COHERENT INC
Form 10-Q/A
August 17, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

Amendment No. 2

(Mark One)

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

For the Quarterly Period Ended January 1, 2005

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: 0-5255

COHERENT, INC.

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

5100 Patrick Henry Drive, Santa Clara, California 95054

(Address of principal executive offices) (Zip Code)

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes x No ¨

The number of shares outstanding of registrant s common stock, par value $.01 per share, at January 31, 2005 was 30,593,330 shares.

EXPLANATORY NOTE

This Quarterly Report on Form 10-Q/A (Form 10-Q/A) is being filed as Amendment No. 2 to our Quarterly Report on Form 10-Q for the quarterly period ended January 1, 2005, which was filed with the Securities and Exchange Commission (SEC) on February 9, 2005 (the Original Filing), as amended by Amendment No. 1 filed on May 17, 2005. We are filing this Amendment No. 2 to correct the pro forma amounts reported for stock based compensation determined under the fair value based method for the three months ended January 1, 2005. This correction had no impact on our consolidated balance sheets, results of operations or cash flows for any of the periods presented. For a more detailed description of the restatement, see Restatements in Note 15 of the Notes to Condensed Consolidated Financial Statements.

This Form 10-Q/A amends and restates Item 1. Financial Statements, Item 2. Management s Discussion and Analysis of Results of Operations and Financial Condition and Item 4. Controls and Procedures of Part I of the Original Filing, as amended, solely as a result of, and to reflect, the restatement. Pursuant to the rules of the SEC, we have included currently-dated certifications from our principal executive officer and principal financial officer, as required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. The certifications of our principal executive officer and our principal financial officer are attached to this form 10-Q/A as Exhibits 31.1, 31.2, 32.1 and 32.2.

Except for the amended information described above, this Form 10-Q/A continues to describe conditions as of the date of the Original Filing, and we have not updated the disclosures contained herein to reflect events that have occurred subsequent to that date. Other events occurring after the date of the Original Filing or other information necessary to reflect subsequent events have been disclosed in reports filed with the SEC subsequent to the Original Filing.

COHERENT, INC.

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PART I. FINANCIAL INFORMATION

Item I. Financial Statements

COHERENT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Three Months Ended	
	January 1, 2005 (as restated, see Note 15)	December 27, 2003 (as restated, see Note 15)
Net sales	**$ 126,022**	$ 107,951
Cost of sales	**74,486**	66,650
Gross profit	**51,536**	41,301
Operating expenses:		
Research and development	**14,301**	15,117
Selling, general and administrative	**28,371**	27,451
Restructuring, impairment and other charges	**300**	237
Intangibles amortization	**1,493**	1,929
Total operating expenses	**44,465**	44,734
Income (loss) from operations	**7,071**	(3,433)
Other income (expense):		
Interest and dividend income	**967**	720
Interest expense	**(887)**	(848)
Foreign exchange gain (loss)	**(69)**	397
Other net	**896**	1,996
Total other income (expense), net	**907**	2,265
Income (loss) before income taxes and minority interest	**7,978**	(1,168)
Provision (benefit) for income taxes	**2,770**	(1,059)
Income (loss) before minority interest	**5,208**	(109)
Minority interest in subsidiaries losses, net of taxes	**180**	333
Net income	**$ 5,388**	$ 224
Net income per share:		
Basic	**$ 0.18**	$ 0.01
Diluted	**$ 0.17**	$ 0.01
Shares used in computation:		
Basic	**30,482**	30,001
Diluted	**30,867**	30,333

See Accompanying Notes to Condensed Consolidated Financial Statements

COHERENT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited; in thousands, except par value)

		January 1, 2005 (as restated, see Note 15)		October 2, 2004
ASSETS				
Current assets:				
Cash and cash equivalents	**$**	**105,249**	$	87,659
Restricted cash, cash equivalents and short-term investments		**15,336**		15,343
Short-term investments		**89,688**		83,075
Accounts receivable net of allowances of $4,127 and $3,745, respectively		**86,694**		96,825
Inventories		**109,688**		104,698
Prepaid expenses and other assets		**16,313**		19,350
Deferred tax assets		**37,304**		43,222
Total current assets		**460,272**		450,172
Property and equipment, net		**168,107**		166,054
Restricted cash, cash equivalents and short-term investments		**28,271**		23,580
Goodwill		**55,279**		53,104
Intangible assets, net		**34,963**		35,454
Other assets		**31,909**		28,962
	$	**778,801**	$	757,326
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Current portion of long-term obligations	**$**	**13,409**	$	13,700
Accounts payable		**20,220**		17,648
Income taxes payable		**7,123**		9,603
Other current liabilities		**58,948**		63,578
Total current liabilities		**99,700**		104,529
Long-term obligations		**14,149**		14,215
Other long-term liabilities		**50,579**		49,128
Minority interest in subsidiaries		**5,222**		5,402
Commitments and contingencies (Note 11)				
Stockholder s equity:				
Common stock, par value $.01:				
Authorized 500,000 shares				
Outstanding 30,570 shares and 30,392 shares, respectively		**304**		302
Additional paid-in capital		**312,067**		308,236
Notes receivable from stock sales		**(723)**		(758)
Accumulated other comprehensive income		**52,359**		36,516
Retained earnings		**245,144**		239,756
Total stockholders equity		**609,151**		584,052
	$	**778,801**	$	757,326

See Accompanying Notes to Condensed Consolidated Financial Statements.

COHERENT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in thousands)

	Three Months Ended January 1, 2005 (as restated, see Note 15)	Three Months Ended December 27, 2003 (as restated, see Note 15)
Cash flows from operating activities:		
Net income	**$ 5,388**	$ 224
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash restructuring, impairment and other charges	**300**	
Gain on sale of Lumenis common stock		(94)
Depreciation and amortization	**7,310**	6,859
Intangible assets amortization	**1,493**	1,929
Deferred income taxes	**2,816**	1,507
Other	**684**	170
Changes in operating assets and liabilities:		
Accounts receivable	**14,042**	1,105
Inventories	**(2,163)**	1,167
Prepaid expenses and other assets	**1,947**	601
Other assets	**(1,642)**	(1,527)
Accounts payable	**1,969**	(1,447)
Income taxes payable	**(638)**	20,080
Other current liabilities	**(4,088)**	(6,718)
Other long-term liabilities	**2,872**	1,414
Net cash provided by operating activities	**30,290**	25,270
Cash flows from investing activities:		
(Increase) decrease in restricted cash, cash equivalents and short-term investments	**(3,718)**	624
Purchases of property and equipment	**(4,283)**	(27,630)
Proceeds from dispositions of property and equipment and assets held for sale		534
Acquisition of businesses and minority interests, net of cash acquired		(1,503)
Purchases of available-for-sale securities	**(87,488)**	(84,940)
Proceeds from sales and maturities of available-for-sale securities	**80,875**	95,440
Premiums paid for life insurance	**(651)**	(324)
Other net	**(603)**	227
Net cash used in investing activities	**(15,868)**	(17,572)
Cash flows from financing activities:		
Long-term debt payments	**(542)**	(493)
Cash overdrafts decrease	**(2,060)**	(303)
Sales of shares under employee stock plans	**3,584**	2,317
Collection of notes receivable from stock sales	**35**	
Net cash provided by financing activities	**1,017**	1,521
Effect of exchange rate changes on cash and cash equivalents	**2,151**	2,283
Net increase in cash and cash equivalents	**17,590**	11,502
Cash and cash equivalents, beginning of period	**87,659**	76,541
Cash and cash equivalents, end of period	**$ 105,249**	$ 88,043
Supplemental disclosure of cash flow information:		
Cash paid during the quarter for:		
Interest	**$ 1,104**	$ 1,494
Income taxes	**$ 2,481**	$ 3,184

Cash received during the quarter for:				
Income taxes	**$**	**1,605**	$	25,312
Noncash investing and financing activities:				
Tax benefit from stock option exercises	**$**	**225**	$	78

See Accompanying Notes to Condensed Consolidated Financial Statements

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 generally accepted accounting principles (GAAP) have been condensed or omitted pursuant to such rules and regulations. These interim condensed consolidated financial statements and notes should be read in conjunction with our consolidated financial statements and notes thereto included in our Annual Report on Form 10-K/A for the fiscal year ended October 2, 2004, as amended. All adjustments necessary for a fair presentation have been made and include all normal recurring adjustments. Interim results of operations are not necessarily indicative of results to be expected for the year.

Stock-Based Compensation

As permitted under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (SFAS 123), we have elected to account for stock-based compensation awards issued to employees using the intrinsic value measurement provisions of APB Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). Accordingly, no compensation expense has been recorded for stock options granted with exercise prices greater than or equal to the fair value of the underlying common stock at the option grant date.

SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure, an Amendment of FASB Statement No. 123 (SFAS 148) amends the disclosure requirements of SFAS 123 to require more prominent disclosures in both annual and interim financial statements regarding the method of accounting for stock-based employee compensation and the effect of the method used on reported results. SFAS 123 requires the disclosure of pro forma net income and earnings per share as if we had adopted the fair value method. Under SFAS 123, the fair value of stock-based awards to employees is calculated through the use of option pricing models, even though such models were developed to estimate the fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differ from our stock option awards. These models also require subjective assumptions, including future stock price volatility and expected time to exercise, which greatly affect the calculated values. For purposes of estimating the effect of SFAS 123 on our net income the fair value of our options was estimated at the grant date using the Black-Scholes option pricing model with the following weighted average assumptions:

	Employee Stock Option Plans Three Months Ended		Employee Stock Purchase Plans Three Months Ended	
	January 1, 2005	December 27, 2003	January 1, 2005	December 27, 2003
Expected life in years	3.9	4.4	0.5	0.5
Expected volatility	50.7%	73.8%	38.9%	45.0%
Risk-free interest rate	3.5%	3.1%	2.0%	1.3%
Expected dividends	none	none	none	none

Our calculations are based on a single option valuation approach and forfeitures are recognized as they occur. During the periods presented, we recorded no compensation expense under APB 25. The following table illustrates the effect on our net income and net income per share had we applied the fair value recognition provisions of SFAS 123 to stock-based employee compensation (in thousands, except per share data):

	Three Months Ended	
	January 1, 2005 (as restated, see note 15)	December 27, 2003
Net income, as reported	$ 5,388	$ 224
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of income tax/benefit	3,922	(1,862)
Pro forma net income	$ 1,466	$ 2,086
Earnings per share:		
Basic as reported	$ 0.18	$ 0.01
Basic pro forma	$ 0.05	$ 0.07
Diluted as reported	$ 0.17	$ 0.01
Diluted pro forma	$ 0.05	$ 0.07

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R). SFAS 123R eliminates the alternative of applying the intrinsic value measurement provisions of APB 25 to stock compensation awards issued to employees. Rather, the new standard requires enterprises to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period).

We have not yet quantified the effects of the adoption of SFAS 123R, but it is expected that the new standard may result in significant stock-based compensation expense. The pro forma effects on net income and earnings per share if we had applied the fair value recognition provisions of original SFAS 123 on stock compensation awards (rather than applying the intrinsic value measurement provisions of APB 25) are disclosed above. Although such pro forma effects of applying original SFAS 123 may be indicative of the effects of adopting SFAS 123R, the provisions of these two statements differ in some important respects. The actual effects of adopting SFAS 123R will be dependent on numerous factors including, but not limited to, the valuation model chosen by us to value stock-based awards; the assumed award forfeiture rate; the accounting policies adopted concerning the method of recognizing the fair value of awards over the requisite service period; and the transition method (as described below) chosen for adopting SFAS 123R.

SFAS 123R will be effective for our fiscal quarter beginning July 3, 2005, and allows for the use of the Modified Prospective Application Method. Under this method, SFAS 123R is applied to new awards and to awards modified, repurchased, or cancelled after the effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered (such as unvested options) that are outstanding as of the date of adoption shall be recognized as the remaining requisite services are rendered. The compensation cost relating to unvested awards at the date of adoption shall be based on the grant-date fair value of those awards as calculated for pro forma disclosures under the original SFAS 123. In addition, companies may use the Modified Retrospective Application Method. This method may be applied to all prior years for which the original SFAS 123 was effective or only to prior interim periods in the year of initial adoption. If the Modified Retrospective Application Method is applied, financial statements for prior periods shall be adjusted to give effect to the fair-value-based method of accounting for awards on a consistent basis with the pro forma disclosures required for those periods under the original SFAS 123.

2. ACQUISITIONS

On June 3, 2003, we initiated a tender offer to purchase the 5,250,000 (39.62%) outstanding shares of our Lambda Physik subsidiary owned by other shareholders (the minority interest) for approximately $10.50 per share. As of January 1, 2005, we had purchased a total of 4,588,500 outstanding shares of Lambda Physik for approximately $49.0 million, resulting in a total ownership percentage of 95.01% (inclusive of shares previously owned). On May 5, 2004, a resolution was passed at Lambda Physik s shareholders meeting that permitted us to acquire all remaining shares in accordance with the German Stock Corporation Act (the squeeze out resolution). On November 2, 2004, we agreed to increase the price to be paid to those minority shareholders of Lambda Physik who did not accept the squeeze out resolution to approximately $18.88 per share in exchange for their agreement to waive rights to a court appraisal. On November 17, 2004, the Göttingen court approved this definitive agreement and, as a result, the registration of the squeeze out resolution of the May 5, 2004 shareholders meeting was applied for. The Göttingen court subsequently certified the squeeze out resolution for entry into the commercial register on January 14, 2005. We anticipate purchasing the remaining shares of Lambda Physik during the second fiscal quarter of 2005.

At January 1, 2005, we had $13.1 million held in an escrow account that is restricted for the sole purpose of acquiring the remaining outstanding shares of Lambda Physik which is included in non-current restricted cash, cash equivalents and short-term investments on our condensed consolidated balance sheet.

3. SIGNIFICANT EVENTS

In December 2004, our Lambda Physik subsidiary decided to discontinue future product development and investments in the semiconductor lithography market. As a result, we recognized a charge of $3.1 million (net of minority interest of $0.1 million) during the quarter ended January 1, 2005, primarily related to recognizing write-downs of excessive and obsolete inventories, exiting certain purchase commitments and charges related to government grants. Of the $3.1 million charge, $2.2 million was classified as cost of sales; $0.6 million was classified as research and development; $0.1 million was classified as selling, general and administrative and $0.2 million was classified as other expense.

4. RECENT ACCOUNTING STANDARDS

In November 2004, the FASB issued SFAS No. 151, Inventory Costs (SFAS 151), an amendment of Accounting Research Bulletin No. 43, Chapter 4. SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not believe that the adoption of SFAS 151 will have a material effect on our results of operations or consolidated financial position.

5. REVENUE RECOGNITION

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

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

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

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

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

6. SHORT-TERM INVESTMENTS

We consider all highly liquid investments with maturities of three months or less at the time of purchase to be cash equivalents. Marketable short-term investments in debt and equity securities are classified and accounted for as available-for-sale securities and are valued based on quoted market prices. Investments classified as available-for-sale are reported at fair value with unrealized gains and losses, net of related tax, recorded as a separate component of other comprehensive income (loss) (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 1, 2005			
	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	$ 118,767	$	$	$ 118,767
Less: restricted cash and cash equivalents				(13,518)
				$ 105,249
Short-term investments:				
Available-for-sale securities:				
Certificates of deposit	$ 900	$ 8	$	$ 908
U.S. government and agency obligations	75,243	290	(36)	75,497
State and municipal obligations	21,413	270	(45)	21,638
Corporate notes and obligations	21,650	176	(92)	21,734
Total short-term investments	$ 119,206	$ 744	$ (173)	119,777
Less: restricted short term-investments				(30,089)
				$ 89,688

	October 2, 2004			
	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	$ 96,567	$	$	$ 96,567
Less: restricted cash and cash equivalents				(8,908)
				$ 87,659
Short-term investments:				
Available-for-sale securities:				
Commercial paper	$ 4,838	$	$ (1)	$ 4,837
Certificates of deposit	1,150	5	(1)	1,154
U.S. government and agency obligations	71,440	134	(5)	71,569
State and municipal obligations	22,742	153	(47)	22,848
Corporate notes and obligations	12,665	49	(32)	12,682
Total short-term investments	$ 112,835	$ 341	$ (86)	113,090
Less: restricted short term-investments				(30,015)
				$ 83,075

At January 1, 2005, $13.1 million of cash and cash equivalents were restricted for the purchase of the remaining outstanding shares of Lambda Physik (see Note 2), $0.3 million were restricted pursuant to our Star notes agreement (see Note 10) and $0.1 million were restricted for other purposes. In addition, $30.1 million of short-term investments were restricted pursuant to our Star notes agreement. At October 2, 2004, $8.4 million of cash and cash equivalents were restricted for the purchase of the remaining outstanding shares of Lambda Physik, $0.4 million were restricted pursuant to our Star notes agreement and $0.1 million were restricted for other purposes. Additionally, at October 2, 2004, $30.0 million of short-term investments were restricted pursuant to our Star notes agreement.

The amortized cost and estimated fair value of available-for-sale investments in debt securities at January 1, 2005 and October 2, 2004, classified as short-term investments (including restricted amounts) on our condensed consolidated balance sheets were as follows (in thousands):

	January 1, 2005		October 2, 2004	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value

Due in less than 1 year	$	92,420	$	92,907	$	101,708	$	101,979
Due in 1 to 5 years		25,995		26,077		10,282		10,265
Due in 5 to 10 years								
Due beyond 10 years		791		793		845		846
Total investments in available-for-sale debt securities	$	119,206	$	119,777	$	112,835	$	113,090

In the first quarter of fiscal 2005, we received proceeds totaling $0.4 million from the sale of available-for-sale securities and realized gross gains of $0.1 million. In the first quarter of fiscal 2004, we received proceeds totaling $30.0 million from the sale of available-for-sale securities and realized gross gains and gross losses of $0.1 million and $0.1 million, respectively.

7. DERIVATIVES

SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities (SFAS 133) as amended, 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, Yen and British Pound. Forwards used to hedge a portion of forecasted foreign revenue for up to 15 months in the future are designated as cash flow hedging instruments.

For foreign currency forward contracts under SFAS 133, hedge effectiveness is measured by comparing the cumulative change in the hedge contract with the cumulative change in the hedged item, both of which are based on forward rates. For foreign currency option contracts under SFAS 133, hedge effectiveness is asserted when the critical elements representing the total changes in the option s cash flows continue to match the related elements of the hedged forecasted transaction. Should discrepancies arise, effectiveness is measured by comparing the change in option value and the change in value of a hypothetical derivative mirroring the critical elements of the forecasted transaction.

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

8. GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill attributable to each reporting segment is as follows (in thousands):

	January 1, 2005	October 2, 2004
Electro-Optics	$ 36,024	$ 35,270
Lambda Physik	19,255	17,834
Total	$ 55,279	$ 53,104

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

	January 1, 2005			October 2, 2004		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net

Existing technology	$ 37,207	$ 11,063	$ 26,144	$ 36,746	$ 10,018	$ 26,728
Patents	9,718	4,213	5,505	9,005	3,699	5,306
Licenses	4,261	4,154	107	4,261	4,047	214
Drawings	1,311	981	330	1,214	850	364
Order backlog	2,140	2,140		1,990	1,990	
Customer lists	2,122	1,056	1,066	2,106	992	1,114
Trade name	1,816	480	1,336	1,608	417	1,191
Non-compete agreement	943	468	475	911	374	537
Total	$ 59,518	$ 24,555	$ 34,963	$ 57,841	$ 22,387	$ 35,454

Amortization expense for intangible assets during the first quarter of fiscal 2005 and fiscal 2004 were $1.5 million and $1.9 million, respectively. At January 1, 2005, estimated amortization expense for the remainder of fiscal 2005, the next five succeeding fiscal years and all years thereafter are as follows (in thousands):

		Estimated Amortization Expense
2005 (remainder)	$	4,393
2006		5,351
2007		4,912
2008		4,750
2009		4,430
2010		3,594
Thereafter		7,533
Total	$	34,963

9. BALANCE SHEET DETAILS:

Inventories are as follows (in thousands):

		January 1, 2005		October 2, 2004
Purchased parts and assemblies	$	30,278	$	28,097
Work-in-process		43,647		44,070
Finished goods		35,763		32,531
Inventories	$	109,688	$	104,698

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

		January 1, 2005		October 2, 2004
Prepaid expenses and other	$	15,342	$	16,812
Prepaid and refundable income taxes		971		2,538
Total prepaid expenses and other assets	$	16,313	$	19,350

Other assets consist of the following (in thousands):

		January 1, 2005		October 2, 2004
Assets related to deferred compensation arrangements	$	19,129	$	17,095
Deferred tax assets		7,280		6,644
Other assets		5,500		5,223
Total other assets	$	31,909	$	28,962

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

	January 1, 2005	October 2, 2004
Accrued payroll and benefits	$ 19,384	$ 26,532
Accrued expenses and other	15,503	14,130
Reserve for warranty	11,055	10,638
Customer deposits	5,306	4,488
Accrued restructuring charges	3,875	3,952
Deferred income	3,825	3,838
Total other current liabilities	$ 58,948	$ 63,578

During the first quarter of fiscal 2005, we recorded an additional provision of $0.3 million to our accrued restructuring charges for remaining lease liabilities, which was offset by payments made against the accrual of $0.4 million.

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

Components of the reserve for warranty costs during the first quarters of fiscal 2005 and 2004 were as follows (in thousands):

	January 1, 2005	December 27, 2003
Beginning balance	$ 10,638	$ 10,242
Additions related to current period sales	2,751	5,013
Warranty costs incurred in the current period	(2,737)	(4,476)
Adjustments to accruals related to prior period sales	403	(188)
Ending balance	$ 11,055	$ 10,591

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

	January 1, 2005	October 2, 2004
Deferred compensation	$ 23,114	$ 20,500
Deferred tax liabilities	19,305	21,223
Deferred income	3,221	2,930
Environmental remediation costs	420	431
Other long-term liabilities	4,519	4,044
Total other long-term liabilities	$ 50,579	$ 49,128

10. CURRENT AND LONG TERM OBLIGATIONS

At January 1, 2005 and October 2, 2004, our current and long-term obligations primarily consisted of our notes payable to finance our acquisition of Star Medical (Star notes). The Star notes agreement requires that we place cash and short-term investment balances in an amount equal to 120% of the principal balance in a restricted collateral account. At January 1, 2005, $15.2 million and $15.2 million of current and non-current restricted cash, cash equivalents and short-term investments were related to the Star notes (see Note 6).

11. COMMITMENTS AND CONTINGENCIES

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

12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended	
	January 1, 2005	**December 27, 2003**
Net income	$ 5,388	$ 224
Translation adjustment	15,896	15,270
Net gain on derivative instruments, net of taxes	19	2
Changes in unrealized (gain) loss on available-for-sale securities, net of taxes	(72)	20
Total comprehensive income	$ 21,231	$ 15,516

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

Balance, September 27, 2003	$	(128)
Changes in fair value of derivatives		
Net losses reclassified from OCI		2
Balance, December 27, 2003	$	(126)
Balance, October 2, 2004	$	(122)
Changes in fair value of derivatives		(1)
Net losses reclassified from OCI		20
Balance, January 1, 2005	$	(103)

Accumulated other comprehensive income (net of tax) at January 1, 2005 is comprised of accumulated translation adjustments of $52.6 million, net loss on derivative instruments of $0.1 million and unrealized loss on available-for-sale securities of $0.1 million, respectively. Accumulated other comprehensive income (net of tax) at October 2, 2004 is comprised of accumulated translation adjustments of $36.7 million, net loss on derivative instruments of $0.1 million and unrealized loss on available-for-sale securities of $0.1 million, respectively.

13. EARNINGS PER SHARE

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

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

		Three Months Ended			
			January 1, 2005		**December 27, 2003**
Weighted average shares outstanding	Basic		30,482		30,001
Effect of dilutive securities:					
Common stock options			357		313
Employee stock purchase plans			28		19
Weighted average shares outstanding	Diluted		30,867		30,333
Net income		$	5,388	$	224
Net income per basic share		$	0.18	$	0.01
Net income per diluted share		$	0.17	$	0.01

A total of 2,886,668 and 3,326,877 potentially dilutive securities have been excluded from the dilutive share calculation for the three months ended January 1, 2005 and December 27, 2003, respectively, as their effect was anti-dilutive.

14. SEGMENT INFORMATION

We are organized around two separately managed segments: Electro-Optics and Lambda Physik, which we have identified as operating segments. Our Electro-Optics segment focuses on markets such as semiconductor and related manufacturing, materials processing, OEM laser components and instrumentation, scientific research and government programs, and graphic arts and display. Our Lambda Physik segment focuses on markets including lasers for the production of thin film transistors (TFT) used in flat panel displays, ink jet printers, automotive, environmental research, scientific research, medical OEMs, materials processing and micro-machining applications.

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

	Three Months Ended			
	January 1, 2005		December 27, 2003	
	(In thousands)			
Net sales:				
Electro-Optics	$	100,899	$	90,623
Lambda Physik		25,123		17,328
Total net sales	$	126,022	$	107,951
Intersegment net sales:				
Electro-Optics	$	7	$	5
Lambda Physik		389		70
Total intersegment sales	$	396	$	75
Income (loss) before income taxes, including tax-effected minority interest:				
Electro-Optics	$	10,010	$	3,145
Lambda Physik		(3,940)		(5,683)
Corporate and other		2,088		1,703
Total income (loss) before income taxes, including tax-affected minority interest	$	8,158	$	(835)

15. RESTATEMENTS

Deferred Compensation Plans

Subsequent to the issuance of our condensed consolidated financial statements for the three months ended January 1, 2005, we identified errors in the accounting for our deferred compensation plans. In 1999, we amended our non-qualified deferred compensation plan (Plan) and introduced a new investment structure whereby the then existing and future contributions to the Plan were funded in Company-owned life insurance contracts. Since the change in investment structure to Company-owned life insurance contracts, we accounted for the Plan by recording the participants balances as a liability equal to the obligation to the participants and the related asset investments in the equivalent amount. As a result of a review of the accounting for the Plan in connection with a change to a new third-party administrator, we determined that the asset investments should have been recorded at the cash surrender value of the insurance contracts. Further, life insurance premiums loads, policy fees, and cost of insurance that were paid from the asset investments and gains and losses from the asset investments for this and one other deferred compensation plan should have been recorded as components of other income or expenses; and increases in the obligation to the participants should have been recorded as operating expenses.

As a result, the accompanying condensed consolidated financial statements for the three month periods ended January 1, 2005 and December 27, 2003 have been restated from the amounts previously reported to correct these errors.

The following is a summary of the significant effects of the restatement:

	January 1, 2005		
	As Previously Reported	Adjustments (in thousands)	As Restated
Condensed Consolidated Balance Sheet Data			
Other assets	$ 36,441	$ (4,532)	$ 31,909
Total assets	783,333	(4,532)	778,801
Retained earnings	249,676	(4,532)	245,144
Total stockholders equity	613,683	(4,532)	609,151
Total liabilities and stockholders equity	783,333	(4,532)	778,801

	Three Months Ended January 1, 2005			Three Months Ended December 27, 2003		
	As Previously Reported	Adjustments	As Restated	As Previously Reported	Adjustments	As Restated
	(in thousands, except per share data)					
Condensed Consolidated Statements of Operations Data						
Cost of sales	$ 74,349	$ 137	$ 74,486	$ 66,517	$ 133	$ 66,650
Gross profit	51,673	(137)	51,536	41,434	(133)	41,301
Research and development	14,086	215	14,301	14,921	196	15,117
Selling, general and administrative	26,826	1,545	28,371	25,958	1,493	27,451
Total operating expense	42,705	1,760	44,465	43,045	1,689	44,734
Income (loss) from operations	8,968	(1,897)	7,071	(1,611)	(1,822)	(3,433)
Other-net	(421)	1,317	896	149	1,847	1,996
Total other income (expense), net	(410)	1,317	907	418	1,847	2,265
Income (loss) before income taxes and minority interest	8,558	(580)	7,978	(1,193)	25	(1,168)
Provision (benefit) for income taxes	3,347	(577)	2,770	(554)	(505)	(1,059)
Income (loss) before minority interest	5,211	(3)	5,208	(639)	530	(109)
Net income (loss)	5,391	(3)	5,388	(306)	530	224
Net income (loss) per share:						
Basic	$ 0.18	$	$ 0.18	$ (0.01)	$ 0.02	$ 0.01
Diluted	$ 0.17	$	$ 0.17	$ (0.01)	$ 0.02	$ 0.01

Tax Effect on Pro Forma Stock-Based Compensation Disclosures

Subsequent to the issuance of our condensed consolidated financial statements for the three months ended January 1, 2005, we determined that the tax effect on stock-based compensation determined under the fair value method had been calculated incorrectly for the three months ended January 1, 2005. Accordingly, such pro forma amounts presented have been restated (see Note 1). The correction of the error increased pro forma stock-based compensation expense, net of tax, by $1.6 million to $3.9 million from $2.3 million, as previously reported, and decreased pro forma net income by $1.6 million to $1.5 million from $3.1 million, as previously reported. Basic and diluted pro forma earnings per share each decreased by $0.05 from $0.10, as previously reported, to $0.05. This correction had no impact on our consolidated balance sheets, results of operations or cash flows for any of the periods presented.

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

FORWARD-LOOKING STATEMENTS

This 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 on Form 10-Q/A, other than statements of historical fact, are forward-looking statements. These statements are generally accompanied by words such as may, will, could, would, should, expect, plan, anticipate, rely, believe, estimate, predict, intend, potential, continue, forecast or the neg comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Our actual results may differ significantly from those projected in the forward-looking statements in this report. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in this section and those set forth below in the section titled Forward-Looking Information is Subject to Risk and Uncertainty.

COMPANY OVERVIEW

BUSINESS BACKGROUND

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

We have two reportable business segments: Electro-Optics and Lambda Physik, both of which work with customers to provide cost-effective photonics-based solutions. Our Electro-Optics segment focuses on markets such as semiconductor and related manufacturing, materials processing, original equipment manufacturer (OEM) laser components and instrumentation, scientific research and government programs and graphic arts and display. Lambda Physik AG (Lambda Physik), our 95.01% owned subsidiary with headquarters located in Göttingen, Germany, focuses on markets using lasers for the production of thin-film transistors (TFT) used in flat panel displays, ink jet printers, automotive, environmental research, scientific research, medical OEMs, materials processing and micro-machining applications.

We were originally incorporated in California on May 26, 1966 and reincorporated in Delaware on October 1, 1990.

As discussed in Note 15 to the condensed consolidated financial statements included at Item I, we have restated our condensed consolidated financial statements for the three month periods ended January 1, 2005 and December 27, 2003 to correct the accounting for our deferred compensation plans. We have also corrected our calculation of the tax effect on stock-based compensation determined under the fair value method for the three months ended January 1, 2005. All information included in this Management s Discussion and Analysis of Results of Operations and Financial Condition has been correspondingly corrected to give effect to such restatements.

FUTURE TRENDS

Microelectronics

After several years of process development, lasers are now used in mass production applications and the industry is benefiting in the form of enhanced performance and increased productivity. We experienced strong recovery across all segments during fiscal 2004, however, the microelectronics industry has shown some signs of stabilization. We anticipate future demands in the advanced packaging market will shift towards the use of ultraviolet laser-based tools, as they are capable of producing sub-50 micron features that are critical for next generation chip-scale and wafer-level packages. Our recent introduction of the high-power, *Avia Thor* laser will increase the throughput of packaging tools, thereby enhancing productivity and lowering cost-of-ownership.

Graphic arts and display

The graphic arts and display market experienced a migration in technologies towards the use of direct diode laser systems as these systems have been adopted at a much faster rate during fiscal 2004. If the adoption of newer digital technologies continues beyond fiscal 2004 levels, we anticipate this will have the effect of driving purchases of new printing technology. As we move into fiscal 2005, we anticipate a number of our newer products such as a version of our *Paladin* laser and new diode laser technology will gain more traction in the marketplace.

Our Advanced Engineering Unit has built a prototype Red, Green, and Blue (RGB) laser engine based on our patented OPS technology for use in rear projection televisions. The system delivers suitable power and is comparable in size to the lamps currently used in rear projection televisions. Alpha units of the RGB light engine have been delivered to commercial customers for evaluation. We anticipate partnering with consumer electronics manufacturers to refine the package and evolve the technology to demonstrate acceptable lifetimes and outsource its manufacturing.

Materials processing

Anticipated drivers for expansion in the materials processing market include providing aggressive gains in cost-of-ownership for products and continuing increased expansion into geographical areas. The market for materials processing in Asian countries drove much of the growth in the first half of fiscal 2004, but has since stabilized, primarily due to foreign policies established to slow economic growth. We anticipate growth to resume once the effects of these policies are felt and active measures to stimulate the economy begin to arise.

Scientific research and government programs

We anticipate modest growth rates in the scientific research market for fiscal 2005 with applications in ultrashort pulses and in bio-research being the drivers of this anticipated growth.

OEM components and instrumentation

The instrumentation market has seen a migration from the use of mature laser technologies, mainly ion lasers, to new technologies primarily based on solid state and semiconductors. Because of this migration, new markets are expected to surface in areas such as security, including the detection of bio-agents and the monitoring of people and goods. These markets are likely to require an increased number of lasers, however, the majority of these activities are still in the research and development stage and we expect only moderate impacts on the laser industry in fiscal 2005, with increases anticipated in future years. Furthermore, we anticipate future opportunities in microscopy, lab-on chip and DNA sequencing based on our continuous product enhancements.

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 distinctive expertise in lasers and optical technologies. In pursuit of our strategy, we intend to:

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

Optimize our leadership position in existing markets There are a number of markets where we have historically been at the forefront of technological development and product deployment and from which we have derived a substantial portion of our revenues. We plan to optimize our financial returns from these markets.

Maintain and develop additional strong collaborative customer and industry relationships We believe that the Coherent brand name and reputation for product quality, technical performance and customer satisfaction will help us to further develop our loyal customer base. We plan to maintain our current customer relationships and develop new ones with customers that 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 We will continue to enhance our market position through our existing technologies and develop new technologies through our internal research and development efforts, as well as through the acquisition of additional complementary technologies, intellectual property, manufacturing processes and product offerings.

Emphasize supply chain management We will continue to focus on operational efficiency through an emphasis on supply chain management with the explicit intent of improving gross margins and increasing inventory turns.

Focus on long-term improvement of Return on Invested Capital We will continue to focus on long-term improvement of return on invested capital.

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 pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We have identified the following as the items that require the most significant judgment and often involve complex estimation: revenue recognition, accounting for long-lived assets (including goodwill and intangible assets), inventory valuation, warranty reserves and accounting for income taxes.

Revenue Recognition

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

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

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

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

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

Long-lived Assets

We evaluate long-lived 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 either the discounted expected future cash flows (in the case of goodwill) or to the undiscounted expected future cash flows (for all other long-lived assets). If the comparison indicates that impairment exists, the impaired asset is written down to its fair value. Significant management judgment is required in the forecast of future operating results that are used in the preparation of expected discounted and undiscounted cash flows.

At January 1, 2005, we had $90.2 million of goodwill and purchased intangible assets on our condensed consolidated balance sheet. As no impairment indicators were present during the first quarter of fiscal 2005, we believe this value remains recoverable based on the discounted estimated future cash flows of the associated products and technologies.

At January 1, 2005, we had $168.1 million of property and equipment on our condensed consolidated balance sheet.

It is reasonably possible that the estimates of anticipated future net revenue, the remaining estimated economic life of the products and technologies, or both, could differ from those used to assess the recoverability of these assets. In that event, additional impairment charges or shortened useful lives of certain long-lived assets could be required.

Inventory Valuation

We record our inventory at the lower of cost (computed on a first-in, first-out basis) or market. We write-down our inventory to its estimated market value based on assumptions about future demand and market conditions. Inventory write-downs are generally recorded within guidelines set by management when the inventory for a device exceeds 12 months of its demand and when individual parts have been in inventory for greater than 12 months. If actual market conditions are less favorable than those projected by management, additional inventory write-downs may be required which could materially affect our future results of operations. We write-down our demo inventory by amortizing the cost of demo inventory over a two-year period from the fourth month after it is placed in service. During the quarter ended January 1, 2005, we recorded $1.6 million (net of minority interest of $0.1 million) of inventory write-downs related to our decision to discontinue future product development and investments in the semiconductor lithography market within our Lambda Physik subsidiary. Due to rapidly changing forecasts and orders, additional write-downs for excess or obsolete inventory, while not currently expected, could be required in the future. Differences between actual results and previous estimates of excess and obsolete inventory could materially affect our future results of operations.

Warranty Reserves

We provide warranties on certain of our product sales (generally one year) and allowances for estimated warranty costs are recorded at the time of sale. The determination of such allowances requires us to make estimates of product return rates and expected costs to repair or replace the products under warranty. We currently establish warranty reserves based on historical warranty costs for each product line. If actual return rates and/or repair and replacement costs differ significantly from our estimates, adjustments to recognize additional cost of sales may be required in future periods.

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 record a valuation allowance to reduce our deferred tax assets for the amount that is not more likely than not to 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.

During fiscal 2004, our valuation allowance on deferred tax assets increased by $1.9 million, including $3.8 million against deferred tax assets at Lambda Physik, partially offset by the utilization of $1.8 million of our capital loss carryforwards in the U.S. In making the determination to record the valuation allowance, management considered the likelihood of future taxable income and feasible and prudent tax planning strategies to realize deferred tax assets. In the future, if we determine that we expect to realize more or less of the deferred tax assets, an adjustment to the valuation allowance will affect income in the period such determination is made.

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

KEY PERFORMANCE INDICATORS

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

	Three Months Ended			
	January 1, 2005	December 27, 2003	Change	% Change
Bookings - Electro-Optics	$ 97,020	$ 106,691	$ (9,671)	(9.1)%
Bookings - Lambda Physik	$ 31,563	$ 20,136	$ 11,427	56.7%
Net Sales - Electro-Optics	$ 100,899	$ 90,623	$ 10,276	11.3%
Net Sales - Lambda Physik	$ 25,123	$ 17,328	$ 7,795	45.0%
Gross profit as a percentage of net sales - Electro-Optics	45.7%	42.3%	3.4%	8.0%
Gross profit as a percentage of net sales - Lambda Physik	21.8%	17.4%	4.4%	25.5%
Research and development as a percentage of net sales	11.3%	14.0%	(2.7)%	(19.3)%
Net cash provided by operating activities	$ 30,290	$ 25,270	$ 5,020	19.9%
Daily sales outstanding in inventories	78.3	86.4	(8.1)	(9.4)%
Daily sales outstanding in receivables	61.9	61.9	0.0	0.0%
Capital spending as a percentage of net sales	3.4%	25.6%	(22.2)%	(86.8)%

Definitions and analysis of these performance indicators is as follows:

Bookings

Bookings represent orders expected to be shipped within 12 months. Bookings are generally cancelable without substantial penalty and, historically, we generally have not experienced a significant rate of cancellation. Bookings for a period are calculated by adding current period net sales to the increase or decrease in ending backlog during the period.

In our Electro-Optics segment, bookings decreased 9.1% from the same quarter one year ago, with decreases in the microelectronics and scientific and government programs markets partially offset by increases in the OEM components and instrumentation, graphic arts and display and materials processing markets.

In the first quarter of fiscal 2004, microelectronics market bookings were unusually high due to volume orders in that quarter for via drilling, wafer inspection and PCB direct write customers as well as a volume order for solid-state ultraviolet lasers for silicon drilling. Additionally, current quarter microelectronics bookings are lower due to a significant customer s revised manufacturing process, which will take one to three quarters to complete. This new process requires a modified light source from us and we expect to have the light source ready by the time the customer s modification is complete. We have also seen a slowdown in demand for CO_2 lasers used in via drilling, which is consistent with industry-reported capacity trends. By contrast, orders for UV lasers in via drilling remained solid as this technology enables the next generation of feature size reduction as well as addressing different material combinations. Bookings from semiconductor applications were also up during the quarter as we continue to benefit from new methodologies in photomask, 300mm and 65nm applications.

Bookings in the scientific and government programs market decreased from the same quarter one year ago due to timing of funding for several large custom systems in North America. Demand was solid in Europe and Asia. This lumpiness in orders will likely continue as we expand our offerings in the high-performance, custom laser market. The biological imaging market again led unit volumes among the various applications. We believe this trend will likely continue through the remainder of the fiscal year.

Bookings in the OEM components and instrumentation market increased from the same quarter one year ago as we enjoyed another successful quarter within the bioinstrumentation market as incoming orders for our Sapphire and Compass products remained buoyant. We also have several new products in qualification trials for biochip readers and DNA sequencers. Bookings for diode and CO_2 lasers used in laser marking applications were good and are reflective of the broader use of laser marking in lot and security coding. Orders for diode lasers used in automotive welding systems were up as the use of laser welding systems continues to gain traction. Orders for medical device components increased as customers rebalanced inventories for the upcoming summer cycle. This is especially true for lasers used in aesthetic procedures such as permanent hair reduction.

Bookings in the graphic arts and display market increased from the same quarter one year ago, due to the timing of annual buys from certain customers. The migration to diode-based thermal computer to plate or CTP printing continues as we have seen an increase in order volumes for our diode lasers. We are making progress in the UV CTP, predominantly for newspaper printing, with our Paladin laser. We are working on an updated version of the Paladin, which we believe should help accelerate the adoption rate in fiscal year 2006 and beyond.

Bookings in the materials processing market increased from the same quarter one year ago due to bookings for UV lasers used in stereolithography (i.e. 3D modeling) and fiber array packages (FAPs) for high speed marking, partially offset by continued weakness in the Asian market, specifically China. Credit policies in China remain constrained for emerging companies. Energy prices, interest rates and cost of ownership are still the big drivers for this market.

In our Lambda Physik segment, bookings increased 56.7%, with increases in the industrial and lithography markets and decreases in the scientific and medical market. Bookings in the industrial market continued to dominate orders. Demand for lasers used to produce low-temperature poly-silicon (LTPS) flat panel displays increased. We encountered increased activity in the ink-jet market where Lambda Physik s excimer lasers are used to drill nozzles in the ink-jet heads. We are also encouraged by the deployment of Lambda products in the automotive industry. AUDI® AG is using Lambda lasers in an innovative procedure to treat engine cylinder liners resulting in the reduction of oil consumption by up to 75 percent. This treatment process also lowers wear of the cylinder liners and piston rings by as much as 90 percent. Audi is now using this procedure in its 3.0-litre V6 diesel engines for the Audi A6 and A8. The process will also soon come into use for the Audi A4, Volkswagen Phaeton and Volkswagen Touareg. Bookings increased slightly in the lithography market primarily due to increased service business. As previously communicated, we will continue to support our installed base, but will discontinue future investments in lithography. We are also exploring options to sell

Lambda s interest in Xtreme Technologies, its joint venture with Jenoptik to develop EUV light sources. Bookings in the scientific and medical market decreased primarily due to the timing of certain OEM orders.

Net Sales

Net sales include sales of lasers, laser-based systems, precision optics, related accessories and service contracts. Net sales increased 11.3% in our Electro-Optics segment and increased 45.0% in our Lambda Physik segment from the same quarter one year ago. For a more complete description of the reasons for changes in net sales, we refer you to the Results of Operations section of this Form 10-Q/A.

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 increased from 42.3% to 45.7% in our Electro-Optics segment and increased from 17.4% to 21.8% in our Lambda Physik segment from the same quarter one year ago. For a more complete description of the reasons for changes in gross profit percentage, we refer you to the Results of Operations section of this Form 10-Q/A.

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 spending to be an important indicator in managing our business as investing in new technologies is a key to future growth. R&D percentage decreased from 14.0% to 11.3% from the same quarter one year ago. For a more complete description of the reasons for changes in R&D percentage, refer the Results of Operations section of this Form 10-Q/A.

Net Cash Provided by Operating Activities

Net cash provided by operating activities shown on our Condensed Consolidated Statements of Cash Flows represents the excess of cash collected from billings to our customers and other receipts, including tax refunds, over cash paid to our vendors for expenses and inventory purchases and other costs to run our business. This amount represents cash generated by current operations to pay for equipment, technology, and other investing activities, to repay debt, fund acquisitions and for other financing purposes. We believe this is an important performance indicator since cash generation over the long term is essential to maintaining a healthy business and providing funds to help fuel growth. We believe generating consistent cash from operations is an indication that our products are achieving a high level of customer satisfaction and we are appropriately monitoring our expenses and inventory levels. For a more complete description of the components of cash flows from operating activities, we refer you to the Condensed Consolidated Statements of Cash Flows in this Form 10-Q/A and the Changes in Financial Condition section of this Form 10-Q/A.

Daily Sales Outstanding in Inventories

We calculate daily sales outstanding (DSO) in inventories as net inventories at the end of the period divided by net sales of the period and then multiplied by the number of days in the period, using 90 days for quarters. This indicates how well we are managing our inventory levels, with lower DSO in inventories resulting in more working capital available. The more money we have tied up in inventory, the less money we have available for research and development, acquisitions, expansions, marketing and other activities to grow our business. Our DSO in inventories for the first quarter of fiscal 2005 decreased 8.0 days from the same quarter one year ago primarily due to Lambda s write-off of lithography inventory and Lambda s better management of inventory levels in relation to sales volumes, partially offset by Electro-Optics increase due to a combination of a build-up of safety stock for some key components and increased inventory levels to improve customer service.

Daily Sales Outstanding in Receivables

We calculate daily 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. This indicates how well we are managing our collection of receivables, with lower DSO in receivables resulting in more working capital available. The more money we have tied up in receivables, the less money we have available for research and development, acquisitions, expansions, marketing and other activities to grow our business. Our DSO in receivables for the first quarter of fiscal 2005 remained at 61.9 days from the same quarter one year ago. Increases in DSO due to the impact of the weakening of the U.S. dollar against the Euro and Japanese Yen were offset by improved collections.

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. This indicates the extent to which we are expanding or modernizing our operations, including investments in technology. Management monitors capital spending levels as this assists management in measuring our cash flows, net of capital expenditures. Our capital spending percentage decreased from 25.6% to 3.4% compared to the same quarter one year ago primarily due to our purchase of our previously leased facility in Santa Clara, California, in the first quarter of fiscal 2004. We anticipate that capital spending for fiscal 2005 will be approximately 5% to 6% of net sales.

SIGNIFICANT EVENTS

On June 3, 2003, we initiated a tender offer to purchase the 5,250,000 (39.62%) outstanding shares of our Lambda Physik subsidiary owned by other shareholders (the minority interest) for approximately $10.50 per share. As of January 1, 2005, we had purchased a total of 4,588,500 outstanding shares of Lambda Physik for approximately $49.0 million, resulting in a total ownership percentage of 95.01% (inclusive of shares previously owned). On May 5, 2004, a resolution was passed at Lambda Physik s shareholders meeting that permitted us to acquire all remaining shares in accordance with the German Stock Corporation Act (the squeeze out resolution). On November 2, 2004, we agreed to increase the price to be paid to those minority shareholders of Lambda Physik who did not accept the squeeze out resolution to approximately $18.88 per share in exchange for their agreement to waive rights to a court appraisal. On November 17, 2004, the Göttingen court approved this definitive agreement and subsequently certified the squeeze out resolution for entry into the commercial register on January 14, 2005. We plan to purchase the remaining shares of Lambda Physik during the second fiscal quarter of 2005.

In December 2004, our Lambda Physik subsidiary decided to discontinue future product development and investments in the semiconductor lithography market. As a result, we recognized a charge of $3.1 million (net of minority interest of $0.1 million) during the quarter ended January 1, 2005, primarily related to recognizing write-downs of excessive and obsolete inventories, exiting certain purchase commitments and charges related to government grants. We anticipate this decision will also result in re-deployment of a portion of Lambda s lithography future R&D dollars into the most promising growth areas of Lambda Physik s Industrial and Scientific/Medical markets.

RESULTS OF OPERATIONS

CONSOLIDATED SUMMARY

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

	Three Months Ended	
	January 1, 2005	**December 27, 2003**

Net sales	100.0%	100.0%
Cost of sales	59.1%	61.7%
Gross profit	40.9%	38.3%
Operating expenses:		
Research and development	11.3%	14.0%
Selling, general and administrative	22.5%	25.4%
Restructuring, impairment and other charges	0.3%	0.2%
Intangibles amortization	1.2%	1.8%
Total operating expenses	35.3%	41.4%
Income (loss) from operations	5.6%	(3.1)%
Other income (expense):		
Interest and dividend income	0.8%	0.7%
Interest expense	(0.7)%	(0.8)%
Foreign exchange gain (loss)	(0.1)%	0.3%
Other net	0.7%	1.8%
Total other income (expense), net	0.7%	2.0%
Income (loss) before income taxes and minority interest	6.3%	(1.1)%
Provision (benefit) for income taxes	2.2%	(1.0)%
Income (loss) before minority interest	4.1%	(0.1)%
Minority interest in subsidiaries losses, net of taxes	0.2%	0.3%
Net income	4.3%	0.2%

Net income for the first quarter of fiscal 2005 was $5.4 million ($0.17 per diluted share) including a charge of $3.1 million related to our decision to discontinue future product development and investments in the semiconductor lithography market (lithography charge) and a tax benefit of $0.5 million related to federal tax law changes enacted in the current quarter. For the same quarter in the prior year, net income was $0.2 million ($0.01 per share). The increase in net income from the same quarter last year is primarily due to higher sales volumes and higher gross margins as a percentage of sales, partially offset by the current quarter s lithography charge.

NET SALES:

	Three Months Ended					
	January 1, 2005			December 27, 2003		
		Amount	Percentage of total net sales		Amount	Percentage of total net sales
	(Dollars in thousands)					
Consolidated:						
Domestic	$	44,930	35.7%	$	44,145	40.9%
Foreign		81,092	64.3%		63,806	59.1%
Total	$	126,022	100.0%	$	107,951	100.0%
Electro-Optics:						
Domestic	$	41,350	32.8%	$	41,246	38.2%
Foreign		59,549	47.3%		49,377	45.7%
Total	$	100,899	80.1%	$	90,623	83.9%
Lambda Physik:						
Domestic	$	3,580	2.9%	$	2,899	2.7%
Foreign		21,543	17.0%		14,429	13.4%
Total	$	25,123	19.9%	$	17,328	16.1%

Consolidated

Net sales for the first fiscal quarter of 2005 increased $18.1 million, or 17%, from the same period one year ago as a result of increased sales volumes in both segments. During the first quarter of fiscal 2005, domestic sales increased $0.8 million, or 2%, while foreign sales increased $17.3 million, or 27%. Foreign sales were 64% of net sales in the first quarter of fiscal 2005 and 59% of net sales one year ago. We anticipate that consolidated net sales in the second quarter of fiscal 2005 will increase approximately 0% to 4% from first quarter of fiscal 2005 net sales.

Electro-Optics

Electro-Optics net sales for the first fiscal quarter of 2005 increased $10.3 million, or 11%, from the same period one year ago. Domestic sales increased $0.1 million, or less than 1%, and foreign sales increased $10.2 million, or 21%, during the first quarter of fiscal 2005 compared to the same quarter one year ago. Net sales increased primarily due to an increase in the microelectronics market, the strengthening of the Euro and Yen against the U.S. dollar ($3.1 million), which made our products more price competitive and increases in the markets for OEM components and instrumentation, materials processing and scientific research and government programs, partially offset by a decrease in the graphic arts and display market. Microelectronics market application net sales increased $7.6 million, or 42%, due to improving fundamentals in the consumer electronics markets. OEM components and instrumentation application sales increased

$2.1 million, or 9%, primarily due to increased medical, thermal imaging and component shipments. Materials processing application sales increased $1.7 million, or 13%, primarily due to higher shipments for marking, engraving and textile processing applications. Net sales within the scientific research and government programs lines of business improved by $0.9 million, or 3%, primarily as a result of increased sales from custom scientific products. Sales in the graphic arts and display applications decreased $2.0 million, or 27%, primarily due to lower shipments for reprographic applications. Although we continue to have a sizeable backlog of orders, current market conditions make it difficult to predict future orders.

Lambda Physik

Lambda Physik net sales for the first fiscal quarter of 2005 increased $7.8 million, or 45%, from the same period one year ago. International sales increased $7.1 million, or 49%, and domestic sales increased $0.7 million, or 23%, during the first quarter of fiscal 2005. Net sales increased primarily due to higher sales volumes of $7.6 million, or 96%, in the industrial market due to increases in the flat panel display and ink jet system business. The first quarter of fiscal 2005 includes the favorable impact of the strengthening of the Euro and Yen against the U.S. dollar ($1.0 million).

GROSS PROFIT

Consolidated

The consolidated gross profit rate increased by 2.6% to 40.9% in the first quarter of fiscal 2005 compared to 38.3% in the same quarter one year ago. The increase in gross profit rate was primarily due to more effective leveraging of manufacturing overhead (2.6%) due to higher sales volumes and the consolidation and restructuring of manufacturing operations, non-recurring engineering fees earned and offset to manufacturing expense and lower manufacturing costs in the Electro-Optics segment resulting from outsourcing the manufacture of certain components (2.9%). This increase in gross profit was partially offset by the current quarter lithography charge for write-downs of excess and obsolete inventories, charges related to government grants and exiting certain purchase commitments (1.8%) and changes in volumes and mix (1.2%) with lower average selling prices (ASPs) in the Electro-Optics bioinstrumentation market, higher sales of lower margin Electro-Optics scientific products and the impact of a large EUV shipment at distributor margins, partially offset by higher sales of higher margin Lambda industrial and medical OEM products and lower losses on Lambda service contracts.

Our consolidated gross profit rates have been and will continue to be affected by a variety of factors including foreign and domestic sales mix, manufacturing efficiencies, excess and obsolete inventory write downs, warranty costs, pricing by competitors or suppliers, new product introductions, production volume, customization and reconfiguration of systems, foreign currency fluctuations and field service margins. We plan to add 2 to 4 percentage points to the Electro-Optics gross profit over the next 24 months. We expect to accomplish this by better exercising our buying power to reduce material costs, strengthening of our supply chain and migrating to more common components and product platforms. Lambda Physik s gross profit will benefit from a full year of improved product reliability, reduced warranty costs and improving margins on service contracts.

Electro-Optics

The gross profit rate increased by 3.4% to 45.7% for the first quarter of fiscal 2005 compared to 42.3% for the same quarter one year ago. The increase was primarily due to more effective leveraging of manufacturing overhead (3.3%) due to higher sales volumes and the consolidation and restructuring of manufacturing operations, non-recurring engineering fees earned and offset to manufacturing expense; and lower manufacturing costs resulting from outsourcing the manufacture of certain components (3.6%), partially offset by lower product margins (2.9%) primarily due to lower average selling prices (ASPs) in the bioinstrumentation market and higher sales of lower margin Electro-Optics scientific products.

Lambda Physik

The gross profit rate increased by 4.4% to 21.8% for the first quarter of fiscal 2005 compared to 17.4% for the same quarter one year ago. This increase was primarily due to changes in mix to higher sales of higher margin industrial and medical OEM products (7.3%), lower losses on service contracts (5.0%) and lower warranty costs due to improving quality (2.4%), partially offset by the current quarter lithography charge for write-downs of excess and obsolete inventories, charges related to government grants and exiting certain purchase commitments (9.0%) and the impact of a large EUV shipment at distributor margins (1.7%).

OPERATING EXPENSES:

	Three Months Ended			
	January 1, 2005		December 27, 2003	
	Amount	Percentage of total net sales	Amount	Percentage of total net sales
	(Dollars in thousands)			
Research and development	$ 14,301	11.3%	$ 15,117	14.0%
Selling, general and administrative	28,371	22.5%	27,451	25.4%
Restructuring, impairment and other charges	300	0.3%	237	0.2%
Intangibles amortization	1,493	1.2%	1,929	1.8%
Total operating expenses	$ 44,465	35.3%	$ 44,734	41.4%

Research and development (R&D) expenses decreased $0.8 million, or 5%, from the comparable fiscal quarter one year ago and decreased to 11.3% from 14.0% of net sales. The decrease was primarily due to lower spending than in the prior year period to improve product reliability and expand specifications in our Lambda Physik segment ($1.1 million) and lower spending on Lambda s 193nm lithography program due to its cancellation during the current quarter ($0.5 million), partially offset by a charge for outstanding commitments related to our cancellation of the lithography program ($0.6 million). We anticipate R&D expenses to be in the range of 11.0% to 11.5% of net sales in the second quarter of fiscal 2005.

Selling, general and administrative (SG&A) expenses increased $0.9 million, or 3%, from the comparable fiscal quarter one year ago, but as a percentage of net sales decreased to 22.5% from 25.4%. The dollar increase was primarily due to higher consulting and depreciation expense related to our investments in information technology systems ($0.7 million) and the strengthening of the Euro and Yen against the U.S. dollar ($0.6 million). We anticipate SG&A expenses to be in the range of 23% to 24% of net sales in the second quarter of fiscal 2005.

Our restructuring, impairment and other charges during the three months ended January 1, 2005 and the three months ended December 27, 2003 were due to adjustments to the estimated contractual obligation for lease and other facility costs of a previously vacated building, net of sublease income.

Amortization of intangible assets decreased $0.4 million, or 23%, compared to the same period one year ago. The decrease was due to the completion of amortization of intangibles related to technology sold in the second quarter of fiscal 2004 and lower amortization from the acquisition of an additional 34.6% of the outstanding shares of our Lambda Physik subsidiary.

OTHER INCOME (EXPENSE)

Other income, net decreased $1.4 million to $0.9 million during the first quarter of fiscal 2005 compared to $2.3 million in the comparable fiscal quarter one year ago. The first quarter of fiscal 2005 decrease was primarily a result of $0.5 million lower investment gains (net of expenses) associated with our deferred compensation plans and $0.5 million less favorable foreign currency exchange net gains and higher losses recognized on our share of the losses of Lambda s Xtreme joint venture. Lambda Physik is currently exploring options to sell its interest in the Xtreme joint venture.

INCOME TAXES

The effective tax rate on income before minority interest for the first quarter of fiscal 2005 of 34.7% was lower than the statutory rate of 35.0% primarily due to gains in insurance plans (net of expenses) not subject to tax and benefits from R&D tax credits, including benefits of federal tax law changes enacted in the current quarterly partially offset by additional valuation allowance provisions related to losses at Lambda Physik and higher state income taxes, net of federal benefit.

The effective tax rate on loss before minority interest for the first quarter of fiscal 2004 of 90.7% was higher than the statutory rate of 35.0% primarily due to investment losses and expenses with no tax benefit associated with our deferred compensation plans and valuation allowance provisions related to losses at Lambda Physik partially offset by benefits from R&D tax credits.

MINORITY INTEREST IN SUBSIDIARIES (EARNINGS) LOSSES

Minority interest in subsidiaries losses decreased $0.2 million for the first quarter of fiscal 2005 from the corresponding prior year quarter due to lower net losses incurred by Lambda Physik

FINANCIAL CONDITION

LIQUIDITY AND CAPITAL RESOURCES

Sources and Uses of Cash

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

	Three Months Ended	
	January 1, 2005	December 27, 2003
	(In thousands)	
Net cash provided by operating activities	$ 30,290	$ 25,270
Sales of shares under employee stock plans	3,584	2,317
Purchases of property and equipment	(4,283)	(27,630)
Acquisition of businesses, net of cash acquired		(1,503)
Net payments on debt borrowings	(542)	(493)

Net cash provided by operating activities increased by $5.0 million to $30.3 million for the first quarter of fiscal 2005 compared to $25.3 million for the same quarter one year ago. The increase was primarily due to current quarter earnings and decreases in accounts receivable, partially offset by higher income tax refunds received in the first quarter of fiscal 2004. We believe that our cash flow provided by operating activities will be adequate to cover our current working capital needs, debt service requirements and planned capital expenditures for at least the next 12 months to the extent such items are known or are reasonably determinable based on current business and market conditions. However, we may elect to finance certain of our capital expenditure requirements through borrowings under our bank credit facilities. We continue to follow our strategy to further strengthen our financial position by primarily using available cash flow to fund operations and to reduce the amount of debt we have outstanding.

We intend to continue pursuing acquisition opportunities at prices we believe are reasonable based upon market conditions. However, we cannot accurately predict the timing, size and success of our acquisition efforts or our associated potential capital commitments. Furthermore, we cannot assure you that we will be able to acquire businesses on terms acceptable to us. We expect to fund future acquisitions through unrestricted cash balances, cash flows from operations, additional borrowings or 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 from time to time and the willingness of potential sellers to accept it as full or partial payment.

Additional sources of cash available to us were a multi-currency line of credit and bank credit facilities totaling $45.9 million as of January 1, 2005, of which $45.5 million was unused and available. These credit facilities were used in Europe during the first quarter of fiscal 2005. Our domestic lines of credit include a $12.5 million unsecured revolving account from Union Bank of California, which expires January 31, 2007. No amounts have been drawn upon our domestic lines of credit as of January 1, 2005.

Our ratio of current assets to current liabilities was 4.6:1 at January 1, 2005 compared to 4.3:1 at October 2, 2004. The increase in our ratio from October 2, 2004 to January 1, 2005 is primarily due to increases in cash and cash equivalents and short-term investments, partially offset by decreases in accounts receivable. Our cash position, working capital and debt obligations are as follows:

	January 1, 2005	October 2, 2004
	(In thousands)	
Cash and cash equivalents	$ 105,249	$ 87,659
Working capital	360,572	345,643
Total debt obligations	27,558	27,915

Debt Obligations and Restricted Cash, Cash Equivalents and Short-term Investments

At January 1, 2005, our current and long-term debt obligations primarily consisted of our notes payable to finance our acquisition of Star Medical (Star notes). The Star notes agreement, requires that we place cash and short-term investment balances in an amount equal to 120% of the principal balance in a restricted collateral account. At January 1, 2005, $15.2 million and $15.2 million of current and non-current restricted cash, cash equivalents and short-term investments were related to the Star notes (see Note 10 in our Notes to Condensed Consolidated Financial Statements).

Our $12.5 million unsecured revolving account from Union Bank of California agreement is subject to standard covenants related to financial ratios and profitability. At January 1, 2005, we were in compliance with these covenants.

As part of our tender offer to purchase the remaining outstanding shares of our Lambda Physik subsidiary, we were required by local regulations to have funds available for the offer in an account located in Germany. As of January 1, 2005, we had $13.1 million restricted for the purchase of the remaining outstanding shares of Lambda Physik that is included in non-current restricted cash, cash equivalents and short-term investments on our condensed consolidated balance sheets. We plan to purchase the remaining shares of Lambda Physik during the second fiscal quarter of 2005.

Contractual Obligations and Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements as defined by Regulation S-K. Information regarding our long-term debt payments, operating lease payments, capital lease payments and long-term purchase commitments is provided in Item 7 Management s Discussion and Analysis of Results of Operations and Financial Condition of our Annual Report on Form 10-K/A for the fiscal year ended October 2, 2004, as amended. There have been no material changes in contractual obligations since October 2, 2004. Information regarding our other financial commitments at January 1, 2005 is provided in the Notes to the Condensed Consolidated Financial Statements in this filing.

Changes in Financial Condition

Cash provided by operating activities during the three months ended January 1, 2005 was $30.3 million, which included cash provided by operating assets and liabilities of $12.3 million, depreciation and amortization of $8.8 million, net income of $5.4 million and increases in net deferred tax assets of $2.8 million and other items aggregating $1.0 million.

Cash used for investing activities during the three months ended January 1, 2005 of $15.9 million included $6.6 million, net, used to purchase available-for-sale securities, $4.3 million used to acquire property and equipment, $3.7 million increase in restricted cash for the purchase of the remaining shares of Lambda Physik, $0.7 million of premium payments for life insurance and other items aggregating $0.6 million.

Cash provided by financing activities during the three months ended January 1, 2005 of $1.0 million included $3.6 million generated from our employee stock purchase and stock option plans, partially offset by a decrease in cash overdraft of $2.1 million and net debt repayments of $0.5 million.

Changes in exchange rates during the three months ended January 1, 2005 provided $2.2 million, primarily due to the strengthening of the Euro and Japanese Yen in relation to the U.S. dollar.

RECENT ACCOUNTING STANDARDS

In November 2004, the Financial Accounting Standards Board issued SFAS No. 151, Inventory Costs (SFAS 151), an amendment of Accounting Research Bulletin No. 43, Chapter 4. SFAS 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. SFAS 151 is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We do not believe that the adoption of SFAS 151 will have a material effect on our results of operations or consolidated financial position.

On December 16, 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R). SFAS 123R eliminates the alternative of applying the intrinsic value measurement provisions of APB 25 to stock compensation awards issued to employees. Rather, the new standard requires enterprises to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period).

We have not yet quantified the effects of the adoption of SFAS 123R, but it is expected that the new standard may result in significant stock-based compensation expense. The pro forma effects on net income and earnings per share as if we had applied the fair value recognition provisions of original SFAS 123 on stock compensation awards (rather than applying the intrinsic value measurement provisions of APB 25) are in our Notes to Condensed Consolidated Financial Statements (see Note 1). Although such pro forma effects of applying original SFAS 123 may be indicative of the effects of adopting SFAS 123R, the provisions of these two statements differ in some important respects. The actual effects of adopting SFAS 123R will be dependent on numerous factors including, but not limited to, the valuation model chosen by us to value stock-based awards; the assumed award forfeiture rate; the accounting policies adopted concerning the method of recognizing the fair value of awards over the requisite service period; and the transition method (as described below) chosen for adopting SFAS 123R.

SFAS 123R will be effective for our fiscal quarter beginning July 3, 2005, and allows for the use of the Modified Prospective Application Method. Under this method, SFAS 123R is applied to new awards and to awards modified, repurchased, or cancelled after the effective date. Additionally, compensation cost for the portion of awards for which the requisite service has not been rendered (such as unvested options) that are outstanding as of the date of adoption shall be recognized as the remaining requisite services are rendered. The compensation cost relating to unvested awards at the date of adoption shall be based on the grant-date fair value of those awards as calculated for pro forma disclosures under the original SFAS 123. In addition, companies may use the Modified Retrospective Application Method. This method may be applied to all prior years for which the original SFAS 123 was effective or only to prior interim periods in the year of initial adoption. If the Modified Retrospective Application Method is applied, financial statements for prior periods shall be adjusted to give effect to the fair-value-based method of accounting for awards on a consistent basis with the pro forma disclosures required for those periods under the original SFAS 123.

FORWARD-LOOKING INFORMATION IS SUBJECT TO RISK AND UNCERTAINTY

This quarterly report on Form 10-Q/A contains forward-looking statements. These forward-looking statements include, without limitation, statements regarding:

net sales;

results of operations;

gross profits;

research and development projects and expenses;

selling, general and administrative expenses;

bookings;

average selling price;

amount of restructuring, impairment and other charges;

capital expenditures;

warranty reserves;

legal proceedings;

claims against third parties for infringement of our proprietary rights;

liquidity and sufficiency of existing cash, cash equivalents and short-term investments for near-term requirements;

development and acquisition of new technology and intellectual property;

write-downs for excess or obsolete inventory;

competitors and competitive pressures;

growth of applications for our products and increase of market share;

obtain components and materials in a timely manner;

identify alternative sources of supply for components;

achieve adequate manufacturing yields;

impact of recent acquisitions;

improvement of operating results in Lambda Physik;

growth in the semiconductor industry;

compliance with environmental regulations;

leveraging of our technology portfolio and application engineering;

optimize our leadership position in existing markets;

collaborative customer and industry relationships;

development and acquisition of new technologies;

emphasis on supply chain management;

growth of direct digital imaging applications;

use of financial market instruments;

simplifications of our foreign legal structure and reduction of our presences in certain countries; and

focus on long-term improvement of return on invested capital.

You can identify these and other forward-looking statements by use of the words such as may, will, could, would, should, expects, anticipates, relies, believes, estimates, predicts, intends, potential, continue, or the negative of such terms, or other compara terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements.

Our actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those set forth above in Management s Discussion and Analysis of Results of Operations and Financial Condition and under the heading Risk Factors. All forward-looking statements included in this 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.

BUSINESS ENVIRONMENT AND INDUSTRY TRENDS

Risks Related to our Business

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

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

general economic uncertainties;

fluctuations in demand for, and sales of, our products or prolonged downturns in the industries that we serve;

ability of our suppliers to produce and deliver components and parts, including sole or limited source components, in a timely manner, in the quantity and quality desired and at the prices we have budgeted;

timing or cancellation of customer orders and shipment scheduling;

fluctuations in our product mix;

foreign currency fluctuations;

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

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

rate of market acceptance of our new products;

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

our ability to control expenses;

level of capital spending of our customers;

potential obsolescence of our inventory; and

costs related to acquisitions of technology or businesses.

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

Due to these and other factors, we believe that quarter-to-quarter and year-to-year comparisons of our historical operating results may not be meaningful. You should not rely on our results for any quarter or year as an indication of our future performance. Our operating results in future quarters and years may be below public market analysts or investors expectations, which would likely cause the price of our common stock to fall. In addition, over the past several years, the stock market has experienced extreme price and volume fluctuations that have affected the stock prices of many technology companies. There has not always been a direct correlation between this volatility and the performance of particular companies subject to these stock price fluctuations. These factors, as well as general economic and political conditions or investors concerns regarding the credibility of corporate financial statements and the accounting profession, may have a material adverse affect on the market price of our stock in the future.

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

Concerns about consumer and investor confidence, volatile corporate profits and reduced capital spending, and international conflicts and terrorist and military activity could cause a slowdown in customer orders or cause customer order cancellations. In addition, political and social turmoil related to international conflicts and terrorist acts may put further pressure on economic conditions in the United States and abroad. Unstable political, social and economic conditions make it difficult for our customers, our suppliers and us to accurately forecast and plan future business activities. In particular, it is difficult to develop and implement strategy, sustainable business models and efficient operations, as well as effectively manage supply chain relationships. If such conditions persist, our business, financial condition and results of operations could suffer.

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

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

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

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

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

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

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

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

During the three months ended January 1, 2005, our research and development expenses were 11% of net sales. Over the last three fiscal years, our research and development expenses have been approximately 13% of net sales. Our future success depends on our ability to anticipate our customers needs and develop products that address those needs. Introduction of new products and product enhancements will require that we effectively transfer production processes from research and development to manufacturing and coordinate our efforts with those of our suppliers to achieve volume production rapidly. If we fail to effectively transfer production processes, develop product enhancements or introduce new products in sufficient quantities to meet the needs of our customers as scheduled, our net sales may be reduced and our business may be harmed.

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

For the three months ended January 1, 2005, 64% of net sales were derived from customers outside of the United States. For fiscal years 2004, 2003 and 2002, 61%, 61% and 60%, respectively, of our net sales were derived from customers outside of the Untied States. We anticipate that foreign sales will continue to account for a significant portion of our revenues in the foreseeable future. The global economic slowdown has already had and could continue to have a negative effect on various foreign markets in which we operate. This may cause us to simplify our foreign legal entity structure and reduce our presence in certain countries, which may negatively affect the overall level of business in such countries. A portion of our foreign sales occurs through our foreign sales subsidiaries and the remainder of our foreign sales result from exports to foreign distributors, resellers and customers. Our foreign operations and sales are subject to a number of risks, including:

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

We are also subject to the risks of fluctuating foreign exchange rates, which could materially adversely affect the sales price of our products in foreign markets, as well as the costs and expenses of our foreign subsidiaries. While we use forward exchange contracts and other risk management techniques to hedge our foreign currency exposure, we remain exposed to the economic risks of foreign currency fluctuations.

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

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

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

In recent years, there has been significant litigation in the United States involving patents and other intellectual property rights. In the future, we may be a party to litigation to protect our intellectual property or as a result of an alleged infringement of others intellectual property. These claims and any resulting lawsuit, if successful, could subject us to significant liability for damages or invalidation of our proprietary rights. These lawsuits, regardless of their success, would likely be time-consuming and expensive to resolve and would divert management time and attention. Any potential intellectual property litigation could also force us to do one or more of the following:

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

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

We may, in the future, initiate claims or litigation against third parties for infringement of our proprietary rights to protect these rights or to determine the scope and validity of our proprietary rights or the proprietary rights of competitors. These claims could result in costly litigation and the diversion of our technical and management personnel.

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

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

Our ability to continue to attract and retain highly skilled personnel will be a critical factor in determining whether we will be successful in the future. Recruiting and retaining highly skilled personnel in certain functions continues to be difficult. At certain locations where we operate, the cost of living is extremely high and it may be difficult to retain key employees and management at a reasonable cost. We may not be successful in attracting, assimilating or retaining qualified personnel to fulfill our current or future needs. Our failure to attract additional employees and retain our existing employees could adversely affect our growth and our business.

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

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

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

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

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

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

Laser systems are inherently complex in design and require ongoing regular maintenance. The manufacture of our lasers, laser products and systems involves a highly complex and precise process. As a result of the technical complexity of our products, changes in our or our suppliers manufacturing processes or the inadvertent use of defective materials by us or our suppliers could result in a material adverse effect on our ability to achieve acceptable manufacturing yields and product reliability. To the extent that we do not achieve such yields or product reliability, our business, operating results, financial condition and customer relationships would be adversely affected. We provide warranties on certain of our product sales, and allowances for estimated warranty costs are recorded during the period of sale. The determination of such allowances requires us to make estimates of product return rates and expected costs to repair or replace the products under warranty. We currently establish warranty reserves based on historical warranty costs for each product line. If actual return rates and/or repair and replacement costs differ significantly from our estimates, adjustments to recognize additional cost of sales may be required in future periods.

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

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

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

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

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

Our increased reliance on contract manufacturing may adversely impact our financial results and operations.

We have changed our manufacturing strategy to increase sourcing from contract manufacturers. Our ability to resume internal manufacturing operations for those products has been eliminated. The cost, quality, performance and availability of contract manufacturing operations are and will be essential to the successful production and sale of many of our products. The inability of any contract manufacturer to meet our cost, quality, performance and availability standards could adversely impact our financial condition or results of operations. We may not be able to provide contract manufacturers with product volumes that are high enough to achieve sufficient cost savings. If shipments fall below forecasted levels, we may incur increased costs or be required to take ownership of the inventory. Also, our ability to control the quality of products produced by contract manufacturers may be limited and quality issues may not be resolved in a timely manner, which could adversely impact our financial condition or results of operations.

We may not achieve the expected benefits of integration with Lambda Physik.

We are in the process of reviewing the operational efficiency of Lambda Physik s operations and expect to achieve efficiencies by integrating some of Lambda Physik s operations into other Coherent operations. However, integrating the operations of Lambda Physik into our operations is a complex, time consuming and expensive process. The complexity of the technologies and operations being integrated and the disparate corporate cultures being combined may increase the difficulty of integration. Management s focus on the integration of operations may divert attention from our day-to-day business and may disrupt key research and development, marketing or sales efforts. In addition, it is common in the technology industry for aggressive competitors to attract customers and recruit key employees away from companies during the integration phase of an acquisition.

The inability to continue to reduce expenses and contain our costs could harm our operating results.

We are continuing efforts to reduce our expense structure. Additional measures to contain costs and reduce expenses may be undertaken if revenues and market conditions do not continue to improve. A number of factors could preclude us from successfully bringing costs and expenses in line with our revenues, such as our inability to accurately forecast business activities or deterioration of our revenues. If we are unable to continue to reduce expenses and contain our costs, this could harm our operating results.

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

Our ability to successfully offer our products and implement our business plan in evolving markets requires an effective planning and management process. We continue to expand the scope of our operations domestically and internationally. The growth in sales, combined with the challenges of managing geographically-dispersed operations, has placed, and our anticipated growth in future operations will continue to place, a significant strain on our management systems and resources. The failure to effectively manage our growth could disrupt our business and harm our operating results.

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

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

- issue stock that would dilute our current stockholders percentage ownership;
- pay cash;
- incur debt;
- assume liabilities; or
- incur expenses related to in-process research and development, impairment of goodwill and amortization.

These purchases also involve numerous risks, including:

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

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

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

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

The adoption of certain environmental regulations will require us to redesign some of our products if we are to continue to be able to sell them in Europe.

The European Union has enacted The Restriction on Hazardous Substances in Electronic Equipment (ROHS) and Waste Electrical and Electronic Equipment (WEEE) directives that will require us to redesign some of our products if we are to continue selling them in Europe. These directives come into force August 13, 2005 and July 1, 2006, respectively. We have launched a major program to bring our products into compliance with ROHS and WEEE, but there can be no guarantee that we will be successful. Failure to comply can result in the inability to sell non-compliant products into Europe, a market currently accounting for approximately one-third of our revenues, which would have a material adverse affect on our business and financial results.

Private companies outside of Europe, most notably in Japan, are undertaking similar green initiatives. Noncompliance would result in similar risks.

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

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

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

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

- the ability of our board of directors to alter our bylaws without stockholder approval;
- limiting the ability of stockholders to call special meetings;
- limiting the ability of our stockholders to act by written consent; and
- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted on by stockholders at stockholder meetings.

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

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

Our financial results could be affected by potential changes in the accounting rules governing the recognition of stock-based compensation expense

Currently, we measure compensation expense for our employee stock compensation plans under the intrinsic value method of accounting prescribed by APB Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). Under this method, no compensation expense has been recorded for stock options granted with exercise prices greater than or equal to the fair value of the underlying common stock at the option grant date. In accordance with SFAS No. 123, Accounting for Stock-Based Compensation, we provide disclosures of our operating results as if we had applied the fair value method of accounting (pro-forma basis). Beginning in the second quarter of fiscal 2003, we provided such disclosures in our Quarterly Reports on Form 10-Q in accordance with SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure. Had we accounted for our compensation expense under the fair value method of accounting prescribed by SFAS No. 123, the charges would have been significantly higher than the intrinsic value method used by us, totaling $3.9 million in the quarter ended January 1, 2005 and $14.4 million, $17.6 million and $19.0 million in fiscal 2004, 2003 and 2002, respectively.

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123R). SFAS 123R eliminates the alternative of applying the intrinsic value measurement provisions of APB 25 to stock compensation awards issued to employees. Rather, the new standard requires companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide services in exchange for the award, known as the requisite service period (usually the vesting period).

Although such pro forma effects of applying original SFAS 123 may be indicative of the effects of adopting SFAS 123R, the provisions of these two statements differ in some important respects. The actual effects of adopting SFAS 123R will be dependent on numerous factors including, but not limited to, the valuation model chosen by us to value stock-based awards; the assumed award forfeiture rate; the accounting policies adopted concerning the method of recognizing the fair value of awards over the requisite service period; and the transition method chosen for adopting SFAS 123R.

Beginning in the fourth quarter of fiscal 2005, when these changes are expected to be implemented, we and other companies will be required to measure compensation expense using the fair value method, which will adversely affect our results of operations by decreasing our earnings by the additional amount of such stock option charges.

Failure to maintain effective internal controls over financial reporting could have a material adverse effect on our business, operating results and stock price.

Beginning with our annual report for our fiscal year ended October 1, 2005, Section 404 of the Sarbanes-Oxley Act of 2002 will require us to include a report by our management on our internal controls over financial reporting. Such report must contain an assessment by management of the effectiveness of our internal controls over financial reporting as of the end of our fiscal year and a statement as to whether or not such internal controls are effective. Such report must also contain a statement that our independent auditors have issued an attestation report on management s assessment of such internal controls.

In order to achieve timely compliance with Section 404, in fiscal 2003 we began a process to document and evaluate our internal controls over financial reporting. Our efforts to comply with Section 404 have resulted in, and are likely to continue to result in, significant costs, the commitment of time and operational resources and the diversion of management s attention. If our management identifies one or more material weaknesses in our internal controls over financial reporting, we will be unable to assert such internal controls are effective. If we are unable to assert that our internal controls over financial reporting are effective as of October 1, 2005 (or if our independent auditors are unable to attest that our management s report is fairly stated or they are unable to express an opinion on our management s evaluation or on the effectiveness of our internal controls), our business may be harmed. Market perception of our financial condition and the trading price of our stock may be adversely affected and customer perception of our business may suffer.

Risks related to our industry

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

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

maintaining and enhancing our relationships with our customers;

the education of potential end-user customers about the benefits of lasers, laser systems and precision optics; and

our ability to accurately predict and develop our products to meet industry standards.

For the quarter ended January 1, 2005, our research and development costs were $14.3 million (11% of net sales). For our fiscal years 2004, 2003 and 2002, our research and development costs were $62.7 million, $51.0 million and $52.4 million, or 13% of net sales, for each respective period. We cannot assure you that our expenditures for research and development will result in the introduction of new products or, if such products are introduced, that those products will achieve sufficient market acceptance. Our failure to address rapid technological changes in our markets could adversely affect our business and results of operations.

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

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

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

Item 4. CONTROLS AND PROCEDURES

Controls Evaluation and Related CEO and CFO Certifications

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 the end of the period covered by this Quarterly Report. The controls evaluation was done under the supervision and with the participation of management, including our Chief Executive Officer (CEO) and Chief Financial Officer (CFO) and has allowed us to make conclusions, as set forth below, regarding the state of our disclosure controls and procedures.

Disclosure Controls and Procedures

Our disclosure controls and procedures are designed to provide reasonable assurance that information required to be disclosed in our reports filed under the Exchange Act, such as this Quarterly Report, is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. Our disclosure controls and procedures are also designed to ensure that such information is accumulated and communicated to our management, including the CEO and CFO, to allow timely decisions regarding required disclosure. Our disclosure controls include components of our internal control over financial reporting, which consists of control processes designed to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of financial statements in accordance with generally accepted accounting principles in the U.S. To the extent that components of our internal control over financial reporting are included within our disclosure controls, they are included in the scope of our quarterly controls evaluation.

Limitations on the Effectiveness of Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system will be attained. Furthermore, 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 a cost-effective control system, no evaluation of controls can provide absolute assurance that all misstatements due to error or fraud, if any, may occur and not be detected on a timely basis. These inherent limitations include the possibility that judgments in decision-making can be faulty and that breakdowns can occur because of errors or mistakes. Our disclosure controls and procedures can also be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Furthermore, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Scope of the Controls Evaluation

The evaluation of our disclosure controls and procedures included a review of the controls objectives and design, our implementation of the controls and the effect of the controls on the information generated for use in this Quarterly Report. During the evaluation of our controls and procedures, we looked to identify data errors, control problems or acts of fraud and confirm that appropriate corrective action (including process improvements) was being undertaken. This evaluation is performed on a quarterly basis so that the conclusions of management, including the

CEO and CFO, concerning the effectiveness of the disclosure controls and procedures can be reported in our Quarterly Reports on Form 10-Q and to supplement our disclosures made in our Annual Report on Form 10-K. The overall goal of the evaluation activity is to monitor our disclosure controls and procedures, and to modify them as necessary. We intend to maintain our disclosure controls and procedures as a dynamic system that changes as conditions warrant.

Conclusions

Based upon the evaluation of the effectiveness of our disclosure controls and procedures, our CEO and CFO have concluded that as of the end of the period covered by this Quarterly Report, our disclosure controls and procedures were effective to provide reasonable assurance that material information required to be included in our Exchange Act reports, including this Quarterly Report, is recorded, processed, summarized and reported within the time periods prescribed by SEC rules and forms.

In coming to the conclusion that our disclosure controls and procedures were effective as of January 1, 2005, our CEO and CFO considered, among other things, the control deficiency related to the accounting for our deferred compensation plans and the control deficiency related to the error in the calculation of the tax effect on pro forma stock-based compensation, which resulted in the need to amend our Form 10-Q to restate our previously issued financial statements as disclosed in Note 15 of Notes to Condensed Consolidated Financial Statements of this Quarterly Report on Form 10-Q/A and our pro forma Stock-Based Compensation footnote related thereto for the three month period ended January 1, 2005. We reviewed and analyzed the Securities and Exchange Commission s Staff Accounting Bulletin (SAB) No. 99 Materiality and Accounting Principles Board Opinion No. 28 Interim Financial Reporting paragraph 29. We then took into consideration that the restatement for the correction of the accounting for our deferred compensation plans (i) did not have a material impact on the financial statements of prior interim or annual periods taken as a whole; (ii) did not have a material cumulative impact to the financial statements of prior interim or annual periods; (iii) was based solely on our determination that the cumulative impact of the error, if recorded in the period discovered, would have been material to that period s reported net income; and that the restatement for the correction of the error in the calculation of the tax effect on pro forma stock-based compensation had no impact to any of our consolidated Statement of Operations, Balance Sheet, or Statement of Cash Flows for the period affected.

Changes in Internal Controls Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended January 1, 2005, that has materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Following the period covered by this report, we added additional review and reconciliation procedures over the accounting for our deferred compensation plans and for the calculation of the tax effect on pro forma stock-based compensation.

PART II. OTHER INFORMATION

ITEM 6. Exhibits

2.1*	Agreement and Plan of Merger. (Previously filed as Exhibit 2.1 to Form 10-K for the fiscal year ended September 29, 1990).
3.1*	Restated and Amended Certificate of Incorporation. (Previously filed as Exhibit 3.1 to Form 10-K for the fiscal year ended September 29, 1990).
3.2*	Certificate of Amendment of Restated and Amended Certificate of Incorporation of Coherent, Inc. (Previously filed as Exhibit 3.2 to Form 10-K for the fiscal year ended September 28, 2002).
3.3*	Bylaws of Coherent, Inc, as amended (Previously filed as Exhibit 3.2 to Form 10-K for the fiscal year ended September 29, 1990).
4.1*	Amended and Restated Common Shares Rights Agreement dated November 2, 1989 between Coherent and the Bank of Boston. (Previously filed as Exhibit 4.1 to Form 8-K filed on November 3, 1989).
4.2*	Agreement of Substitution and Amendment of Common Shares Rights Agreement dated September 8, 2004 between Coherent and American Stock Transfer & Trust Company. (Previously filed as Exhibit 4.1 to Form 10-K/A Amendment No. 2 for the fiscal year ended October 2, 2004).
31.1	Certification of Chief Executive Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to Exchange Act Rule 13a-14(a)/15d-14(a) as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

COHERENT, INC.

SIGNATURES

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

	Coherent, Inc. (Registrant)	
August 17, 2005	/s/:	JOHN R. AMBROSEO John R. Ambroseo President and Chief Executive Officer (Principal Executive Officer)
August 17, 2005	/s/:	HELENE SIMONET Helene Simonet Executive Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)