty events.

Our gross profit rate has been and will continue to be affected by a variety of factors including market and product mix, pricing on volume orders, shipment volumes, our ability to manufacture advanced and more complex products, manufacturing

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efficiencies, excess and obsolete inventory write-downs, warranty costs, amortization of intangibles, pricing by competitors or suppliers, new product introductions, production volume, customization and reconfiguration of systems, commodity prices and foreign currency fluctuations, particularly the recent weakening of the Euro and a lesser extent, the Japanese Yen and South Korean Won.

Specialty Lasers and Systems

The gross profit rate in our SLS segment increased to 47.6% in the first quarter of fiscal 2016 from 44.0% in the first quarter of fiscal 2015.

The 3.6% first quarter increase in the gross profit rate was primarily due to favorable product margins (3.2%) resulting from favorable product mix and pricing in the microelectronics market related to improved mix and pricing with a favorable service revenue mix and improved mix and pricing in system shipments to the flat panel display market. In addition, the favorable impact from foreign currency fluctuations as well as favorable mix in the scientific and government programs market partially offset by the unfavorable impact of the acquisitions of Tinsley and Raydiance in the fourth quarter of fiscal 2015 impacted the gross profit rate. Also contributing to the increase in gross profit rate were lower warranty costs (0.4%) due to fewer warranty events.

Commercial Lasers and Components

The gross profit rate in our CLC segment increased to 36.4% in the first quarter of fiscal 2016 from 34.7% in the first quarter of fiscal 2015.

The 1.7% first quarter increase in the gross profit rate was primarily due to favorable product margins (2.1%) and lower other costs (0.1%) as a percentage of sales due to lower freight costs and lower inventory provisions in certain business units partially offset by higher warranty costs (0.5%) due to more warranty events. The 2.1% product margin improvement results from favorable product mix in the OEM components and instrumentation and materials processing markets.

OPERATING EXPENSES:

	Three Months Ended		December 27, 2014		
	January 2, 2016	Percentage of total net sales	Amount	Percentage of total net sales	
	Amount				
	(Dollars in thousands)				
Research and development	\$19,140	10.1	% \$19,173	9.6	%
Selling, general and administrative	36,774	19.3	% 38,141	19.0	%
Amortization of intangible assets	701	0.4	% 696	0.3	%
Total operating expenses	\$56,615	29.8	% \$58,010	28.9	%

Research and development

Research and development (“R&D”) expenses were flat during the first fiscal quarter ended January 2, 2016 compared to the same quarter one year ago. Lower project spending of \$0.7 million was primarily due to the favorable impact of foreign exchange rates and lower spending on various projects partially offset by lower customer reimbursements for development projects. Offsetting the lower project spending were increases of \$0.7 million due to incremental spending from the acquisitions of Tinsley and Raydiance in the fourth quarter of fiscal 2015. On a segment basis as

compared to the prior year period, SLS research and development spending decreased \$0.1 million primarily due to lower net spending on projects partially offset by the impact of the acquisitions of Tinsley and Raydiance. CLC spending was flat with lower project spending offset by lower customer reimbursements. Corporate and other spending increased \$0.1 million due to higher stock-based compensation expense.

Selling, general and administrative

Selling, general and administrative (“SG&A”) expenses decreased \$1.4 million or 4%, during the first fiscal quarter ended January 2, 2016 compared to the same quarter one year ago. The decrease was primarily due to lower payroll spending (\$0.9

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million) resulting from the favorable impact of foreign exchange rates and lower variable compensation and \$0.9 million lower stock-based compensation expense due to higher estimated forfeitures. The decreases were partially offset by \$0.3 million higher charges for increases in deferred compensation plan liabilities and \$0.1 million higher other net variable spending resulting from incremental spending from the acquisitions of Tinsley and Raydiance in the fourth quarter of fiscal 2015 and higher other consulting costs net of the favorable impact of foreign exchange rates. On a segment basis as compared to the prior year period, SLS segment expenses decreased \$0.2 million primarily due to lower payroll spending partially offset by higher other net variable spending. CLC spending decreased \$0.5 million primarily due to lower payroll spending and lower other net variable spending. Corporate and other spending decreased \$0.7 million primarily due to lower stock-based compensation expense net of higher charges for increases in deferred compensation plan liabilities.

Amortization of intangible assets

Amortization of intangible assets was flat in the three months ended January 2, 2016 compared to the same period last year. Increases due to the acquisition of Raydiance in the fourth quarter of fiscal 2015 were offset by the completion of amortization of certain intangibles from prior acquisitions.

OTHER INCOME (EXPENSE) — NET

Other expense, net of other income, decreased \$0.5 million during the three months ended January 2, 2016 compared to the same period one year ago. The decrease in net other expense was primarily due to \$0.5 million higher gains, net of expenses, on our deferred compensation plan assets and \$0.1 million higher interest income partially offset by higher net foreign exchange losses (\$0.2 million).

INCOME TAXES

The effective tax rate on income before income taxes for the first quarter of fiscal 2016 of 25.0% was lower than the statutory rate of 35.0% primarily due to differences related to the benefit of income subject to foreign tax rates that are lower than U.S. tax rates including the Singapore tax exemption, the benefit of foreign tax credits and the benefit of federal research and development tax credits including renewal of the federal research and development credits for fiscal 2015. These amounts are partially offset by deemed dividend inclusions under the Subpart F tax rules, stock-based compensation not deductible for tax purposes and limitations on the deductibility of compensation under IRC Section 162(m).

The effective tax rate on income before income taxes for the first quarter of fiscal 2015 of 26.2% was lower than the statutory rate of 35.0% primarily due to differences related to the benefit of income subject to foreign tax rates that are lower than U.S. tax rates including South Korea and Singapore tax exemptions, the benefit of foreign tax credits and the benefit of federal research and development tax credits including renewal of the federal research and development credits for fiscal 2014. These amounts are partially offset by deemed dividend inclusions under the Subpart F tax rules, stock-based compensation not deductible for tax purposes and limitations on the deductibility of compensation under IRC Section 162(m).

LIQUIDITY AND CAPITAL RESOURCES

At January 2, 2016, we had assets classified as cash and cash equivalents and short-term investments, in an aggregate amount of \$336.2 million, compared to \$325.5 million at October 3, 2015. At January 2, 2016, approximately \$294.1 million of this cash and securities was held in certain of our foreign subsidiaries, \$78.9 million of which was denominated in currencies other than the U.S. dollar. We currently have approximately \$287.6 million of cash held by foreign subsidiaries where we intend to permanently reinvest our accumulated earnings in these entities and our

current plans do not demonstrate a need for these funds to support our domestic operations. If, however, a portion of these funds were needed for and distributed to our operations in the United States, we would be subject to additional U.S. income taxes and foreign withholding taxes. The amount of the taxes due would depend on the amount and manner of repatriation, as well as the location from where the funds are repatriated. We actively monitor the third-party depository institutions that hold these assets, primarily focusing on the safety of principal and secondarily maximizing yield on these assets. We diversify our cash and cash equivalents and investments among various financial institutions, money market funds, sovereign debt and other securities in order to reduce our exposure should any one of these financial institutions or financial instruments fail or encounter difficulties. To date, we have not experienced any material loss or lack of access to our invested cash, cash equivalents or short-term investments. However, we can provide no assurances that access to our invested cash, cash equivalents or short-term investments will not be impacted by adverse conditions in the financial markets.

In the first quarter of fiscal 2016, the second quarter of fiscal 2015 and the fourth quarter of fiscal 2014, we converted \$33.0 million, \$42.3 million and \$62.7 million, respectively, of cash and securities held in certain of our foreign subsidiaries to U.S.

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dollars and invested those funds within a European subsidiary whose functional currency is the U.S. dollar. At January 2, 2016, this subsidiary had \$203.1 million of U.S. dollar denominated investments primarily in U.S. Treasury Securities, corporate notes and commercial paper. Accordingly, there is no translation expense arising from this entity holding U.S. dollar denominated investments. The converted funds are not intended to be repatriated to the U.S. and no U.S. tax was triggered on the transfer of these funds to the European subsidiary. See ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK below for more information about risks and trends related to foreign currencies.

Sources and Uses of Cash

Historically, our primary source of cash has been provided by operations. Other sources of cash in the past three fiscal years include proceeds received from the sale of our stock through our employee stock purchase plan as well as borrowings under our domestic line of credit. Our historical uses of cash have primarily been for the repurchase of our common stock, capital expenditures and acquisitions of businesses and technologies. 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:

	Three Months Ended	
	January 2, 2016	December 27, 2014
	(in thousands)	
Net cash provided by operating activities	\$14,262	\$31,051
Sales of shares under employee stock plans	3,521	3,437
Repurchase of common stock	—	(17,298)
Capital expenditures	(4,765)	(5,138)
Short-term borrowings, net of repayments	5,000	—

Net cash provided by operating activities decreased by \$16.8 million for the first three months of fiscal 2016 compared to the same period one year ago. The decrease in cash provided by operating activities was primarily due to lower cash flows from the timing of shipments of large systems from inventory and lower 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 and amounts available under our lines of credit 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 additional 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.

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 existing 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.

In fiscal 2015, under plans authorized by the Board of Directors, we repurchased and retired 1,302,323 shares of outstanding common stock at an average price of \$57.59 per share for a total of \$75.0 million.

Additional sources of cash available to us were domestic and international currency lines of credit and bank credit facilities totaling \$62.9 million as of January 2, 2016, of which \$53.9 million was unused and available. These unsecured international credit facilities were used in Europe and Japan during the first three months of fiscal 2016. Our domestic line of credit consists of a \$50 million unsecured revolving credit account, which expires on May 31, 2017 and is subject to covenants related to financial ratios and tangible net worth. We were in compliance with these covenants as of January 2, 2016. As of January 2, 2016, we have drawn \$5.0 million and have used \$1.1 million for letters of credit against our domestic line of credit.

Our ratio of current assets to current liabilities was 5.4:1 at January 2, 2016 compared to 5.3:1 at October 3, 2015. The increase in our ratio is primarily due to decreases in other current liabilities and accounts payable as well as increases in cash and cash

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equivalents partially offset by increases in income taxes payable and short-term borrowings. Our cash and cash equivalents, short-term investments and working capital are as follows:

	January 2, 2016 (in thousands)	October 3, 2015
Cash and cash equivalents	\$142,343	\$130,607
Short-term investments	193,831	194,908
Working capital	547,874	530,093

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, asset retirement obligations, 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 October 3, 2015. There have been no material changes in contractual obligations outside of the ordinary course of business since October 3, 2015. Information regarding our other financial commitments at January 2, 2016 is provided in the notes to the condensed consolidated financial statements in this report.

Changes in Financial Condition

Cash provided by operating activities during the first three months of fiscal 2016 was \$14.3 million, which included net income of \$20.3 million, depreciation and amortization of \$8.5 million, stock-based compensation expense of \$3.7 million and \$0.2 million other partially offset by cash used by operating assets and liabilities of \$14.9 million and net increases in deferred tax assets of \$3.5 million. Cash provided by operating activities during the first three months of fiscal 2015 was \$31.1 million, which included net income of \$17.4 million, depreciation and amortization of \$8.4 million, decreases in net deferred tax assets of \$7.0 million, stock-based compensation expense of \$4.4 million and \$0.4 million other partially offset by cash used by operating assets and liabilities of \$6.5 million.

Cash used in investing activities during the first three months of fiscal 2016 was \$3.6 million, which included \$4.7 million used to acquire property and equipment and improve buildings net of proceeds from dispositions partially offset by \$1.1 million net sales of available-for-sale securities. Cash provided by investing activities during the first three months of fiscal 2015 was \$29.0 million, which included \$33.6 million net sales of available-for-sale securities partially offset by \$4.6 million used to acquire property and equipment and improve buildings net of proceeds from dispositions.

Cash provided by financing activities during the first three months of fiscal 2016 was \$3.2 million, which included \$5.0 million net short-term borrowings and \$3.5 million generated from our employee stock option and purchase plans partially offset by \$5.3 million net settlement of restricted stock. Cash used by financing activities during the first three months of fiscal 2015 was \$19.1 million, which included \$17.3 million repurchases of common stock and \$5.2 million net settlement of restricted stock partially offset by \$3.4 million generated from our employee stock option and purchase plans.

Changes in exchange rates during the first three months of fiscal 2016 decreased our cash balances by \$2.1 million. Changes in exchange rates during the first three months of fiscal 2015 decreased our cash balances by \$2.8 million.

RECENT ACCOUNTING STANDARDS

See Note 2. “Recent Accounting Standards” in the Notes to Condensed Consolidated Financial Statements for a full description of recent accounting pronouncements, including the respective dates of adoption or expected adoption and effects on our condensed consolidated financial position, results of operations and cash flows.

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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 (whether due to changes in overall market rates or credit worthiness of the issuers of our individual securities) and uniformly by 10% from levels at January 2, 2016, the fair value of the portfolio, based on quoted market prices in active markets involving similar assets, would decline by an immaterial amount due to their short-term maturities. 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 January 2, 2016, the fair value of our available-for-sale debt securities was \$186.5 million, \$9.7 million of which was classified as cash and cash equivalents and \$176.8 million of which was classified as short-term investments. Gross unrealized gains and losses on available-for-sale debt securities were both less than \$0.1 million at January 2, 2016.

Foreign currency exchange risk

We maintain operations in various countries outside of the United States and have 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, the Japanese Yen, the South Korean Won and the Chinese Renminbi. Additionally we have operations in different countries around the world with costs incurred in other local currencies, such as British Pound Sterling, Singapore Dollars and Malaysian Ringgit. As a result, our earnings, cash flows and cash balances are exposed to fluctuations in foreign currency exchange rates. For example, we have significant manufacturing operations in Europe so that a weakening Euro is advantageous to the Company's financial results. 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 trading purposes.

On occasion, we enter into currency forward exchange contracts to hedge specific anticipated foreign currency denominated transactions generally expected to occur within the next 12 months. These cash flow hedges are designated for hedge accounting treatment and gains and losses on these contracts are recorded in accumulated other comprehensive income in stockholder's equity and reclassified into earnings at the time that the related transactions being hedged are recognized in earnings. See Note 6 "Derivative Instruments and Hedging Activities".

We do not anticipate any material adverse effect on our condensed 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. While we model currency valuations and fluctuations, these may not ultimately be accurate. 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. In the current economic environment, the risk of failure of a financial party remains high.

At January 2, 2016, approximately \$294.1 million of our cash, cash equivalents and short-term investments were held outside the U.S. in certain of our foreign operations, \$78.9 million of which was denominated in currencies other than the U.S. dollar.

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

The following table provides information about our foreign exchange forward contracts at January 2, 2016. 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. fair value represents the fair value of the contracts valued at January 2, 2016 rates.

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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. Fair Value
Non-Designated - For US Dollars			
Euro	1.0609	\$(53,291	) \$(1,519)
Japanese Yen	121.4383	\$21,743	\$340
British Pound	1.4971	\$1,117	\$(6)
South Korean Won	1,162.3138	\$14,034	\$(131)
Chinese Renminbi	6.4638	\$9,957	\$(37)
Singaporean Dollar	1.4106	\$(3,030	) \$(5)
Malaysian Ringgit	4.2300	\$2,290	\$(42)
Designated - For Euros			
Japanese Yen	121.4383	\$901	\$4

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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 January 2, 2016 ("Evaluation Date"). The controls evaluation was conducted 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 were no changes in our internal control over financial reporting that occurred during the quarter ended January 2, 2016 that have materially affected, or are 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 generally accepted accounting principles ("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. Our 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. Our 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 our 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 our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our 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.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information with respect to this item may be found in Note 11 to our condensed consolidated financial statements in Part I, Item 1 of this report and is incorporated herein by reference.

ITEM 1A. RISK FACTORS

You should carefully consider the followings risks when considering an investment in our Common Stock. These risks could materially affect our business, results of operations or financial condition, cause the trading price of our Common Stock to decline materially or cause our actual results to differ materially from those expected or those expressed in any forward-looking statements made by us. These risks are not exclusive, and additional risks to which we are subject include, but are not limited to, the factors mentioned under “Forward-Looking Statements” and the risk of our businesses described elsewhere in this annual report. Additionally, these risks and uncertainties described herein are not the only ones facing us. Other events that we do not currently anticipate or that we currently deem immaterial also may affect our business, results of operations or financial condition.

BUSINESS ENVIRONMENT AND INDUSTRY TRENDS

Our operating results, including net sales, net income (loss) and adjusted EBITDA in dollars and as a percentage of net sales, as well as 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 discussed in this Item 1A and throughout this report. Our stock price will continue to be subject to daily variations as well. 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, net income (loss) and operating expenses, and our stock price have varied in the past and may vary significantly from quarter to quarter and from year to year in the future. 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;

• fluctuations in demand for our products or downturns in the industries that we serve;

• 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, quality and prices desired;

• the timing of receipt and conversion of bookings to net sales;

• the concentration of a significant amount of our backlog, and resultant net sales, with a few customers;

• rescheduling of shipments or cancellation of orders by our customers;

• fluctuations in our product mix;

• the ability of our customers' other suppliers to provide sufficient material to support our customers' products;

currency fluctuations and stability, in particular the Euro, the Japanese Yen, the South Korean Won, the Chinese Renminbi and the US dollar as compared to other currencies;

commodity pricing;

introductions of new products and product enhancements by our competitors, entry of new competitors into our markets, pricing pressures and other competitive factors;

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our ability to develop, introduce, manufacture and ship new and enhanced products in a timely manner without defects;

our ability to successfully expand our manufacturing footprint in Göttingen, Germany and add optics fabrication capacity at our site in Richmond, California;

our ability to manage our manufacturing capacity and that of our suppliers;

our reliance on contract manufacturing;

the rate of market acceptance of our new products;

- the ability of our customers to pay for our products;

expenses associated with acquisition-related activities;

seasonal sales trends;

access to applicable credit markets by us, our customers and their end customers;

delays or reductions in customer purchases of our products in anticipation of the introduction of new and enhanced products by us or our competitors;

our ability to control expenses;

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;

costs related to acquisitions of technology or businesses;

impairment of goodwill, intangible assets and other long-lived assets;

our ability to meet our expectations and forecasts and those of public market analysts and investors;

31,403

—

—

31,414

Tax impact from employee stock options

—

—

290

—

—

290

Repurchases of common stock

(2,065

)

(20

)

(100,617

)

—

—

(100,637

)

Stock-based compensation

—

—

13,096

—

—

13,096

Net income

—

—

—

—

93,238

93,238

Other comprehensive loss, net of tax

—

—

—

(10,863
)

—

(10,863
)

Balances, October 1, 2011

23,722

236

130,250

51,221

436,294

\$
618,001

Common stock issued under stock plans, net of shares withheld for employee taxes
567

6

8,745

—

—

8,751

Tax impact from employee stock options

—

—

1,264

—

—

1,264

Repurchases of common stock

(543

)

(5

)

(24,994
)

—

—

(24,999
)
Stock-based compensation

—

—

16,443

—

—

16,443

Net income

—

—

—

—

62,962

62,962

Other comprehensive income, net of tax

—

—

—

(10,766
)

—

(10,766
)
Balances, September 29, 2012
23,746

237

131,708

40,455

499,256

\$
671,656

Common stock issued under stock plans, net of shares withheld for employee taxes
718

7

12,364

—

—

12,371

Tax impact from employee stock options

—

—

(836
)

—

—

(836
)
Stock-based compensation

—

—

19,017

—

—

19,017

Cash dividends paid (\$1.00 per common share)

—

—

—

—

(24,040)

)

(24,040

)

Net income

—

—

—

—

66,355

66,355

Other comprehensive income, net of tax

—

—

—

13,995

—

13,995

Balances, September 28, 2013

24,464

\$

244

\$

162,253

\$
54,450

\$
541,571

\$
758,518

See accompanying Notes to Consolidated Financial Statements

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COHERENT, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended		
	September 28, 2013	September 29, 2012	October 1, 2011
Cash flows from operating activities:			
Net income	\$ 66,355	\$ 62,962	\$ 93,238
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	26,356	23,243	20,539
Amortization of intangible assets	9,767	6,406	8,082
Write-off of Hypertronics intangibles	—	4,142	—
Stock-based compensation	18,891	16,315	12,963
Excess tax benefit from stock-based compensation arrangements	—	(1,264)	(5,111)
Non-cash translation adjustment related to Finland dissolution	—	—	(6,511)
Deferred income taxes	(1,107)	(4,763)	22,089
Other non-cash (income) expense	353	(192)	68
Changes in assets and liabilities, net of effect of acquisitions:			
Accounts receivable	4,226	(5,146)	(26,185)
Inventories	4,260	(9,767)	(38,570)
Prepaid expenses and other assets	10,128	(5,294)	(8,098)
Other assets	34	147	(1,194)
Accounts payable	6,116	(10,443)	(161)
Income taxes payable/receivable	(20,574)	(6,922)	4,272
Other current liabilities	(11,185)	(5,360)	8,712
Other long-term liabilities	1,902	707	2,543
Net cash provided by operating activities	115,522	64,771	86,676
Cash flows from investing activities:			
Purchases of property and equipment	(21,988)	(36,051)	(37,117)
Proceeds from dispositions of property and equipment	1,482	280	355
Purchases of available-for-sale securities	(228,231)	(244,186)	(230,992)
Proceeds from sales and maturities of available-for-sale securities	245,361	140,700	195,570
Acquisition of businesses, net of cash acquired	(67,289)	(3,687)	(14,108)
Change in restricted cash	—	—	625
Net cash used in investing activities	(70,665)	(142,944)	(85,667)

(continued)

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COHERENT, INC. AND SUBSIDIARIES
 CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
 (In thousands)

	Year Ended		
	September 28, 2013	September 29, 2012	October 1, 2011
Cash flows from financing activities:			
Short-term borrowings	\$ 20,717	\$ 9,262	\$ 2,344
Repayments of short-term borrowings	(20,717	) (9,262	) (2,344
Repayments of capital lease obligations	(17	) (15	) (18
Repurchase of common stock	—	(24,999	) (100,637
Issuance of common stock under employee stock option and purchase plans	16,541	13,288	34,720
Cash dividend paid (\$1.00 per common share)	(24,040) —	—
Excess tax benefits from stock-based compensation arrangements	—	1,264	5,111
Net settlement of restricted common stock	(4,170	) (4,537	) (3,306
Net cash used in financing activities	(11,686	) (14,999	) (64,130
Effect of exchange rate changes on cash and cash equivalents	9,512	(6,128	) (15,198
Net increase (decrease) in cash and cash equivalents	42,683	(99,300	) (78,319
Cash and cash equivalents, beginning of year	67,761	167,061	245,380
Cash and cash equivalents, end of year	\$ 110,444	\$ 67,761	\$ 167,061
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	\$ 164	\$ 86	\$ 108
Income taxes	\$ 54,047	\$ 49,755	\$ 17,291
Cash received during the year for:			
Income taxes	\$ 13,538	\$ 11,855	\$ 5,250
Noncash investing and financing activities:			
Unpaid property and equipment purchases	\$ 1,550	\$ 1,031	\$ 1,334

(concluded)

See accompanying Notes to Consolidated Financial Statements

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COHERENT, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. DESCRIPTION OF BUSINESS

Founded in 1966, Coherent, Inc. provides photonics-based solutions in a broad range of commercial and scientific research applications. We design, manufacture, service and market lasers, laser tools and related accessories for a diverse group of customers. Headquartered in Santa Clara, California, the Company has worldwide operations including research and development, manufacturing, sales, service and support capabilities.

2. SIGNIFICANT ACCOUNTING POLICIES

Fiscal Year

Our fiscal year ends on the Saturday closest to September 30. Fiscal years 2013, 2012 and 2011 ended on September 28, 2013, September 29, 2012 and October 1, 2011, respectively, and are referred to in these financial statements as fiscal 2013, fiscal 2012, and fiscal 2011 for convenience. All fiscal years include 52 weeks. Accordingly, the financial statements of these subsidiaries as of that date and for the years then ended have been used for our consolidated financial statements. Management believes that the impact of the use of different year-ends is immaterial to our consolidated financial statements taken as a whole.

Use of Estimates

The preparation of consolidated financial statements in conformity with Generally Accepted Accounting Principles ("GAAP") 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Basis of Presentation

The consolidated financial statements include the accounts of Coherent, Inc. and its majority-owned subsidiaries (collectively, "the Company", "we", "our", or "Coherent"). Intercompany balances and transactions have been eliminated. Investments in business entities in which we do not have control, but have the ability to exercise significant influence over operating and financial policies (generally 20%-50% ownership) are accounted for by the equity method. We currently do not have any investments accounted for by the equity method. Minority interests in non-wholly owned subsidiaries are insignificant.

Fair Value of Financial Instruments

The carrying amounts of certain of our financial instruments including cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities approximate fair value due to their short maturities. Short-term investments are comprised of available-for-sale securities, which are carried at fair value. Other non-current assets include trading securities and life insurance contracts related to our deferred compensation plans; trading securities are carried at fair value and life insurance contracts are carried at cash surrender values, which due to their ability to be converted to cash at that amount, approximate their fair values. The recorded carrying amount of our long-term obligations approximates fair value at fiscal 2013 and 2012 year-ends. Foreign exchange contracts are stated at fair value based on prevailing financial market information.

Cash Equivalents

All highly liquid investments with maturities of three months or less at the time of purchase are classified as cash equivalents.

Concentration of Credit Risk

Financial instruments that may potentially subject us to concentrations of credit risk consist principally of cash equivalents, short-term investments and accounts receivable. At fiscal 2013 year-end, the majority of our short-term investments are in US Treasury and federal agency obligations and corporate notes and obligations. Cash equivalents and short-term investments are maintained with several financial institutions and may exceed the amount of insurance provided on such balances. At September 28, 2013, we held cash and cash equivalents and short-term investments outside the U.S. in certain of our foreign operations totaling approximately \$157.5 million, \$89.9 million of which

was denominated in currencies other than the U.S. dollar. The majority of our accounts receivable are derived from sales to customers for commercial applications. We perform ongoing credit evaluations of our customers' financial condition and limit the amount of credit extended when deemed necessary but generally require no collateral. We maintain reserves for potential credit losses. Our products are broadly

distributed and there were two customers who accounted for 15.2% and 11.7% of accounts receivable at fiscal 2013 year-end. There were two customers who accounted for 14.9% and 14.8% of accounts receivable at fiscal 2012 year-end.

Accounts Receivable Allowances

Accounts receivable allowances reflect our best estimate of probable losses inherent in our accounts receivable balances. We regularly review allowances by considering factors such as historical experience, credit quality, the age of the accounts receivable balances and current economic conditions that may affect a customer's ability to pay.

Activity in accounts receivable allowance is as follows (in thousands):

	Fiscal year-end		
	2013	2012	2011
Beginning balance	\$ 1,443	\$ 1,439	\$ 1,655
Additions charged to expenses	1,622	1,362	1,329
Accruals resulting from acquisitions	—	—	184
Deductions from reserves	(1,679	) (1,358	) (1,729
Ending balance	\$ 1,386	\$ 1,443	\$ 1,439

Inventories

Inventories are stated at the lower of cost (first-in, first-out) or market. Inventories are as follows (in thousands):

	Fiscal year-end	
	2013	2012
Purchased parts and assemblies	\$ 50,275	\$ 46,526
Work-in-process	60,089	60,171
Finished goods	57,703	53,416
	\$ 168,067	\$ 160,113

Property and Equipment

Property and equipment are stated at cost and are depreciated or amortized using the straight-line method. Cost, accumulated depreciation and amortization, and estimated useful lives are as follows (dollars in thousands):

	Fiscal year-end		Useful Life
	2013	2012	
Land	\$ 6,295	\$ 6,251	
Buildings and improvements	73,139	67,916	5-40 years
Equipment, furniture and fixtures	220,133	205,479	3-10 years
Leasehold improvements	29,763	28,162	Lesser of useful life or terms of leases
	329,330	307,808	
Accumulated depreciation and amortization	(214,997	) (192,712)
Property and equipment, net	\$ 114,333	\$ 115,096	

Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation is recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. The fair value of the liability is added to the carrying amount of the associated asset and this additional carrying amount is depreciated over the life of the asset. All of our existing asset retirement obligations are associated with commitments to return the property to its original condition upon lease termination at various sites and costs

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

to clean up and dispose of certain fixed assets at our Sunnyvale, California site. We estimated that as of fiscal 2013 year-end, gross expected future cash flows of \$2.5 million would be required to fulfill these obligations. The following table reconciles changes in our asset retirement liability for fiscal 2013 and 2012 (in thousands):

Asset retirement liability as of October 1, 2011	\$ 1,878
Payment of asset retirement obligations	—
Adjustment to asset retirement obligations recognized	69
Accretion recognized	113
Changes due to foreign currency exchange	(31)
Asset retirement liability as of September 29, 2012	2,029
Payment of asset retirement obligations	—
Adjustment to asset retirement obligations recognized	253
Accretion recognized	70
Changes due to foreign currency exchange	(105)
Asset retirement liability as of September 28, 2013	\$ 2,247

At September 28, 2013 and September 29, 2012, the asset retirement liability is included in other long-term liabilities on our consolidated balance sheets.

Long-lived Assets

We evaluate the carrying value of long-lived assets, including intangible assets, whenever events or changes in business circumstances or our planned use of long-lived 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 long-lived assets are impaired based on a comparison to the undiscounted expected future net cash flows. If the comparison indicates that impairment exists, long-lived assets that are classified as held and used are written down to their respective fair values. When long-lived assets are classified as held for sale, they are written down to their respective fair values less costs to sell. Significant management judgment is required in the forecast of future operating results that is used in the preparation of expected undiscounted cash flows. For fiscal years 2013, 2012 and 2011, there were no significant asset impairments recorded.

Goodwill

Goodwill is tested for impairment on an annual basis and between annual tests in certain circumstances, and written down when impaired (see Note 8. "Goodwill and Intangible Assets"). In testing for impairment, we have the option to first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50%) that the fair value of a reporting unit is less than its carrying amount. Moreover, an entity can bypass the qualitative assessment for any reporting unit in any period and proceed directly to step one of the impairment test, and then resume performing the qualitative assessment in any subsequent period. In fiscal 2012, we performed a qualitative assessment. In fiscal 2013, we elected to bypass the qualitative assessment and proceed directly to performing the first step of the goodwill impairment test. This election was made because we had last performed this impairment test in fiscal 2010 and we have subsequently added a substantial amount of goodwill balances as a result of our acquisitions of Midaz in the fourth quarter of fiscal 2012 and the acquisitions of Innolight and Lumera in the first quarter of fiscal 2013. We performed our Step 1 test during the fourth quarter of fiscal 2013 using the opening balance sheet as of the first day of the fourth quarter and noted no impairment. Between the completion of that testing and the end of the fourth quarter of fiscal 2013, we noted no indications of impairment or triggering events to cause us to review goodwill for potential impairment. Absent any impairment indicators, we perform our annual impairment tests during the fourth quarter of each fiscal year using opening balance sheet as of the first day of the fourth fiscal quarter, with any resulting impairment recorded in the fourth quarter of the fiscal year.

Intangible Assets

Intangible assets, including acquired existing technology, customer lists, trade name and non-compete agreements are amortized on a straight-line basis over estimated useful lives of 1 year to 15 years.

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Warranty Reserves

We provide warranties on the majority of our product sales and reserves for estimated warranty costs are recorded during the period of sale. The determination of such reserves 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 approximately 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.

Components of the reserve for warranty costs during fiscal 2013, 2012 and 2011 were as follows (in thousands):

	Fiscal		
	2013	2012	2011
Beginning balance	\$ 17,442	\$ 16,704	\$ 13,499
Additions related to current period sales	26,721	29,425	27,900
Warranty costs incurred in the current period	(27,975	) (28,263	) (24,671
Accruals resulting from acquisitions	1,735	—	178
Adjustments to accruals related to foreign exchange and other	585	(424	) (202
Ending balance	\$ 18,508	\$ 17,442	\$ 16,704

Revenue Recognition

When a sales arrangement contains multiple elements, such as products and/or services, we allocate revenue to each element based on a selling price hierarchy. Using the selling price hierarchy, we determine the selling price of each deliverable using vendor specific objective evidence (“VSOE”), if it exists, and otherwise third-party evidence (“TPE”). If neither VSOE nor TPE of selling price exists, we use estimated selling price (“ESP”). We generally expect that we will not be able to establish TPE due to the nature of the markets in which we compete, and, as such, we typically will determine selling price using VSOE or if not available, ESP.

Our basis for establishing VSOE of a deliverable's selling price consists of standalone sales transactions when the same or similar product or service is sold separately. However, when services are never sold separately, such as product installation services, VSOE is based on the product's estimated installation hours based on historical experience multiplied by the standard service billing rate. In determining VSOE, we require that a substantial majority of the selling price for a product or service fall within a reasonably narrow price range, as defined by us. We also consider the geographies in which the products or services are sold, major product and service groups, and other environmental variables in determining VSOE. Absent the existence of VSOE and TPE, our determination of a deliverable's ESP involves evaluating several factors based on the specific facts and circumstances of these arrangements, which include pricing strategy and policies driven by geographies, market conditions, competitive landscape, correlation between proportionate selling price and list price established by management having the relevant authority, and other environmental variables in which the deliverable is sold.

For multiple element arrangements which include extended maintenance contracts, we allocate and defer the amount of consideration equal to the separately stated price and recognize revenue on a straight-line basis over the contract period.

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 reasonably assured. Revenue from product sales is recorded when all of the foregoing conditions are met and risk of loss and title passes to the customer. 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.

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and integrators 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 the customer accepts 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 as these services are provided.

We record taxes collected on revenue-producing activities on a net basis.

Research and Development

Research and development expenses include salaries, contractor and consultant fees, supplies and materials, as well as costs related to other overhead such as depreciation, facilities, utilities and other departmental expenses. The costs we incur with respect to internally developed technology and engineering services are included in research and development expenses as incurred as they do not directly relate to any particular licensee, license agreement or license fee.

We treat third party and government funding of our research and development activity, where we are the primary beneficiary of such work conducted, as a credit to research and development cost. Amounts offset against research and development costs were not material in any of the periods presented.

Foreign Currency Translation

The functional currencies of our foreign subsidiaries are generally their respective local currencies. Accordingly, gains and losses from the translation of the financial statements of the foreign subsidiaries are reported as a separate component of accumulated other comprehensive income ("OCI"). Foreign currency transaction gains and losses are included in earnings.

Derivatives

U.S. GAAP requires that all derivatives, whether designated in hedging relationships or not, be recorded on the balance sheet at fair value. If the derivative is designated as a fair value hedge, the changes in the fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings. If the derivative is designated as a cash flow hedge, the effective portions of the changes in the fair value of the derivative are recorded in OCI and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in other income (expense).

Our objective of holding derivatives is to minimize the risks of foreign currency fluctuation by using the most effective methods to eliminate or reduce the impact of these exposures. Principal currencies hedged include the Euro, Korean Won, Japanese Yen, British Pound, Chinese Renminbi and Singapore dollar.

Forwards not designated as hedging instruments are also used to hedge the impact of the variability in exchange rates on accounts receivable and collections denominated in certain foreign currencies. Our forward contracts have maturities of two months or less and changes in fair value of these derivatives are recognized in other income (expense).

Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from non-owner sources and is presented in our Consolidated Statements of Comprehensive Income and in Note 15, "Accumulated Other Comprehensive Income (Loss)."

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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

	Fiscal		
	2013	2012	2011
Weighted average shares outstanding—basic (1)	24,138	23,561	24,924
Dilutive effect of employee awards	417	465	540
Weighted average shares outstanding—diluted	24,555	24,026	25,464
Net income	\$66,355	\$62,962	\$93,238
Net income—basic	\$2.75	\$2.67	\$3.74
Net income—diluted	\$2.70	\$2.62	\$3.66

(1) Net of unvested restricted stock

A total of 883; 99,912; and 2,416 potentially dilutive securities have been excluded from the dilutive share calculation for fiscal 2013, 2012 and 2011, respectively, as their effect was anti-dilutive.

Stock-Based Compensation

We account for stock-based compensation using the fair value of the awards granted. We estimate the fair value of stock options granted using the Black-Scholes Merton model. We value restricted stock units using the intrinsic value method. We use a Monte Carlo simulation model to estimate the fair value of market-based performance restricted stock units. We use historical data to estimate pre-vesting option and restricted stock unit forfeitures and record stock-based compensation expense only for those options and awards that are expected to vest. We amortize the fair value of stock options and awards on a straight-line basis over the requisite service periods of the awards, which are generally the vesting periods. See Note 14 "Employee Stock Option and Benefit Plans" for a description of our stock-based employee compensation plans and the assumptions we use to calculate the fair value of stock-based employee compensation.

Shipping and Handling Costs

We record costs related to shipping and handling of revenue in cost of sales for all periods presented.

Advertising Costs

Advertising costs are expensed as incurred and were \$3.4 million, \$3.5 million and \$4.1 million in fiscal 2013, fiscal 2012 and fiscal 2011, respectively.

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 us 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 account for uncertain tax issues pursuant to ASC 740-10 (formerly FASB Financial Interpretation No. 48, "Accounting for Uncertainty in Income Taxes"), 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. This standard provides a two-step approach for evaluating tax positions. The first step, recognition, occurs

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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 asset 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 asset in the future, an adjustment to the allowance for the deferred tax asset would be charged to income in the period such determination was made. Federal income taxes have not been provided for on a portion of the unremitted earnings of foreign subsidiaries because such earnings are intended to be permanently reinvested. The total amount of unremitted earnings and accumulated translation adjustments of foreign subsidiaries for which we have not yet recorded federal and state income taxes was approximately \$335.4 million and \$52.7 million respectively, at fiscal 2013 year-end. The amount of federal and state income taxes that would be payable upon repatriation of such earnings are not practicably determinable.

Adoption of New Accounting Pronouncement and Update to Significant Accounting Policies

In July 2013, the Financial Accounting Standards Board (“FASB”) issued guidance that permits the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes, in addition to the direct Treasury obligations of the U.S. government (UST) and London Interbank Offered Rate (LIBOR). The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. The adoption of this amendment did not have a material impact on our consolidated financial statements.

In July 2012, the FASB amended existing guidance related to goodwill and other intangible assets by giving an entity testing an indefinite-lived intangible asset for impairment the option to first assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of an intangible asset is less than its carrying amount. If the entity determines, on the basis of qualitative factors, that the fair value of the indefinite-lived intangible asset is not more likely than not impaired, the entity would not need to calculate the fair value of the asset. The guidance does not revise the requirement to test indefinite-lived intangible assets annually for impairment or to test these assets for impairment between annual tests if there is a change in events or circumstances. This amended guidance was effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. We adopted this authoritative guidance in the fourth quarter of fiscal 2012. As of September 2013 and 2012, the implementation of this authoritative guidance did not have a material impact on our consolidated financial position, results of operations and cash flows in connection with our impairment testing.

Recently Issued Accounting Pronouncements

In July of 2013, the FASB issued amended guidance that resolves the diversity in practice for the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This new accounting guidance requires the netting of unrecognized tax benefits ("UTBs") against a deferred tax asset for a loss or other carryforward that would apply in settlement of the uncertain tax positions. Under the new standard, UTBs will be netted against all available same-jurisdiction losses or other tax carryforwards that would be utilized, rather than only against carryforwards that are created by the UTBs. The new standard requires prospective adoption but allows retrospective adoption for all periods

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

presented. We will consider the FASB's amended guidance for our fiscal year beginning September 28, 2014. We do not expect the amended guidance to have a significant impact on our consolidated financial position, results of operations and cash flows.

In March 2013, the FASB issued guidance regarding the treatment of cumulative translation adjustment ("CTA") by a parent company upon de-recognition of a subsidiary or group of assets within a foreign entity. The objective is to resolve the diversity in practice regarding the release into net income of such CTA. The guidance is effective for us beginning in the second quarter of fiscal 2014. We are currently evaluating the potential impact, if any, of the adoption of this guidance on our consolidated financial position, results of operations and cash flows.

In February 2013, the FASB issued guidance which requires an entity to disclose additional information for items reclassified out of accumulated other comprehensive income ("AOCI"). For items reclassified out of AOCI and into net income in their entirety, entities are required to disclose the effect of the reclassification on each affected net income line item. For AOCI reclassification items that are not reclassified in their entirety into net income, a cross reference to other disclosures is required. This information may be provided either in the notes or parenthetically on the face of the statement that reports net income as long as all the information is disclosed in a single location. The guidance is effective for us beginning in the first quarter of fiscal 2014 and we plan to adopt this guidance at the effective date. We do not expect the adoption of this accounting standard will have an impact on our consolidated financial position, results of operations and cash flows.

In December 2011, the FASB issued guidance which requires an entity to disclose information about offsetting and related arrangements to enable financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of setoff associated with the entity's recognized financial assets and liabilities, on the entity's financial position. The new disclosures will enable financial statement users to compare balance sheets prepared under U.S. GAAP and International Financial Reporting Standards ("IFRS"), which are subject to different offsetting models. The disclosures will be limited to financial instruments (and derivatives) subject to enforceable master netting arrangements or similar agreements. Similar agreements include derivative clearing agreements, global master repurchase agreements, and global master securities lending agreements. Financial instruments and transactions that will be subject to the disclosure requirements may include derivatives, repurchase and reverse repurchase agreements, and securities lending and borrowing arrangements. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The guidance is effective for us beginning in fiscal 2014. We are currently evaluating the additional disclosures required, if any, from the adoption of this guidance.

3. RESTRUCTURING ACTIVITIES

During fiscal 2008, we initiated restructuring plans to decrease costs by consolidating facilities and reducing our workforce. 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 St. Louis site was completed in the fourth quarter of fiscal 2009. The closure of our Finland site was scheduled for completion by the end of fiscal 2010, but we delayed the closure due to increased demand for products manufactured in Finland. In the second quarter of fiscal 2011, we ceased manufacturing operations in our Finland facility and recognized a \$6.1 million gain, primarily in other income (expense), due to a non-recurring translation adjustment related to the dissolution of our Finland operations. We exited the facility in the third quarter of fiscal 2011. These closure plans resulted in charges primarily for employee termination and other exit related costs associated with a plan approved by management.

During the first quarter of fiscal 2010, we acquired the assets and certain liabilities of StockerYale, Inc's laser module product line in Montreal, Canada and transitioned those activities to other Coherent facilities in Salem, Massachusetts, Wilsonville, Oregon and Sunnyvale, California. The transfer was completed in the second quarter of fiscal 2011.

These closure plans resulted in charges primarily for employee termination and other exit related costs associated with a plan approved by management.

There were no new restructuring charges during fiscal 2013 and all charges related to restructuring activities discussed above were expensed as of the end of fiscal 2012. Restructuring charges during fiscal 2012 and fiscal 2011 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 sheets for restructuring charges. The table sets forth an analysis of the components of the restructuring charges and payments and other deductions made against the accrual for fiscal 2012 and 2011 (in thousands):

	Severance Related	Facilities Related Charges	Other Restructuring Costs	Total
Balances, October 2, 2010	\$912	\$17	\$1,303	\$2,232
Provision	218	—	680	898
Payments and other	(1,130)	(17)	(1,349)	(2,496)
Balances, October 1, 2011	—	—	634	634
Provision	—	—	—	—
Payments and other	—	—	(634)	(634)
Balances, September 29, 2012	\$—	\$—	\$—	\$—

The fiscal 2011 severance related costs were primarily comprised of severance pay, outplacement services, medical and other related benefits for employees being terminated due to the transition of activities out of Tampere, Finland. At September 29, 2012 and September 28, 2013, there were no remaining accrued restructuring costs.

The following table presents our restructuring charges incurred by segment (no charges were incurred in fiscal 2012 and 2013):

	By Segment		Total
	Commercial Lasers and Components	Specialty Laser Systems	
Costs incurred and charged to expense in fiscal 2011	\$898	\$—	\$898
Costs incurred and charged to expense in fiscal 2010	8,368	—	8,368
Costs incurred and charged to expense in fiscal 2009	8,674	6,763	15,437
Costs incurred and charged to expense in fiscal 2008	4,160	1,644	5,804
Cumulative costs incurred to date	\$22,100	\$8,407	\$30,507

4. BUSINESS COMBINATIONS

Lumera Laser GmbH

On December 20, 2012, we acquired privately held Lumera Laser GmbH (Kaiserslautern, Germany) ("Lumera") for approximately \$51.5 million, excluding transaction costs. Lumera manufactures ultrafast solid state lasers for microelectronics, OEM medical and materials processing applications. Lumera has been included in our Specialty Lasers and Systems segment.

Our allocation of the purchase price is as follows (in thousands):

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Tangible assets:	
Inventories	\$7,364
Accounts receivable	2,770
Other tangible assets	4,380
Goodwill	24,640
Intangible assets:	
Existing technology	21,000
In-process R&D	1,800
Trade name	200
Customer lists	6,500
Backlog	900
Deferred tax liabilities	(9,300)
Liabilities assumed	(8,793)
Total	\$51,461

Results of operations for the business have been included in our consolidated financial statements subsequent to the date of acquisition and pro forma results of operations in accordance with authoritative guidance for prior periods have not been presented because the effect of the acquisition was not material to our prior period consolidated financial results.

None of the goodwill from this purchase is deductible for tax purposes.

The identifiable intangible assets are being amortized over their respective useful lives of less than one to six years.

In-process research and development ("IPR&D") consists of two projects that have not yet reached technological feasibility. Acquired IPR&D assets are initially recognized at fair value and are classified as indefinite-lived assets until the successful completion or abandonment of the associated research and development efforts. The value assigned to IPR&D was determined by considering the value of the products under development to the overall development plan, estimating the resulting net cash flows from the projects when completed and discounting the net cash flows to their present value. During the development period, these assets will not be amortized as charges to earnings; instead these assets will be subject to periodic impairment testing. Upon successful completion of the development process for the acquired IPR&D projects, the assets would then be considered finite-lived intangible assets and amortization of the assets will commence. The projects have not been completed as of September 28, 2013.

We expensed \$0.6 million of acquisition-related costs as selling, general and administrative expenses in our consolidated statements of operations for our fiscal year 2013, and expensed \$0.3 million of acquisition-related costs as selling, general and administrative expenses in our consolidated statements of operations for our fiscal year 2012.

Innolight Innovative Laser and Systemtechnik GmbH

On October 30, 2012, we acquired all of the outstanding shares of Innolight Innovative Laser and Systemtechnik GmbH ("Innolight") for approximately \$18.3 million, excluding transaction costs. Innolight provides a core technology building block for an emerging class of commercial, sub-nanosecond lasers for microelectronics manufacturing. Its semiconductor-based architecture delivers pulsed output that can be amplified by conventional or fiber amplifiers to ultimately deliver infrared, green or ultraviolet light capable of processing a range of materials. Innolight has been included in our Specialty Lasers and Systems segment.

Our allocation of the purchase price is as follows (in thousands):

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. BUSINESS COMBINATIONS (Continued)

Tangible assets	\$2,510	
Goodwill	8,312	
Intangible assets:		
Existing technology	8,500	
In-process R&D	430	
Trade name	100	
Customer lists	2,800	
Deferred tax liabilities	(3,836)
Liabilities assumed	(480)
Total	\$18,336	

Results of operations for the business have been included in our consolidated financial statements subsequent to the date of acquisition and pro forma results of operations in accordance with authoritative guidance for prior periods have not been presented because the effect of the acquisition was not material to our prior period consolidated financial results.

None of the goodwill from this purchase is deductible for tax purposes.

The identifiable intangible assets are being amortized over their respective useful lives of six to seven years.

IPR&D consists of two projects that have not yet reached technological feasibility. The projects have not been completed as of September 28, 2013.

We expensed \$0.2 million of acquisition-related costs as selling, general and administrative expenses in our consolidated statements of operations for our fiscal year 2013 and expensed \$0.1 million of acquisition-related costs as selling, general and administrative expenses in our consolidated statements of operations for our fiscal year 2012.

MiDAZ Lasers Ltd

On July 23, 2012, we acquired all of the outstanding shares of MiDAZ Lasers Ltd "Midaz" for approximately \$3.8 million, excluding transaction fees. Midaz was a technology-based acquisition. We intend to utilize the acquired technology in low cost, compact pulsed solid state lasers. Midaz has been included in our Specialty Lasers and Systems segment.

Our allocation of the purchase price is as follows (in thousands):

Tangible assets	\$187	
Goodwill	2,809	
Intangible assets:		
Existing technology	1,800	
Deferred tax liabilities	(428)
Liabilities assumed	(582)
Total	\$3,786	

Results of operations for the business have been included in our consolidated financial statements subsequent to the date of acquisition and pro forma results of operations in accordance with authoritative guidance for prior periods

have not been presented because the effect of the acquisition was not material to our prior period consolidated financial results.

None of the goodwill from this purchase is deductible for tax purposes.

The identifiable intangible assets are being amortized over their respective useful life of seven years.

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. BUSINESS COMBINATIONS (Continued)

We expensed \$0.2 million of acquisition-related costs as selling, general and administrative expenses in our consolidated statements of operations in the fiscal year ended September 29, 2012.

Hypertronics Pte Ltd

On January 5, 2011, we acquired all of the assets and certain liabilities of Hypertronics Pte Ltd for approximately \$14.5 million in cash. Hypertronics designs and manufactures laser-and vision-based tools for flat panel, storage, semiconductor and solar applications at facilities in Singapore and Malaysia. Hypertronics has been included in our Specialty Lasers and Systems segment.

Our allocation of the purchase price is as follows (in thousands):

Tangible assets	\$4,617
Goodwill	5,807
Intangible assets:	
Existing technology	3,120
In-process research and development	570
Customer lists	1,880
Trade name	410
Non-compete agreements	60
Liabilities assumed	(1,965)
Total	\$ 14,499

The goodwill recognized from this acquisition resulted primarily from anticipated revenue growth and synergies of integrating Hypertronics scan vision technology and system capabilities with our laser technology and global sales, marketing, distribution and service network. The goodwill was included in our Specialty Lasers and Systems segment.

None of the goodwill from this purchase is deductible for tax purposes.

The identifiable intangible assets are being amortized over their respective useful lives of two to six years.

In-process research and development (“IPR&D”) consisted of seven interrelated projects to be incorporated into one product and had not yet reached technological feasibility at the time of purchase.

During the second quarter of fiscal 2012, we determined that one of the hardware projects classified as IPR&D acquired from Hypertronics would not be completed. As a result, \$0.2 million was expensed in the second fiscal quarter for that project. During the fourth quarter of fiscal 2012, we decided to no longer pursue orders of Hypertronics' legacy products and thus determined that an impairment review of the intangible assets was required. As a result of our analysis, we determined that the intangible assets were fully impaired and that the remaining hardware projects classified as IPR&D acquired from Hypertronics would not be completed. As a result, we recorded a \$4.0 million charge in amortization expense in the fourth quarter of fiscal 2012. We also wrote off \$0.3 million of inventory unique to these products that were not expected to be resold.

We expensed \$0.6 million of acquisition-related costs as selling, general and administrative expenses in our consolidated statements of operations in the fiscal year ended October 1, 2011.

Results of operations for the business have been included in our consolidated financial statements subsequent to the date of acquisition and pro forma results of operations in accordance with authoritative guidance for prior periods have not been presented because the effect of the acquisition was not material to our prior period consolidated financial results.

5. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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; these instruments, which mature within one year and are issued by counterparties with high credit ratings, include U.S. Treasury and international government obligations, investment-grade corporate bonds, certificates of deposit and commercial paper. 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 September 28, 2013 and September 29, 2012, we did not have any assets or liabilities valued based on Level 3 valuations.

Financial assets and liabilities measured at fair value as of September 28, 2013 and September 29, 2012 are summarized below (in thousands):

	Quoted Prices in Active Markets for Identical Assets September 28, 2013 (Level 1)	Significant Other Observable Inputs (Level 2)	Quoted Prices in Active Markets for Identical Assets September 29, 2012 (Level 1)	Significant Other Observable Inputs (Level 2)
Money market fund deposits(1)	\$ 12,468	\$—	\$ 10,340	\$—
Commercial paper(2)(7)	—	9,995	—	2,000
Certificates of deposit(3)	—	28,447	—	31,253
U.S. and international government obligations(2)(7)	—	109,263	—	110,967
Corporate notes and obligations(4)(7)	—	20,408	—	43,406
Foreign currency contracts(5)(8)	—	746	—	(21)
Mutual funds—Deferred comp and supplemental plan(6)(9)	13,419	—	6,400	—

(1) Included in cash and cash equivalents on the Consolidated Balance Sheet. The carrying amounts approximate fair value due to the short-term maturities of the cash equivalents.

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

(3) September 28, 2013: Included in cash and cash equivalents on the Consolidated Balance Sheet. The carrying amounts approximate fair value due to the short-term maturities of the cash equivalents.

September 29, 2012: Includes \$29,234 recorded in cash and cash equivalents and \$2,019 recorded in short-term investments on the Consolidated Balance Sheet. Valuations are based upon quoted market prices in active markets involving similar assets. The market inputs used to value these instruments generally consist of market yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency. Pricing sources include industry standard data providers, security master files from large financial institutions, and other third party sources which are input into a distribution-curve-based algorithm to determine a daily market value. This creates a “consensus price” or a weighted average price for each security.

(4) September 28, 2013: Included in short-term investments on the Consolidated Balance Sheet.

September 29, 2012: Includes \$1,223 recorded in cash and cash equivalents and \$42,183 recorded in short-term investments on the Consolidated Balance Sheet.

(5) September 28, 2013: Includes \$1,270 recorded in prepaid expenses and other assets and \$524 recorded in other current liabilities on the Consolidated Balance Sheet (see Note 7).

September 29, 2012: Includes \$626 recorded in prepaid expenses and other assets and \$645 recorded in other current liabilities on the Consolidated Balance Sheet (see Note 7).

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (Continued)

(6) September 28, 2013: Includes \$1,361 recorded in prepaid expenses and other assets and \$12,058 recorded in other assets on the Consolidated Balance Sheet (see Note 14).

September 29, 2012: Includes \$2,891 recorded in prepaid expenses and other assets and \$3,509 recorded in other assets on the Consolidated Balance Sheet (see Note 14).

(7) Valuations are based upon quoted market prices in active markets involving similar assets. The market inputs used to value these instruments generally consist of market yields, reported trades, broker/dealer quotes or alternative pricing sources with reasonable levels of price transparency. Pricing sources include industry standard data providers, security master files from large financial institutions, and other third party sources which are input into a distribution-curve-based algorithm to determine a daily market value. This creates a "consensus price" or a weighted average price for each security.

(8) The principal market in which we execute our foreign currency contracts is the institutional market in an over-the-counter environment with a relatively high level of price transparency. The market participants usually are large commercial banks. Our foreign currency contracts' valuation inputs are based on quoted prices and quoted pricing intervals from public data sources and do not involve management judgment.

(9) The fair value of mutual funds is determined based on quoted market prices. Securities traded on a national exchange are stated at the last reported sales price on the day of valuation; other securities traded in over-the-counter market and listed securities for which no sale was reported on that date are stated as the last quoted bid price.

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. 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):

	Fiscal 2013 Year-end			
	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	\$ 110,444	\$—	\$—	\$ 110,444
Short-term investments:				
Available-for-sale securities:				
Commercial paper	\$9,995	\$—	\$—	\$9,995
Certificates of deposit	—	—	—	—
U.S. Treasury and agency obligations	103,694	507	(1	) 104,200
International government obligations	5,040	28	(5	) 5,063
Corporate notes and obligations	20,352	66	(10	) 20,408
Total short-term investments	\$ 139,081	\$ 601	\$ (16	) \$ 139,666

	Fiscal 2012 Year-end			Fair Value
	Cost Basis	Unrealized Gains	Unrealized Losses	
Cash and cash equivalents	\$67,752	\$9	\$—	\$67,761
Short-term investments:				
Available-for-sale securities:				
Commercial paper	\$2,000	\$—	\$—	\$2,000
Certificates of deposit	2,017	2	—	2,019
International government obligations	2,004	14	—	2,018
U.S. Treasury and agency obligations	108,284	666	(2	) 108,948
Corporate notes and obligations	41,912	272	(1	) 42,183
Total short-term investments	\$156,217	\$954	\$(3	) \$157,168

None of the unrealized losses as of the end of fiscal 2013 or 2012 were considered to be other-than-temporary impairments. The amortized cost and estimated fair value of available-for-sale investments in debt securities at fiscal 2013 and 2012 year-ends, classified as short-term investments on our consolidated balance sheets, were as follows (in thousands):

	Fiscal Year-end		2012	
	2013	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Investments in available-for-sale debt securities due in less than 1 year	\$139,081	\$139,666	\$154,200	\$155,149

During fiscal 2013, we received proceeds totaling \$78.8 million from the sale of available-for-sale securities and realized gross gains of less than \$0.1 million. During fiscal 2012, we received proceeds totaling \$77.9 million from the sale of available-for-sale securities and realized gross gains of less than \$0.1 million.

7. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

All derivatives, whether designated in hedging relationships or not, are 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. Our derivative contracts do not contain any credit risk related contingent features and do not require collateral or other security to be furnished by us or the counterparties.

We maintain operations in various countries outside of the United States and have 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 Japanese Yen, the Euro and the Korean Won. As a result, our earnings, cash flows and cash balances 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 three 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, gains and losses are recognized in other income (expense).

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The outstanding notional contract and fair value amounts of hedge contracts, with maximum maturity of three months are as follows (in thousands):

	U.S. Notional Contract Value		U.S. Notional Fair Value	
	September 28, 2013	September 29, 2012	September 28, 2013	September 29, 2012
Euro currency hedge contracts				
Purchase	\$46,248	\$61,779	\$47,299	\$62,404
Korean WON currency hedge contracts				
Sell	\$(17,345)	\$(39,039)	\$(17,545)	\$(39,559)
Chinese RMB currency hedge contracts				
Sell	\$(11,524)	\$(8,899)	\$(11,793)	\$(8,911)
Other foreign currency hedge contracts				
Purchase	\$6,677	\$—	\$6,788	\$—
Sell	\$(14,372)	\$(11,553)	\$(14,321)	\$(11,667)

The fair values of our derivative instruments are included in prepaid expenses and other assets and in other current liabilities in our Consolidated Balance Sheets (see Note 5); such amounts were not material as of September 28, 2013 and September 29, 2012.

The amount of non-designated derivative instruments' gain(loss) in the Consolidated Statements of Operations, included in other income (expense) for the fiscal year ended September 28, 2013 and September 29, 2012 is as follows (in thousands):

	Amount of Gain or (Loss) Recognized in Income on Derivatives	
	Fiscal Year Ended September 28, 2013	Fiscal Year Ended September 29, 2012
Derivatives not designated as hedging instruments		
Foreign exchange contracts	\$2,071	\$(2,729)

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill is tested for impairment on an annual basis and between annual tests if events or circumstances indicate that an impairment loss may have occurred, and we write down these assets when impaired. We perform our annual impairment tests during 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.

Goodwill represents the excess of the purchase price over the fair value of the net tangible and identifiable intangible assets acquired in each business combination. In September 2011, the FASB amended its guidance to simplify testing goodwill for impairment, allowing an entity to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. If an entity determines as a result of the qualitative assessment that it is more likely than not (> 50% likelihood) that the fair value of a reporting unit is less than its carrying amount, then the quantitative test is required. Otherwise, no further testing is required. Moreover, an entity can bypass the qualitative assessment for any reporting unit in any period and proceed directly to step one of the impairment test, and then resume performing the qualitative assessment in any subsequent period. We adopted this accounting guidance for our impairment testing in fiscal 2012.

Coherent has two reporting units: Specialty Laser Systems and Commercial Lasers and Components. In our fiscal 2012 annual testing, we performed a qualitative assessment of the goodwill by reporting unit during the fourth quarter of fiscal 2012 using the opening balance sheet as of the first day of the fourth quarter and concluded that it was more likely than not that the

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fair value of each of the reporting units exceeded its carrying amount. In assessing the qualitative factors, we considered the impact of these key factors: macroeconomic conditions, fluctuations in foreign currency, market and industry conditions, our operating and competitive environment, regulatory and political developments, the overall financial performance of our reporting units including cost factors and budgeted-to-actual revenue results. We also considered market capitalization and stock price performance. Based on our assessment, goodwill in the reporting units was not impaired as of the first day of the fourth quarter of fiscal 2012. As such, it was not necessary to perform the two-step goodwill impairment test at that time.

In fiscal 2013, we elected to bypass the qualitative assessment and proceed directly to performing the first step of the goodwill impairment test. This election was made because we had last performed this impairment test in fiscal 2010 and we have subsequently added a substantial amount of goodwill balances as a result of our acquisitions of Midaz in the fourth quarter of fiscal 2012 and the acquisitions of Innolight and Lumera in the first quarter of fiscal 2013. We performed our Step 1 test during the fourth quarter of fiscal 2013 using the opening balance sheet as of the first day of the fourth quarter and noted no impairment. We determined the fair value of our reporting units for the Step 1 test using a 50-50% weighting of the Income (discounted cash flow) approach and Market (market comparable) approach. Management completed and reviewed the results of the Step 1 analysis and concluded that a Step 2 analysis was not required as the estimated fair values of both of our reporting units were substantially in excess of their carrying values. Between the completion of that testing and the end of the fourth quarter of fiscal 2013, we noted no indications of impairment or triggering events to cause us to review goodwill for potential impairment.

The changes in the carrying amount of goodwill by segment for fiscal 2013 and 2012 are as follows (in thousands):

	Commercial Lasers and Components (1)	Specialty Laser Systems (2)	Total
Balance as of October 1, 2011	\$ 6,365	\$ 69,589	\$ 75,954
Additions (see Note 4)	—	2,809	2,809
Translation adjustments and other	(2	) (1,072	) (1,074
Balance as of September 29, 2012	6,363	71,326	77,689
Additions (see Note 4)	—	32,952	32,952
Translation adjustments and other	—	2,767	2,767
Balance as of September 28, 2013	\$ 6,363	\$ 107,045	\$ 113,408

(1) Gross amount of goodwill for our CLC segment was \$25.7 million at September 28, 2013 and September 29, 2012. For both periods, the accumulated impairment loss for the CLC segment was \$19.3 million reflecting an impairment charge in fiscal 2009.

(2) The gross amount of goodwill for our SLS segment was \$109.4 million and \$73.7 million at September 28, 2013 and September 29, 2012. For both periods, the accumulated impairment loss for the SLS segment was \$2.4 million reflecting an impairment charge in fiscal 2003.

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.

During the second quarter of fiscal 2012, we determined that one of the hardware projects classified as in-process research and development ("IPR&D") acquired from Hypertronics would not be completed. As a result, \$0.2 million was included in research and development expense in the second fiscal quarter for that project. During the fourth quarter of fiscal 2012, we decided to no longer pursue orders of Hypertronics legacy products and determined that the carrying amounts of the amortizable intangible assets, including the remaining IPR&D, acquired from Hypertronics may not be recoverable and thus determined that an impairment review of the intangible assets was required. As a

result of our analysis, we determined that the intangible assets were fully impaired and that the remaining hardware projects classified as in-process research and development ("IPR&D") acquired from Hypertronics would not be completed. As a result, we recorded a \$4.0 million charge in amortization expense in the fourth quarter of fiscal 2012. We also considered the valuation of the goodwill recorded upon the acquisition of Hypertronics (approximately \$5.9 million at September 29, 2012) and determined that the goodwill was not

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

8. GOODWILL AND INTANGIBLE ASSETS (continued)

impaired, and no write-off is warranted, as the goodwill is related to the key strategic purpose of our acquisition - expansion into the Asian market with the addition of a full manufacturing facility.

During the year ended fiscal 2013, we did not have any impairment of intangible assets as a result of the impairment analysis.

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

	Fiscal 2013 Year-end			Fiscal 2012 Year-end		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Existing technology	\$82,220	\$ (51,570)	\$ 30,650	\$ 51,346	\$ (44,457)	\$ 6,889
Customer lists	17,341	(7,465)	9,876	7,849	(5,666)	2,183
Trade name	710	(576)	134	3,050	(2,749)	301
Non-compete agreement	570	(558)	12	689	(661)	28
Production know-how (1)	—	—	—	910	(838)	72
In-process research and development	2,299	—	2,299	—	—	—
Total	\$ 103,140	\$ (60,169)	\$ 42,971	\$ 63,844	\$ (54,371)	\$ 9,473

(1) For accounting purposes, when an intangible asset is fully amortized, it is removed from the disclosure schedule. Amortizable intangible assets include intangible assets acquired through business combinations as well as through direct purchases or licenses. All IPR&D projects outstanding at the end of fiscal 2011 were either written off as discussed above, or completed during fiscal 2012 and reclassified to "existing technology" intangible assets with finite lives.

The weighted average remaining amortization period for existing technology, customer lists and trade name are approximately 5 years, and the weighted average remaining amortization period for non-compete agreements is less than 1 year. Patents, order backlog and production know-how are fully amortized. Amortization expense for intangible assets during fiscal years 2013, 2012, and 2011 was \$9.8 million, \$10.4 million and \$8.1 million, respectively, which includes \$6.6 million, \$6.6 million and \$5.5 million, respectively, for amortization of existing technology and production know-how.

Estimated amortization expense for the next five fiscal years and all years thereafter are as follows (in thousands):

	Estimated Amortization Expense
2014	\$9,825
2015	9,315
2016	8,930
2017	7,842
2018	4,599
Thereafter	2,460
Total	\$42,971

9. BALANCE SHEET DETAILS

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

	Fiscal Year-end	
	2013	2012
Prepaid and refundable income taxes	\$ 23,939	\$ 20,634
Prepaid expenses and other	28,638	41,096
Total prepaid expenses and other assets	\$ 52,577	\$ 61,730

Other assets consist of the following (in thousands):

	Fiscal Year-end	
	2013	2012
Assets related to deferred compensation arrangements (see Note 14)	\$ 23,446	\$ 21,990
Deferred tax assets	37,637	37,160
Other assets	5,457	4,879
Total other assets	\$ 66,540	\$ 64,029

On June 8, 2010, we invested \$2.0 million in SiOnyx, Inc., a privately-held company focused on shallow junction photonics, used to enhance the performance of light sensing devices used in consumer, industrial, medical and defense related applications using black silicon processing. The investment is included in other assets and is being carried on a cost basis.

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

	Fiscal Year-end	
	2013	2012
Accrued payroll and benefits	\$ 29,723	\$ 28,100
Accrued expenses and other	11,552	10,445
Reserve for warranty	18,508	17,442
Other taxes payable	6,147	15,457
Customer deposits	1,642	1,830
Deferred income	16,994	17,465
Total other current liabilities	\$ 84,566	\$ 90,739

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

	Fiscal Year-end	
	2013	2012
Long-term taxes payable	\$ 15,715	\$ 21,281
Deferred compensation (see Note 14)	24,723	22,816
Deferred tax liabilities	10,487	726
Deferred income	2,734	2,191
Asset retirement obligations liability (see Note 2)	2,247	2,029
Other long-term liabilities	6,226	6,283
Total other long-term liabilities	\$ 62,132	\$ 55,326

10. SHORT-TERM BORROWINGS

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We have several lines of credit which allow us to borrow in the applicable local currency. We have a total of \$14.7 million of unsecured foreign lines of credit as of September 28, 2013. At September 28, 2013, we had used \$2.3 million of these available foreign lines of credit as guarantees. These credit facilities were used in Europe and Japan during fiscal 2013. In addition, our domestic line of credit consists of a \$50.0 million unsecured revolving credit account with Union Bank of California. The agreement will expire on May 31, 2014. The line of credit 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 September 28, 2013.

11. LONG-TERM OBLIGATIONS

The components of long-term obligations are as follows (in thousands):

	Fiscal Year-end	
	2013	2012
Capital leases	\$2	\$19
Current portion	(2	) (17
Long-term obligations	\$—	\$2

12. COMMITMENTS AND CONTINGENCIES**Commitments**

We lease several of our facilities under operating leases.

Future minimum payments under our non-cancelable operating leases at September 28, 2013 are as follows (in thousands):

Fiscal	
2014	\$9,335
2015	7,466
2016	5,787
2017	5,220
2018	4,511
Thereafter through 2020	8,430
Total	\$40,749

Rent expense, exclusive of sublease income, was \$10.8 million, \$10.0 million and \$10.1 million in fiscal 2013, 2012 and 2011, respectively. There was no sublease income for fiscal 2013 and 2012, and sublease income was less than \$0.1 million for fiscal year 2011.

As of September 28, 2013, we had total purchase commitments for inventory over the next year of approximately \$40.2 million and purchase obligations for fixed assets and services of \$5.2 million compared to \$65.5 million of purchase commitments for inventory and \$6.8 million of purchase obligations for fixed assets and services at September 29, 2012.

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. Recently, IMRA America, Inc. (“Imra”) filed suit against two of our German subsidiaries alleging infringement of a German patent which had been licensed to Imra by the University of Michigan. 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, results of operations or cash flows, an adverse result in one or more matters could negatively affect our results in the period in which they occur.

Table of Contents**13. STOCK REPURCHASES AND DIVIDENDS**

On January 26, 2011, the Board authorized the repurchase of up to \$75.0 million of our common stock. The program was authorized for 12 months from the date of authorization.

On February 10, 2011, we announced that the Company would repurchase up to 1,271,100 shares of our common stock through a modified "Dutch Auction" tender offer. On March 14, 2011, we completed our tender offer, repurchased and retired 454,682 shares of outstanding common stock at a price of \$59.00 per share for a total of \$26.8 million excluding expenses. During the third and fourth quarters of fiscal 2011, we repurchased and retired an additional 1,024,409 shares of outstanding common stock at an average price of \$47.03 per share for a total of \$48.2 million, excluding expenses.

On August 25, 2011, we announced that the Board of Directors had authorized the repurchase of up to \$50.0 million of our common stock. The program was authorized for 12 months from the date of authorization. During fiscal 2011, we repurchased and retired 586,200 shares of outstanding common stock at an average price of \$42.67 per share for a total of \$25.0 million, excluding expenses.

During fiscal 2012, we repurchased and retired 543,200 shares of outstanding common stock at an average price of \$45.99 per share for a total of \$25.0 million, excluding expenses. There are no funds remaining authorized for repurchase at September 28, 2013 under this repurchase program.

On October 4, 2012, the Board of Directors authorized a buyback program whereby we were authorized to repurchase up to \$25.0 million of our common stock. The program was authorized for 12 months from the date of authorization. No shares were purchased under this program.

On December 10, 2012, we announced that the Board of Directors approved a \$1.00 per share special cash dividend on our outstanding common stock payable on December 27, 2012 to stockholders of record on December 19, 2012, resulting in a payment of \$24.0 million in the first quarter of fiscal 2013.

14. EMPLOYEE STOCK AWARD, OPTION AND BENEFIT PLANS**Deferred Compensation Plans**

Under our deferred compensation plans ("plans"), eligible employees are permitted to make compensation deferrals up to established limits set under the plans and accrue income on these deferrals based on reference to changes in available investment options. While not required by the plan, the Company chooses to invest in insurance contracts and mutual funds in order to approximate the changes in the liability to the employees. These investments and the liability to the employees were as follows (in thousands):

	Fiscal Year-end	
	2013	2012
Cash surrender value of life insurance contracts	\$ 11,374	\$ 18,481
Fair value of mutual funds	13,433	6,400
Total assets	\$ 24,807	\$ 24,881
Total assets, included in:		
Prepaid expenses and other assets	\$ 1,361	\$ 2,891
Other assets	23,446	21,990
Total assets	\$ 24,807	\$ 24,881

	Fiscal Year-end	
	2013	2012
Total deferred compensation liability, included in:		
Other current liabilities	\$ 1,361	\$ 2,891
Other long-term liabilities	24,723	22,816
Total deferred compensation liability	\$ 26,084	\$ 25,707

Life insurance premiums loads, policy fees and cost of insurance that are paid from the asset investments and gains and losses from the asset investments for these plans are recorded as components of other income or expense; such amounts were a net gain of \$2.1 million in fiscal year 2013, a net gain of \$1.6 million (including a \$0.2 million death benefit) in fiscal year 2012 and a net gain of \$3.1 million (including a \$1.5 million death benefit) in fiscal year 2011. Changes in the obligation to plan participants are recorded as a component of operating expenses and cost of sales; such amounts were an expense of \$2.8 million in fiscal year 2013, an expense of \$2.3 million in fiscal year 2012 and an expense of \$2.6 million in fiscal year 2011. Liabilities associated with participant balances under our deferred compensation plans are affected by individual contributions and distributions made, as well as gains and losses on the participant's investment allocation election.

Coherent Employee Retirement and Investment Plan

Under the Coherent Employee Retirement and Investment Plan, we match employee contributions to the plan up to a maximum of 4% of the employee's individual earnings subject to IRS limitations. Employees become eligible for participation on their first day of employment and for Company matching contributions after completing one year of service. The Company's contributions (net of forfeitures) during fiscal 2013, 2012, and 2011 were \$3.4 million, \$3.2 million and \$3.0 million, respectively.

Employee Stock Purchase Plan

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. During fiscal 2013, 2012 and 2011, a total of 159,754 shares, 139,012 shares and 144,147 shares, respectively, were purchased by and distributed to employees at an average price of \$37.20, \$42.19 and \$34.47 per share, respectively. At fiscal 2013 year-end, we had 928,225 shares of our common stock reserved for future issuance under the plan.

Stock Award and Option Plans

We have a stock plan for which employees and non-employee directors are eligible participants. This plan is the 2011 Equity Incentive Plan (the "2011 Plan") which includes our options, time-based restricted stock units and market-based performance restricted stock units. In prior years, we have had a stock plan for which employees and service providers were eligible participants and a non-employee Directors' Stock Option Plan for which only non-employee directors were eligible participants. Those prior Plans have expired, and any future grants will be made from the 2011 Plan. Under the 2011 Plan, Coherent may grant options and awards (time-based restricted stock units and market-based performance restricted stock units) to purchase up to 6,882,000 shares of common stock, of which 6,007,510 shares remain available for grant at fiscal 2013 year end.

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 to employees generally expire six years from the original grant date. Since adoption of the 2011 Plan, no options have been granted to employees. Director options were previously automatically granted to our non-employee directors. New directors now initially receive an award of restricted stock units of 3,500 shares which vest over a two year period. Beginning with the annual meeting of stockholders in 2011, the annual grant for non-employee directors became 3,500 shares of restricted stock units that vest on February 15 of the calendar year following the grant.

Restricted stock awards and restricted stock units are independent of option grants and are typically subject to vesting restrictions—either time-based or performance-based conditions for vesting. Until restricted stock vests, shares (including those

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. EMPLOYEE STOCK OPTION AND BENEFIT PLANS (continued)

issuable upon vesting of the applicable restricted stock unit) are subject to forfeiture if employment terminates prior to the release of restrictions and cannot be transferred.

• The service based restricted stock awards generally vest three years from the date of grant.

• The service based restricted stock unit awards are generally subject to annual vesting over three years from the date of grant.

The market-based performance restricted stock unit award grants are generally either subject to annual vesting over three years from the date of grant or subject to a single vest measurement three years from the date of grant, depending upon achievement of performance measurements ("Performance RSUs") based on the performance of the Company's Total Shareholder Returns (as defined) compared with the performance of the Russell 2000 Index.

The Company previously granted Performance RSUs during the second quarter of fiscal 2009 which had a single vesting measurement date of November 14, 2010. These RSUs would have vested 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. The Company determined that the performance target had not been met and these awards were canceled in the first quarter of fiscal 2011 with no shares vesting.

Fair Value of Stock Compensation

We recognize compensation expense for all share-based payment awards based on the fair value of such awards. The expense is recognized on a straight-line basis over the respective requisite service period of the awards.

Determining Fair Value

Stock Options

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 process for computing expected volatility considers both historical volatility and market-based implied volatility; however our estimate of expected forfeitures is based on historical employee data and could differ from actual forfeitures.

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.

The Company did not grant any stock options in fiscal 2013 or fiscal 2012. The fair values of the Company's stock options granted to employees for fiscal 2011, and of shares purchased under the stock purchase plan for fiscal 2013, 2012 and 2011 were estimated using the following weighted-average assumptions:

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. EMPLOYEE STOCK OPTION AND BENEFIT PLANS (continued)

	Employee Stock Option Plans			Employee Stock Purchase Plans		
	Fiscal			Fiscal		
	2013	2012	2011	2013	2012	2011
Expected life in years	—	—	6.0	0.5	0.5	0.5
Expected volatility	—	—	36.1	% 32.3	% 47.0	% 32.8
Risk-free interest rate	—	—	1.1	% 0.1	% 0.9	% 0.1
Expected dividends	—	—	—	—	—	—
Weighted average fair value per share	\$—	\$—	\$ 16.26	\$ 10.56	\$ 13.62	\$ 12.50

Time-Based Restricted Stock Units

Time-based restricted stock units are fair valued at the closing market price on the date of grant.

Market-Based Performance Restricted Stock Units

We grant market-based performance restricted stock units to officers and certain employees. The performance stock unit agreements provide for the award of performance stock units with each unit representing the right to receive one share of Coherent, Inc. common stock to be issued after the applicable award period. The final number of units awarded for this grant will be determined as of the vesting dates, based upon our total shareholder return over the performance period compared to the Russell 2000 Index and could range from a minimum of no units to a maximum of twice the initial award. The weighted average fair value for these performance units was determined using a Monte Carlo simulation model incorporating the following weighted average assumptions:

	Fiscal	
	2013	2012
Risk-free interest rate	0.33	% 0.39
Volatility	37.9	% 41.8
Weighted average fair value	\$ 48.48	\$ 71.59

We recognize the estimated cost of these awards, as determined under the simulation model, over the related service period, with no adjustment in future periods based upon the actual shareholder return over the performance period.

Stock Compensation Expense

The following table shows total stock-based compensation expense included in the Consolidated Statements of Operations for fiscal 2013, 2012 and 2011 (in thousands):

	Fiscal 2013	Fiscal 2012	Fiscal 2011
Cost of sales	\$ 2,151	\$ 1,670	\$ 1,331
Research and development	1,851	1,628	1,474
Selling, general and administrative	14,889	13,015	10,158
Income tax benefit	(5,292)	(4,796)	(3,802)
	\$ 13,599	\$ 11,517	\$ 9,161

Total stock-based compensation cost capitalized as part of inventory during fiscal 2013 was \$2.2 million; \$2.1 million was amortized into income during fiscal 2013, which includes amounts capitalized in fiscal 2013 and amounts carried over from fiscal 2012. Total stock-based compensation cost capitalized as part of inventory during fiscal 2012 was \$1.8 million; \$1.7 million was amortized into income during fiscal 2012, which includes amounts capitalized in fiscal 2012 and amounts carried over from fiscal 2011. Management has made an estimate of expected forfeitures and is recognizing compensation costs only for those equity awards expected to vest.

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. EMPLOYEE STOCK OPTION AND BENEFIT PLANS (continued)

At fiscal 2013 year-end, the total compensation cost related to unvested stock-based awards granted to employees under the Company's stock option and award plans but not yet recognized was approximately \$15.3 million, net of estimated forfeitures of \$0.8 million. This cost will be amortized on a straight-line basis over a weighted-average period of approximately 1.0 years and will be adjusted for subsequent changes in estimated forfeitures.

At fiscal 2013 year-end, the total compensation cost related to options to purchase common shares under the ESPP but not yet recognized was approximately \$0.1 million. This cost will be amortized on a straight-line basis over a weighted-average period of approximately one month.

The stock option exercise tax benefits reported in the statement of cash flows results from the excess tax benefits arising from tax deductions in excess of the stock-based compensation cost recognized, determined on a grant-by-grant basis. During fiscal 2013, we have not generated any excess tax benefits as cash flows from financing activities. During fiscal 2012 and fiscal 2011 we recorded approximately \$1.3 million and \$5.1 million, respectively, of excess tax benefits as cash flows from financing activities.

Stock Options & Awards Activity

The following is a summary of option activity for our Stock Option Plans for fiscal 2013, 2012 and 2011 (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 October 2, 2010	1,893	\$ 28.96	4.0	\$ 21,279
Granted	24	44.74		
Exercised	(975	) 30.51		
Forfeitures	(21	) 24.97		
Expirations	(4	) 33.95		
Outstanding at October 1, 2011	917	\$ 27.80	4.2	\$ 13,952
Granted	—	—		
Exercised	(269	) 27.56		
Forfeitures	(1	) 26.16		
Expirations	(6	) 32.10		
Outstanding at September 29, 2012	641	\$ 27.86	3.5	\$ 9,823
Granted	—	—		
Exercised	(371	) 28.56		
Forfeitures	—	—		
Expirations	—	—		
Outstanding at September 28, 2013	270	\$ 26.90	3.5	\$ 9,299
Vested and expected to vest at September 28, 2013	270	\$ 26.90	3.5	\$ 9,299
Exercisable at September 28, 2013	262	\$ 26.35	3.4	\$ 9,167

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 for in-the-money options. During fiscal 2013, 2012 and 2011, the aggregate intrinsic value of options exercised under the Company's stock option plans were \$9.6 million, \$6.8 million and \$18.6 million, respectively, determined as of the date of option exercise.

The following table summarizes information about stock options outstanding at fiscal 2013 year-end:

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

14. EMPLOYEE STOCK OPTION AND BENEFIT PLANS (continued)

Range of Exercise Prices	Options Outstanding		Weighted Average Remaining Contractual Life (Years)	Options Exercisable	
	Number of Shares	Weighted Average Exercise Price per Share		Number of Shares	Weighted Average Exercise Price per Share
\$18.91 - \$20.20	24,900	\$20.15	5.53	24,900	\$20.15
\$23.16 - \$23.16	44,200	23.16	1.14	44,200	23.16
\$26.16- \$26.16	171,035	26.16	3.15	171,035	26.16
\$32.00- \$32.00	6,000	32.00	6.51	6,000	32.00
\$44.74 - \$44.74	24,000	44.74	7.98	16,000	44.74
\$18.91 - \$44.74	270,135	\$26.90	3.54	262,135	\$26.35

The following table summarizes our restricted stock award and restricted stock unit activity for fiscal 2013, 2012 and 2011 (in thousands, except per share amounts):

	Time Based Restricted Stock Units		Market-Based Performance Restricted Stock Units	
	Number of Shares(1)	Weighted Average Grant Date Fair Value	Number of Shares(2)	Weighted Average Grant Date Fair Value
Nonvested stock at October 2, 2010	481	\$26.22	—	\$—
Granted	191	45.44	101	49.77
Vested	(183)	) 26.17	—	—
Forfeited	(85)	) 29.20	—	—
Nonvested stock at October 1, 2011	404	\$34.71	101	\$49.77
Granted	250	53.59	95	\$63.85
Vested	(206)	) 32.66	(44)	) 53.18
Forfeited	(8)	) 49.07	—	—
Nonvested stock at September 29, 2012	440	\$47.81	152	\$57.55
Granted	273	44.03	97	48.48
Vested	(254)	) 43.06	(28)	) 49.50
Forfeited	(6)	) 45.59	(8)	) 53.30
Nonvested stock at September 28, 2013	453	\$48.22	213	\$54.63

(1) Service-based restricted stock vested during each fiscal year

(2) Performance-based awards and units included at 100% of target goal; under the terms of the awards, the recipient may earn between 0% and 200% of the award.

Restricted Stock Units are converted into the right to receive common stock upon vesting; prior to issuance, the Company permits the holders to satisfy their tax withholding requirements by net settlement, whereby the Company withholds a portion of the shares to cover the applicable taxes based on the fair market value of the Company's stock at the vesting date. The number of shares withheld to cover tax payments was 95,000 in fiscal 2013, 90,000 in fiscal 2012 and 70,000 in fiscal 2011; tax payments made were \$4.2 million, \$4.5 million and \$3.3 million, respectively.

At fiscal 2013 year-end, 6,007,510 options or restricted stock units were available for future grant under all plans. At fiscal 2013 year-end, all outstanding stock options have been issued under plans approved by our shareholders.

Table of Contents**15. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)**

Accumulated other comprehensive income (net of tax) at fiscal 2013 and fiscal 2012 year-ends are substantially comprised of accumulated translation adjustments of \$54.4 million and \$40.4 million, respectively.

16. OTHER INCOME (EXPENSE), NET

Other income (expense) includes other-net which is comprised of the following (in thousands):

	Fiscal		
	2013	2012	2011
Foreign exchange gain (loss)	\$ (3,762	) \$ (451	) \$ 1,457
Translation adjustment related to dissolution of Finland (1)	—	—	6,511
Gain (loss) on deferred compensation investments, net (Note 14)	2,123	1,644	3,149
Other—net	170	374	(59
Other income (expense), net	\$ (1,469	) \$ 1,567	\$ 11,058

- (1) In the second quarter of fiscal 2011, the Company had substantially completed the liquidation of its Finland operations and recognized in other income the accumulated translation gains for this subsidiary previously recorded in accumulated other comprehensive income (loss) on the consolidated balance sheet.

17. INCOME TAXES

The provision for (benefit from) income taxes on income (loss) before income taxes consists of the following (in thousands):

	Fiscal		
	2013	2012	2011
Currently payable:			
Federal	\$ (1,796	) \$ (7,856	) \$ (14,408
State	(141	) (103	) 677
Foreign	27,152	38,259	31,098
	25,215	30,300	17,367
Deferred:			
Federal	(4,022	) 3,763	10,325
State	(16	) 289	2,358
Foreign	(4,036	) (6,692	) 541
	(8,074	) (2,640	) 13,224
Provision for income taxes	\$ 17,141	\$ 27,660	\$ 30,591

The components of income (loss) before income taxes consist of (in thousands):

	Fiscal 2013	2012	2011
United States	\$ (7,142	) \$ (9,212	) \$ 32,993
Foreign	90,638	99,834	90,836
Income before income taxes	\$ 83,496	\$ 90,622	\$ 123,829

The reconciliation of the income tax expense at the U.S. Federal statutory rate (35% in fiscal years 2013, 2012 and 2011) to actual income tax expense is as follows (in thousands):

	Fiscal 2013	2012	2011	
Federal statutory tax expense	\$ 29,223	\$ 31,718	\$ 43,340	
Valuation allowance	534	(141	) 1,456	
Foreign taxes at rates less than U.S. rates, net	(8,219	) (1,938	) (2,818)
Currency translation adjustments recognized	—	—	(2,424)
Stock-based compensation	1,292	1,176	885	
State income taxes, net of federal income tax benefit	(143	) 204	2,409	
Research and development credit	(4,131	) (532	) (2,752)
Deferred compensation	(257	) (325	) (759)
Release of unrecognized tax benefits	(407	) (12	) (7,090)
Release of interest accrued for unrecognized tax benefits	(160	) (1,372	) (2,672)
Other	(591	) (1,118	) 1,016	
Provision for income taxes	\$ 17,141	\$ 27,660	\$ 30,591	
Effective tax rate	20.5	% 30.5	% 24.7	%

Coherent Korea received the final approval for a High-Tech tax exemption on March 26, 2013 from the Korean authorities. The High-Tech tax exemption is effective retroactively to the beginning of fiscal 2013 and is subject to capital contribution limitations. The impact of this tax exemption decreased Korean income taxes by approximately \$2.1 million in fiscal 2013. The benefit of the tax holiday on net income per share (diluted) was \$0.09.

Coherent Singapore had previously received a Pioneer Status tax exemption from the Singapore authorities effective from fiscal 2012 through fiscal 2017, and may be extended if certain additional requirements are satisfied. The tax holiday is conditional upon our meeting certain revenue, business spending and employment thresholds. Although Coherent Singapore had income in fiscal 2013, this amount was offset by a loss carryforward from fiscal 2012 and therefore we did not realize a benefit for the Singapore tax holiday in fiscal years 2013 and 2012.

The significant components of deferred tax assets and liabilities were (in thousands):

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. INCOME TAXES (continued)

	Fiscal year-end	
	2013	2012
Deferred tax assets:		
Reserves and accruals not currently deductible	\$ 25,987	\$ 25,217
Operating loss carryforwards and tax credits	65,590	62,720
Capital loss carryforwards	309	301
Deferred service revenue	2,221	2,135
Depreciation and amortization	—	2,590
Inventory capitalization	1,901	1,629
Stock-based compensation	6,229	6,503
Competent authority offset to transfer pricing tax reserves	4,328	7,901
	106,565	108,996
Valuation allowance	(13,359	) (9,087
	93,206	99,909
Deferred tax liabilities:		
Gain on issuance of stock by subsidiary	21,144	20,296
Depreciation and amortization	16,342	9,004
Accumulated translation adjustment	1,363	796
Other	5,758	10,510
	44,607	40,606
Net deferred tax assets	\$ 48,599	\$ 59,303

In determining our fiscal 2013, 2012 and 2011 tax provisions under ASC Subtopic 740, "Income Taxes", we calculated the deferred tax assets and liabilities for each separate tax entity. We then considered a number of factors including the positive and negative evidence regarding the realization of our deferred tax assets to determine whether a valuation allowance should be recognized with respect to our deferred tax assets. We determined that a valuation allowance was appropriate for a portion of the deferred tax assets of our California research and development tax credits, foreign tax attributes and net operating losses and capital loss carryforwards at fiscal 2013, 2012 and 2011 year-ends.

During fiscal 2013, we increased our valuation allowance on deferred tax assets to \$13.4 million, primarily due to the reduced ability to utilize California research and development tax credits.

The net deferred tax asset is classified on the consolidated balance sheets as follows (in thousands):

	Fiscal year-end	
	2013	2012
Current deferred income tax assets	\$ 21,713	\$ 23,368
Current deferred income tax liabilities	(264	) (499
Non-current deferred income tax assets	37,637	37,160
Non-current deferred income tax liabilities	(10,487	) (726
Net deferred tax assets	\$ 48,599	\$ 59,303

We have various tax attribute carryforwards which include the following:

Foreign net operating loss carryforwards are \$20.2 million, of which \$18.3 million have no expiration date and of which \$1.9 million are scheduled to expire beginning in fiscal year 2030. A valuation allowance totaling \$7.8 million has been recorded against the foreign net operating loss carryforwards since the recovery of the carryforwards are uncertain. California net operating loss carryforwards are \$19.8 million and are scheduled to

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. INCOME TAXES (continued)

expire in fiscal years 2017 to 2033. The tax benefit relating to approximately \$6.8 million of the state net operating loss carryforwards will be credited to additional paid-in-capital when recognized.

- Federal capital loss carryforwards of \$0.8 million are scheduled to expire in fiscal year 2014 to 2015. State capital loss carryforwards of \$0.8 million are scheduled to expire in fiscal 2014 to 2015. Full valuation allowances have been recorded against the federal capital loss and the state capital loss carryforwards since the recovery of the carryforwards are uncertain.

Federal R&D credit carryforwards of \$20.5 million are scheduled to expire in fiscal years 2024 to 2033. The tax benefit relating to approximately \$0.9 million of the federal tax credit carryforwards will be credited to additional paid-in-capital when recognized. California R&D credit carryforwards of \$17.9 million have no expiration date. The tax benefit relating to approximately \$0.5 million of the state tax credit carryforwards will be credited to additional paid-in-capital when recognized. A valuation allowance totaling \$10.4 million, before federal benefit, has been recorded against California R&D credit carryforwards since the recovery of the carryforwards are uncertain. Other states R&D credit carryforwards of \$1.6 million are scheduled to expire in fiscal years 2014 to 2027. A valuation allowance totaling \$0.6 million, before federal benefit, has been recorded against Oregon R&D credit carryforwards since the recovery of the carryforwards are uncertain.

Federal foreign tax credit carryforwards of \$21.3 million are scheduled to expire in fiscal years 2016 to 2023. The tax benefit relating to approximately \$7.2 million of the federal foreign tax credit carryforwards will be credited to additional paid-in-capital when recognized.

Included in the net deferred tax asset balance is \$1.4 million of deferred tax liabilities related to the currency translation adjustment. The associated tax expenses are recorded as a part of other comprehensive income.

The American Taxpayer Relief Act of 2012 (“the Act”) was enacted on January 2, 2013. Under the Act, the federal research and development tax credit was retroactively extended for amounts paid or incurred after December 31, 2011 through December 31, 2013. The prior period effects of the change in the tax law were recognized in our second quarter of fiscal 2013, which is the quarter that the law was enacted. Accordingly, prior year research and development tax credits of approximately \$1.4 million less appropriate reserves were recognized in the second quarter of fiscal 2013.

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 2010 are closed. In our major foreign jurisdictions and our major state jurisdictions, the years prior to 2006 and 2009, respectively, are closed to examination. Earlier years in our various jurisdictions may remain open for adjustment to the extent that we have tax attribute carryforwards from those years. We believe that we have provided adequate reserves for any adjustments that may be determined by the tax authorities.

As of September 28, 2013, the total amount of gross unrecognized tax benefits including gross interest and penalties was \$23.2 million, of which \$17.9 million, if recognized, would affect our effective tax rate. As of September 29, 2012, we recorded gross unrecognized tax benefits including gross interest and penalties in the amount of \$27.6 million of which \$16.8 million, if recognized, would affect our effective tax rate. Our total gross unrecognized tax benefit was classified as long-term taxes payable in the consolidated balance sheets. We include interest and penalties related to unrecognized tax benefits within the provision for income taxes. As of September 28, 2013, the total amount of gross interest and penalties accrued was \$1.8 million and it is classified as long-term taxes payable in the consolidated balance sheets. As of September 29, 2012, we had accrued \$1.6 million for the gross interest and penalties related to the gross unrecognized tax benefits.

Management believes that it has adequately provided for any adjustments that may result from tax examinations. The Company regularly engages in discussions and negotiations with tax authorities regarding tax matters in various jurisdictions. It is reasonably possible that certain federal, foreign and state tax matters may be concluded in the next 12 months. Although the timing of the resolution and/or closure of audits is highly uncertain, it is reasonably possible that the balance of net unrecognized tax benefits including interest and penalties could be reduced by approximately

\$0.3 million to \$2.4 million in the next 12 months.

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

17. INCOME TAXES (continued)

A reconciliation of the change in gross unrecognized tax benefits, excluding interest and penalties, is as follows (in thousands):

	Fiscal year-end		
	2013	2012	2011
Balance as of the beginning of the year	\$ 25,967	\$ 30,301	\$ 43,254
Tax positions related to current year:			
Additions	1,008	615	739
Reductions	—	—	—
Tax positions related to prior year:			
Additions	1,127	99	496
Reductions	—	—	(1,125)
Settlements	—	—	(913)
Lapses in statutes of limitations	(6,724)	(5,048)	(12,150)
Balance as of end of year	\$ 21,378	\$ 25,967	\$ 30,301

Our unrecognized tax benefits decreased from \$26.0 million in fiscal 2012 to \$21.4 million in fiscal 2013, excluding interest and penalties. This reduction is primarily related to the closure of various statutes of limitations.

A summary of the fiscal tax years that remain subject to examination, as of September 28, 2013, for our major tax jurisdictions is:

United States—Federal	2010—forward
United States—Various States	2009—forward
Netherlands	2007—forward
Germany	2006—forward
Japan	2007—forward
United Kingdom	2012—forward

18. SEGMENT AND GEOGRAPHIC INFORMATION

We are organized into two reportable operating segments: Specialty Lasers and Systems ("SLS") and Commercial Lasers and Components ("CLC"). This segmentation reflects the go-to-market strategies for various products and markets. While both segments work to deliver cost-effective solutions, SLS develops and manufacturers configurable, advanced-performance products largely serving the microelectronics, scientific research and government programs and OEM components and instrumentation markets. The size and complexity of many of our SLS products require service to be performed at the customer site by factory-trained field service engineers. 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 based upon advanced replacement and depot (i.e., factory) repair. CLC's primary markets include materials processing, OEM components and instrumentation and microelectronics.

We have identified SLS and CLC as operating segments for which discrete financial information is available. Both units have dedicated engineering, manufacturing, product business management and product line management functions. 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.

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. As assets are not a measure used to assess the performance of the company by the CODM, asset information is not tracked or compiled by segment and is not available to be reported 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

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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):

	Fiscal		
	2013	2012	2011
Net sales:			
Specialty Laser Systems	\$ 571,644	\$ 548,848	\$ 519,736
Commercial Lasers and Components	238,482	220,240	283,098
Total net sales	\$ 810,126	\$ 769,088	\$ 802,834
Income from operations:			
Specialty Laser Systems	\$ 115,931	\$ 118,789	\$ 116,383
Commercial Lasers and Components	12,411	9,191	37,709
Corporate and other	(43,443)	(39,150)	(42,083)
Total income from operations	\$ 84,899	\$ 88,830	\$ 112,009

The following table provides a reconciliation of our total income (loss) from operations to net income (in thousands):

	Fiscal		
	2013	2012	2011
Reconciliation of Income From Operations to Net Income			
Total income from operations	\$ 84,899	\$ 88,830	\$ 112,009
Total other income, net	(1,403)	1,792	11,820
Income before income taxes	83,496	90,622	123,829
Provision for income taxes	17,141	27,660	30,591
Net Income	\$ 66,355	\$ 62,962	\$ 93,238

Geographic Information

Our foreign operations consist primarily of manufacturing facilities in Europe and Asia-Pacific and sales offices in Europe and Asia-Pacific. Sales, marketing and customer service activities are conducted through sales subsidiaries throughout the world. Geographic sales information for fiscal 2013, 2012 and 2011 is based on the location of the end customer. Geographic long-lived asset information presented below is based on the physical location of the assets at the end of each year.

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COHERENT, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

18. SEGMENT AND GEOGRAPHIC INFORMATION (continued)

Sales to unaffiliated customers are as follows (in thousands):

	Fiscal		
	2013	2012	2011
SALES			
United States	\$ 188,204	\$ 184,958	\$ 208,868
Foreign countries:			
Japan	156,152	168,912	166,911
South Korea	185,737	130,754	117,918
Germany	93,855	92,162	100,759
Europe, other	58,500	62,266	79,751
Asia-Pacific, other	73,794	80,834	71,813
Rest of World	53,884	49,202	56,814
Total foreign countries sales	621,922	584,130	593,966
Total sales	\$ 810,126	\$ 769,088	\$ 802,834

Long-lived assets, which include all non-current assets other than goodwill, intangibles and deferred taxes, by geographic region, are as follows (in thousands):

	Fiscal Year-end	
	2013	2012
LONG-LIVED ASSETS		
United States	\$ 79,939	\$ 79,618
Foreign countries:		
Germany	43,410	43,572
Europe, other	3,192	3,106
Asia-Pacific	14,693	13,666
Total foreign countries long-lived assets	61,295	60,344
Total long-lived assets	\$ 141,234	\$ 139,962

Major Customers

We had one customer who accounted for 14% of consolidated revenue during fiscal 2013; we had two customers who each accounted for 11% of consolidated revenue during fiscal 2012. These customers purchased primarily from our SLS segment. There were no major customers over 10% of revenues for fiscal 2011.

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QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Summarized quarterly financial data for the years ended September 28, 2013 and September 29, 2012 are as follows (in thousands, except per share amounts):

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	
Fiscal 2013:					
Net sales	\$ 183,202	\$ 200,058	\$ 213,725	\$ 213,141	
Gross profit	77,635	76,331	83,264	85,041	
Net income	14,153	15,002	(1) 16,685	20,515	
Net income per basic share	\$0.60	\$0.62	\$0.69	\$0.84	
Net income per diluted share	\$0.58	\$0.61	\$0.68	\$0.83	
Fiscal 2012:					
Net sales	\$ 190,767	\$ 193,284	\$ 196,383	\$ 188,654	
Gross profit	80,359	77,648	80,245	77,733	
Net income	17,051	16,155	(2) 17,208	12,548	(3)
Net income per basic share	\$0.73	\$0.69	\$0.73	\$0.53	
Net income per diluted share	\$0.71	\$0.67	\$0.72	\$0.52	

(1) The second quarter of fiscal 2013 includes a \$1,398 benefit from the renewal of the R&D tax credit for fiscal 2012.

(2) The second quarter of fiscal 2012 includes a \$1,647 benefit from the release of tax reserves and related interest as a result of the closure of open tax years.

The fourth quarter of fiscal 2012 includes a \$4,260 after tax charge due to the write-off of previously acquired (3) intangible assets and inventories and a \$2,790 benefit due to decreases in valuation allowances against deferred tax assets.

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INDEX TO EXHIBITS

Sequentially

Exhibit Number	Exhibit
21.1	Subsidiaries
23.1	Consent of Independent Registered Public Accounting Firm
24.1	Power of Attorney (see signature page)
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.

All other exhibits required to be filed as part of this report have been incorporated by reference. See item 15 for a complete index of such exhibits.