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. 1

(Mark One)

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

For the Quarterly Period Ended April 2, 2005

or

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

For the transition period from to

Commission File Number: 0-5255

COHERENT, INC.

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

5100 Patrick Henry Drive, Santa Clara, California 95054

(Address of principal executive offices) (Zip Code)

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

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

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

The number of shares outstanding of registrant s common stock, par value $.01 per share, at May 3, 2005 was 30,789,822 shares.

EXPLANATORY NOTE

This Quarterly Report on Form 10-Q/A (Form 10-Q/A) is being filed as Amendment No. 1 to our Quarterly Report on Form 10-Q for the quarterly period ended April 2, 2005, which was filed with the Securities and Exchange Commission (SEC) on May 17, 2005 (the Original Filing). We are filing this Amendment No. 1 to correct the pro forma amounts reported for stock based compensation determined under the fair value based method for the three and six month periods ended April 2, 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		Six Months Ended	
	April 2, 2005	**April 3, 2004 (as restated, see note 15)**	**April 2, 2005**	**April 3, 2004 (as restated, see note 15)**
Net sales	**$ 131,175**	$ 125,808	**$ 257,197**	$ 233,759
Cost of sales	**72,688**	74,269	**147,173**	140,919
Gross profit	**58,487**	51,539	**110,024**	92,840
Operating expenses:				
Research and development	**14,175**	15,593	**28,476**	30,710
Selling, general and administrative	**28,765**	29,517	**57,137**	56,968
Restructuring, impairment and other charges (recoveries)	**(40)**		**260**	237
Intangibles amortization	**1,528**	1,770	**3,021**	3,699
Total operating expenses	**44,428**	46,880	**88,894**	91,614
Income from operations	**14,059**	4,659	**21,130**	1,226
Other income (expense):				
Interest and dividend income	**1,081**	618	**2,048**	1,338
Interest expense	**(483)**	(795)	**(1,370)**	(1,643)
Foreign exchange gain	**311**	420	**242**	817
Other net	**(119)**	165	**777**	2,161
Total other income, net	**790**	408	**1,697**	2,673
Income from continuing operations before income taxes and minority interest	**14,849**	5,067	**22,827**	3,899
Provision (benefit) for income taxes	**(4,728)**	2,418	**(1,958)**	1,359
Income from continuing operations before minority interest	**19,577**	2,649	**24,785**	2,540
Minority interest in subsidiaries losses		145	**180**	478
Income from continuing operations	**19,577**	2,794	**24,965**	3,018
Discontinued operations, net of income taxes of $145		218		218
Net income	**$ 19,577**	$ 3,012	**$ 24,965**	$ 3,236
Net income per basic share:				
Income from continuing operations	**$ 0.64**	$ 0.09	**$ 0.82**	$ 0.10
Income from discontinued operations, net of income taxes		0.01		0.01
Net income	**$ 0.64**	$ 0.10	**$ 0.82**	$ 0.11
Net income per diluted share:				

Income from continuing operations	**$**	**0.63**	$	0.09	**$**	**0.81**	$	0.10
Income from discontinued operations, net of income taxes				0.01				0.01
Net income	**$**	**0.63**	$	0.10	**$**	**0.81**	$	0.11
Shares used in computation								
Basic		**30,628**		30,121		**30,555**		30,061
Diluted		**31,112**		30,551		**30,991**		30,442

See Accompanying Notes to Condensed Consolidated Financial Statements

COHERENT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited; in thousands, except par value)

		April 2, 2005		October 2, 2004
ASSETS				
Current assets:				
Cash and cash equivalents	**$**	**99,002**	$	87,659
Restricted cash, cash equivalents and short-term investments		**15,411**		15,343
Short-term investments		**113,493**		83,075
Accounts receivable net of allowances of $4,365 and $3,745, respectively		**90,301**		96,825
Inventories		**108,907**		104,698
Prepaid expenses and other assets		**19,541**		19,350
Deferred tax assets		**36,413**		43,222
Total current assets		**483,068**		450,172
Property and equipment, net		**162,455**		166,054
Restricted cash, cash equivalents and short-term investments		**16,545**		23,580
Goodwill		**58,612**		53,104
Intangible assets, net		**33,693**		35,454
Other assets		**43,669**		28,962
	$	**798,042**	$	757,326
LIABILITIES AND STOCKHOLDERS EQUITY				
Current liabilities:				
Current portion of long-term obligations	**$**	**13,360**	$	13,700
Accounts payable		**17,226**		17,648
Income taxes payable		**7,997**		9,603
Other current liabilities		**66,589**		63,578
Total current liabilities		**105,172**		104,529
Long-term obligations		**13,961**		14,215
Other long-term liabilities		**52,613**		49,128
Minority interest in subsidiaries				5,402
Commitments and contingencies (Note 10)				
Stockholder s equity:				
Common stock, par value $.01:				
Authorized 500,000 shares				
Outstanding 30,766 shares and 30,392 shares, respectively		**306**		302
Additional paid-in capital		**316,516**		308,236
Notes receivable from stock sales		**(689)**		(758)
Accumulated other comprehensive income		**45,442**		36,516
Retained earnings		**264,721**		239,756
Total stockholders equity		**626,296**		584,052
	$	**798,042**	$	757,326

See Accompanying Notes to Condensed Consolidated Financial Statements.

COHERENT, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited; in thousands)

	Six Months Ended	
	April 2, 2005	**April 3, 2004 (as restated, see note 15)**
Cash flows from continuing operating activities:		
Income from continuing operations	**$ 24,965**	$ 3,018
Adjustments to reconcile income from continuing operations to net cash provided by continuing operating activities:		
Depreciation and amortization	**14,413**	15,306
Intangible assets amortization	**3,021**	3,699
Deferred income taxes	**(2,794)**	7,312
Other	**659**	423
Changes in operating assets and liabilities:		
Accounts receivable	**8,513**	(14,503)
Inventories	**(3,270)**	(1,302)
Prepaid expenses and other assets	**(1,609)**	2,102
Other assets	**655**	(616)
Accounts payable	**(735)**	2,746
Income taxes payable	**93**	19,649
Other current liabilities	**3,500**	(5,342)
Other long-term liabilities	**1,293**	(585)
Net cash provided by continuing operating activities	**48,704**	31,907
Cash flows from continuing investing activities:		
Decrease in restricted cash, cash equivalents and short-term investments	**8,411**	616
Purchases of property and equipment	**(7,945)**	(33,474)
Proceeds from dispositions of property and equipment and assets held for sale	**214**	1,234
Acquisition of businesses and minority interests, net of cash acquired	**(12,129)**	(2,471)
Consolidation of Picometrix under FIN 46R		251
Purchases of available-for-sale securities	**(196,211)**	(146,514)
Proceeds from sales and maturities of available-for-sale securities	**165,793**	146,622
Premiums paid on life insurance	**(1,184)**	(366)
Distributions from deferred compensation plan arrangements		408
Other net	**(554)**	(407)
Net cash used in continuing investing activities	**(43,605)**	(34,101)
Cash flows from continuing financing activities:		
Long-term debt payments	**(745)**	(771)
Cash overdrafts increase (decrease)	**(520)**	2,829
Sales of shares under employee stock plans	**7,285**	4,441
Collection of notes receivable from stock sales	**69**	
Net cash provided by continuing financing activities	**6,089**	6,499
Net cash provided by discontinued operating activities		218
Effect of exchange rate changes on cash and cash equivalents	**155**	2,006
Net increase in cash and cash equivalents	**11,343**	6,529
Cash and cash equivalents, beginning of period	**87,659**	76,541
Cash and cash equivalents, end of period	**$ 99,002**	$ 83,070
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		

Interest	**$**	**1,143**	$	1,643
Income taxes	**$**	**3,140**	$	4,466
Cash received during the period for:				
Income taxes	**$**	**2,074**	$	27,869
Noncash investing and financing activities:				
Tax benefit from stock option exercises	**$**	**958**	$	495

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		Employee Stock Purchase Plans	
Three Months Ended	**Six Months Ended**	**Three Months Ended**	**Six Months Ended**

	April 2, 2005	April 3, 2004	April 2, 2005	April 3, 2004	April 2, 2005	April 3, 2004	April 2, 2005	April 3, 2004
Expected life in years	4.2	4.4	4.0	4.4	0.5	0.5	0.5	0.5
Expected volatility	49.5%	74.1%	50.1%	74.1%	37.5%	44.5%	38.2%	44.7%
Risk-free interest rate	4.1%	2.8%	3.7%	2.8%	2.2%	1.3%	2.1%	1.3%
Expected dividends	none	none	none	none	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 earnings 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		Six Months Ended	
	April 2, 2005 (as restated, see note 15)	April 3, 2004	April 2, 2005 (as restated, see note 15)	April 3, 2004
Net income, as reported	$ 19,577	$ 3,012	$ 24,965	$ 3,236
Deduct: total stock-based employee compensation expense determined under fair value based method for all awards, net of income taxes	2,961	2,532	6,883	669
Pro forma net income	$ 16,616	$ 480	$ 18,082	$ 2,567
Earnings per share:				
Basic as reported	$ 0.64	$ 0.10	$ 0.82	$ 0.11
Basic pro forma	$ 0.54	$ 0.02	$ 0.59	$ 0.09
Diluted as reported	$ 0.63	$ 0.10	$ 0.81	$ 0.11
Diluted pro forma	$ 0.53	$ 0.02	$ 0.58	$ 0.08

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). On April 14, 2005, the Securities and Exchange Commission (SEC) announced the adoption of a rule that defers the required effective date of SFAS 123R. The SEC rule provides that SFAS 123R is now effective for registrants as of the beginning of their first fiscal year beginning after June 15, 2005.

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 aspects. 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 October 2, 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. We have not yet determined which method we will apply upon our adoption of SFAS 123R.

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. Through the end of fiscal 2004, we had purchased a total of 4,588,500 outstanding shares for approximately $49.0 million, resulting in a total ownership percentage of 95.01% (inclusive of shares previously owned). During the six months ended April 2, 2005, we acquired the remaining 661,500 outstanding shares for approximately $11.8 million, resulting in our full ownership of Lambda Physik.

The difference between the purchase price of the minority interest of $12.2 million (including acquisition costs of $0.4 million) and the related carrying value of $6.3 million was recorded as an adjustment of the carrying value of the assets of Lambda Physik (the step acquisition adjustment). The step acquisition adjustment was recorded based on the proportion of the remaining minority interest acquired and was accounted for as follows (in thousands):

Reduction in carrying value of minority interest acquired	$	6,267
Tangible assets		133
Goodwill		4,970
Deferred tax liabilities		(808)
Intangible assets:		
Existing technology		1,085
Trade name		367
Backlog		161
Other		13
Total	$	12,188

At April 2, 2005, we had $1.4 million remaining in an escrow account that will be applied towards remaining close out costs for the acquisition and is included in non-current restricted cash, cash equivalents and short-term investments on our condensed consolidated balance sheet (see Note 6).

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, during the six months ended April 2, 2005, we recognized a charge of $2.7 million (net of minority interest of $0.1 million) primarily related to recognizing write-downs of excessive and obsolete inventories, exiting certain purchase commitments and charges related to government grants. Of the $2.7 million charge, $2.2 million was classified as cost of sales; $0.2 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 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.

In March 2005, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations, an interpretation of FASB Statement No. 143 (FIN 47). FIN 47 clarifies that conditional asset retirement obligations meet the definition of liabilities and should be recognized when incurred if their fair values can be reasonably estimated. The Interpretation is effective no later than December 31, 2005 and the cumulative effect of initially applying FIN 47 will be recognized as a change in accounting principle. We are in the process of evaluating the expected effect of FIN 47 on our consolidated financial statements.

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 (OCI) in stockholders equity until realized. Interest and amortization of premiums and discounts for debt securities are included in interest income. Gains and losses on securities sold are determined based on the specific identification method and are included in other income (expense).

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

	April 2, 2005			
	Cost Basis	Unrealized Gains	Unrealized Losses	Fair Value
Cash and cash equivalents	$ 110,811	$	$	$ 110,811
Less: restricted cash and cash equivalents				(11,809)
				$ 99,002
Short-term investments:				
Available-for-sale securities:				
Commercial paper	$ 5,780	$ 1	$	$ 5,781
Certificates of deposit	900	13		913
U.S. government and agency obligations	70,367	519	(156)	70,730
State and municipal obligations	34,857	383	(73)	35,167
Corporate notes and obligations	20,958	185	(94)	21,049
Total short-term investments	$ 132,862	$ 1,101	$ (323)	133,640
Less: restricted short term-investments				(20,147)
				$ 113,493

	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 April 2, 2005, $1.4 million of cash and cash equivalents were restricted for remaining close out costs related to the purchase of the shares of Lambda Physik (see Note 2), $10.2 million were restricted pursuant to our Star notes agreement (see Note 9) and $0.2 million were restricted for other purposes. In addition, $20.2 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 April 2, 2005 and October 2, 2004, classified as short-term investments (including restricted amounts) on our condensed consolidated balance sheets were as follows (in thousands):

	April 2, 2005		October 2, 2004	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in less than 1 year	$ 100,991	$ 101,707	$ 101,708	$ 101,979
Due in 1 to 5 years	31,169	31,230	10,282	10,265
Due in 5 to 10 years				
Due beyond 10 years	702	703	845	846
Total investments in available-for-sale debt securities	$ 132,862	$ 133,640	$ 112,835	$ 113,090

In the first six months of fiscal 2005, we received proceeds totaling $11.0 million from the sale of available-for-sale securities and realized gross losses of $0.1 million. In the first six months 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. GOODWILL AND OTHER INTANGIBLE ASSETS

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

	April 2, 2005	October 2, 2004
Electro-Optics	$ 35,427	$ 35,270
Lambda Physik	23,185	17,834
Total	$ 58,612	$ 53,104

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

	April 2, 2005			October 2, 2004		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Existing technology	$ 37,491	$ 11,898	$ 25,593	$ 36,746	$ 10,018	$ 26,728
Patents	9,386	4,270	5,116	9,005	3,699	5,306
Licenses	4,261	4,261		4,261	4,047	214
Drawings	1,263	1,009	254	1,214	850	364
Order backlog	2,222	2,157	65	1,990	1,990	
Customer lists	2,093	1,114	979	2,106	992	1,114
Trade name	1,776	481	1,295	1,608	417	1,191
Non-compete agreement	928	537	391	911	374	537
Total	$ 59,420	$ 25,727	$ 33,693	$ 57,841	$ 22,387	$ 35,454

Amortization expense for intangible assets for the three and six months ended April 2, 2005 were $1.5 million and $3.0 million, respectively. At April 2, 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)	$	2,932
2006		5,392
2007		4,960
2008		4,801
2009		4,562
2010		3,573
Thereafter		7,473
Total	$	33,693

8. BALANCE SHEET DETAILS:

Inventories are as follows (in thousands):

	April 2, 2005	October 2, 2004
Purchased parts and assemblies	$ 25,221	$ 28,097
Work-in-process	50,088	44,070
Finished goods	33,598	32,531
Inventories	$ 108,907	$ 104,698

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

	April 2, 2005	October 2, 2004
Prepaid expenses and other	$ 18,381	$ 16,812
Prepaid and refundable income taxes	1,160	2,538
Total prepaid expenses and other assets	$ 19,541	$ 19,350

Other assets consist of the following (in thousands):

	April 2, 2005	October 2, 2004
Deferred tax assets	$ 20,206	$ 6,644
Assets related to deferred compensation arrangements	18,010	17,095
Other assets	5,453	5,223
Total other assets	$ 43,669	$ 28,962

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

	April 2, 2005	October 2, 2004
Accrued payroll and benefits	$ 22,889	$ 26,532
Accrued expenses and other	18,967	14,130
Reserve for warranty	11,875	10,638
Customer deposits	4,720	4,488
Deferred income	4,518	3,838
Accrued restructuring charges	3,620	3,952
Total other current liabilities	$ 66,589	$ 63,578

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 six months of fiscal 2005 and 2004 were as follows (in thousands):

	April 2, 2005	April 3, 2004
Beginning balance	$ 10,638	$ 10,242
Additions related to current period sales	7,126	11,580
Warranty costs incurred in the current period	(6,154)	(10,289)
Adjustments to accruals related to prior period sales	265	(116)
Ending balance	$ 11,875	$ 11,417

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

	April 2, 2005	October 2, 2004
Deferred compensation	$ 22,179	$ 20,500
Deferred tax liabilities	22,320	21,223
Deferred income	3,152	2,930
Environmental remediation costs	409	431
Other long-term liabilities	4,553	4,044
Total other long-term liabilities	$ 52,613	$ 49,128

9. CURRENT AND LONG TERM OBLIGATIONS

At April 2, 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 April 2, 2005, $15.2 million of current and $15.2 million of non-current restricted cash, cash equivalents and short-term investments were related to the Star notes (see Note 6).

10. 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.

11. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

	Three Months Ended		Six Months Ended	
	April 2, 2005	April 3, 2004	April 2, 2005	April 3, 2004
Net income	$ 19,577	$ 3,012	$ 24,965	$ 3,236
Translation adjustment	(6,762)	(648)	9,134	14,622
Net loss on derivative instruments	(47)	(14)	(28)	(12)
Changes in unrealized gain (loss) on available-for-sale securities	(108)	51	(180)	71
Total comprehensive income	$ 12,660	$ 2,401	$ 33,891	$ 17,917

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		(14)
Net losses reclassified from OCI		2
Balance, April 3, 2004	$	(140)
Balance, October 2, 2004	$	(122)
Changes in fair value of derivatives		
Net losses reclassified from OCI		(28)
Balance, April 2, 2005	$	(150)

Accumulated other comprehensive income (net of tax) at April 2, 2005 is comprised of accumulated translation adjustments of $45.9 million, net loss on derivative instruments of $0.2 million and unrealized loss on available-for-sale securities of $0.3 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.

12. 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		Six Months Ended	
	April 2, 2005	April 3, 2004	April 2, 2005	April 3, 2004
Weighted average shares outstanding basic	30,628	30,121	30,555	30,061
Common stock equivalents	449	402	404	357
Employee stock purchase plan equivalents	35	28	32	24
Weighted average shares and equivalents diluted	31,112	30,551	30,991	30,442
Income from continuing operations for basic and diluted earnings per share computation	$ 19,577	$ 2,794	$ 24,965	$ 3,018
Income from continuing operations per share basic	$ 0.64	$ 0.09	$ 0.82	$ 0.10
Income from continuing operations per share diluted	$ 0.63	$ 0.09	$ 0.81	$ 0.10

A total of 2,623,000 and 3,067,000 potentially dilutive securities have been excluded from the dilutive share calculation for the three months ended April 2, 2005 and April 3, 2004, respectively, as their effect was anti-dilutive. A total of 2,709,000 and 3,192,000 anti-diluted weighted shares have been excluded from the dilutive share calculation for the six months ended April 2, 2005 and April 3, 2004, respectively, as their effect was anti-dilutive.

13. INCOME TAXES

During the second quarter of fiscal 2005, we recorded a reduction of $10.2 million of valuation allowance on Lambda Physik s deferred tax assets as we believe that it is more likely than not that we will be able to realize these assets. In accordance with SFAS No. 109 Accounting for Income Taxes, $0.6 million of the reversal was applied against goodwill recognized from the final step acquisition (see Note 2). The remaining $9.6 million of the reversal was recorded as a tax benefit during the quarter ended April, 2, 2005.

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				Six Months Ended			
	April 2, 2005		April 3, 2004		April 2, 2005		April 3, 2004	
			(in thousands)					
Net sales:								
Electro-Optics	$	105,383	$	103,946	$	206,282	$	194,569
Lambda Physik		25,792		21,862		50,915		39,190
Total net sales	$	131,175	$	125,808	$	257,197	$	233,759
Intersegment net sales:								
Electro-Optics	$		$	84	$	7	$	89
Lambda Physik		1,019		268		1,408		338
Total intersegment sales	$	1,019	$	352	$	1,415	$	427
Income from continuing operations before income taxes, including tax-effected minority interest:								
Electro-Optics	$	12,719	$	8,244	$	22,730	$	11,389
Lambda Physik		1,916		(3,490)		(2,025)		(9,173)
Corporate and other		214		458		2,302		2,161
Total income from continuing operations before income taxes, including tax-effected minority interest	$	14,849	$	5,212	$	23,007	$	4,377

15. RESTATEMENTS

Deferred Compensation Plans

Subsequent to the issuance of our condensed consolidated financial statements for the three and six months ended April 3, 2004, 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 and six month periods ended April 3, 2004 have been restated from the amounts previously reported to correct these errors.

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

	Three Months Ended April 3, 2004			Six Months Ended April 3, 2004		
	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	$ 74,235	$ 34	$ 74,269	$ 140,752	$ 167	$ 140,919
Gross profit	51,573	(34)	51,539	93,007	(167)	92,840
Research and development	15,538	55	15,593	30,459	251	30,710
Selling, general and administrative	29,132	385	29,517	55,090	1,878	56,968
Total operating expense	46,440	440	46,880	89,485	2,129	91,614
Income from operations	5,133	(474)	4,659	3,522	(2,296)	1,226
Other-net	(69)	234	165	80	2,081	2,161
Total other income (expense), net	174	234	408	592	2,081	2,673
Income from continuing operations before income taxes and minority interest	5,307	(240)	5,067	4,114	(215)	3,899
Provision (benefit) for income taxes	2,567	(149)	2,418	2,013	(654)	1,359
Income from continuing operations before minority interest	2,740	(91)	2,649	2,101	439	2,540
Income from continuing operations	2,885	(91)	2,794	2,579	439	3,018
Net income	3,103	(91)	3,012	2,797	$ 439	3,236
Net Income Per Share						
Basic:						
Income from continuing operations	$ 0.09	$	$ 0.09	$ 0.08	$ 0.02	$ 0.10
Net income	$ 0.10	$	$ 0.10	$ 0.09	$ 0.02	$ 0.11
Diluted:						
Income from continuing operations	$ 0.09	$	$ 0.09	$ 0.08	$ 0.02	$ 0.10
Net income	$ 0.10	$	$ 0.10	$ 0.09	$ 0.02	$ 0.11

Tax Effect on Pro Forma Stock-Based Compensation Disclosures

Subsequent to the issuance of our condensed consolidated financial statements for the quarter ended April 2, 2005, we determined that the tax effect on stock-based compensation determined under the fair value method had been calculated incorrectly for the three and six month periods ended April 2, 2005. Accordingly, such pro forma amounts presented have been restated (see Note 1). For the three month period ended April 2, 2005, the correction of the error increased pro forma stock-based compensation expense, net of tax, by $0.8 million to $2.9 million from $2.1 million, as previously reported, and decreased pro forma net income by $0.8 million to $16.6 million from $17.4 million, as previously reported. For the six month period ended April 2, 2005, the effect was to increase pro forma stock-based compensation expense, net of tax, by $2.4 million to $6.8 million from $4.4 million, as previously reported, and decreased pro forma net income by $2.4 million to $18.1 million from $20.5 million, as previously reported. For the three months ended April 2, 2005 basic and diluted pro forma earnings per share each decreased by $0.03 from $0.57 and $0.56 per share, as previously reported, to $0.54 and $0.53 per share, respectively. For the six months ended April 2, 2005 basic and diluted pro forma earnings per share each decreased by $0.08 from $0.67 and $0.66 per share, as previously reported, to $0.59 and $0.58 per share, respectively.

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 wholly-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 and six month periods ended April 3, 2004 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 and six month periods ended April 2, 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 a strong recovery across all segments during fiscal 2004. We anticipate future demands in the advanced packaging market will steadily 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.

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. As we continue to move into fiscal 2005 and years beyond, 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 for rear projection television based on our patented OPS technology. The RGB laser system delivers suitable power and is comparable in size to the lamps currently used in rear projection televisions. Alpha units of the RGB laser 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 to outsource the manufacturing of the RGB laser engine.

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 monetary 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.

The market for laser material processing will continue to expand by providing cost effective manufacturing solutions for cutting, joining, marking and engraving of non-metal materials. One of the largest growth areas for us remains the Asian countries particularly in the production of capital equipment for apparel and leather goods.

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. Using our solid state lasers and patented OPS technology we are able to both assist and stimulate this transition. Furthermore, this trend is helping in the development of new applications such as security and clinical diagnostics. These applications 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. Nevertheless, we anticipate future opportunities in microscopy, lab-on chip and DNA sequencing based on our continuous product enhancements and evolving market developments.

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 to 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 April 2, 2005, we had $92.3 million of goodwill and purchased intangible assets on our condensed consolidated balance sheet. As no impairment indicators were present during the second 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 April 2, 2005, we had $162.5 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 first quarter of fiscal 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 to an amount that more likely than not will be realized. While we have considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event we were to determine that we would be able to realize our deferred tax assets in the future in excess of our net recorded amount, an adjustment to the allowance for the deferred tax asset would increase income in the period such determination was made. Likewise, should we determine that we would not be able to realize all or part of our net deferred tax asset in the future, an adjustment to the allowance for the deferred tax asset would be charged to income in the period such determination was made.

During the second quarter of fiscal 2005, our valuation allowance on deferred tax assets at Lambda Physik decreased by $10.2 million as we now believe that it is more likely than not that we will be able to realize these assets.

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				
		April 2, 2005		April 3, 2004		Change	% Change
Bookings - Electro-Optics	$	100,033	$	109,095	$	(9,062)	(8.3)%
Bookings - Lambda Physik	$	29,317	$	28,269	$	1,048	3.7%
Net Sales - Electro-Optics	$	105,383	$	103,946	$	1,437	1.4%
Net Sales - Lambda Physik	$	25,792	$	21,862	$	3,930	18.0%
Gross Profit as a % of Net Sales - Electro-Optics		46.8%		42.8%		4.0%	9.3%
Gross Profit as a % of Net Sales - Lambda Physik		35.6%		32.2%		3.4%	10.4%
Research and Development as a % of Net Sales		10.8%		12.4%		(1.6)%	(12.9)%
Income from Continuing Operations Before Income Taxes and Minority Interest	$	14,849	$	5,067	$	9,782	193.1%
Cash from Continuing Operations	$	18,414	$	6,637	$	11,777	177.4%
DSO in Inventories		74.7		76.1		(1.4)	(1.8)%
DSO in Receivables		62.0		65.7		(3.7)	(5.6)%
Capital Spending as a % of Net Sales		2.8%		4.6%		(1.8)%	(39.3)%

	Six Months Ended						
		April 2, 2005		April 3, 2004		Change	% Change
Bookings - Electro-Optics	$	197,053	$	215,786	$	(18,733)	(8.7)%
Bookings - Lambda Physik	$	60,880	$	48,404	$	12,476	25.8%
Net Sales - Electro-Optics	$	206,282	$	194,569	$	11,713	6.0%
Net Sales - Lambda Physik	$	50,915	$	39,190	$	11,725	29.9%
Gross Profit as a % of Net Sales - Electro-Optics		46.3%		42.6%		3.7%	8.6%
Gross Profit as a % of Net Sales - Lambda Physik		28.8%		25.6%		3.1%	12.2%
Research and Development as a % of Net Sales		11.1%		13.1%		(2.1)%	(15.7)%
Income from Continuing Operations Before Income Taxes and Minority Interest	$	22,827	$	3,899	$	18,928	485.5%
Cash from Continuing Operations	$	48,704	$	31,907	$	16,797	52.6%
Capital Spending as a % of Net Sales		3.1%		14.3%		(11.2)%	(78.4)%

Definitions and analysis of these performance indicators are 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, second fiscal quarter bookings decreased 8.3% and bookings for the six months ended April 2, 2005 decreased 8.7% from the same periods one year ago. Decreases in the microelectronics, OEM components and instrumentation, materials processing and scientific and government programs markets were partially offset by increases in the graphic arts and display market.

Although microelectronics bookings have decreased from the comparable periods in the prior year, they still continue to be strong as a direct result of our prior investment decisions. Today, a significant portion of our revenue is derived from sales to customers investing in emerging manufacturing technologies. This has allowed us to withstand recent downturns in capacity-driven demand. During the second fiscal quarter, there was improved activity in the wafer inspection and metrology arenas for both leading edge and legacy products, as fab utilization continues to climb. There was also resurgence for lasers used in photomask tools, both for semiconductors and flat panel displays as the market was pushed towards next generation devices to support shrinking feature sizes. Bookings for ultraviolet lasers used in printed circuit board (PCB) direct write were strong, presumably reflecting increasing demand for high resolution PCB s. There is a push to extend the direct write technology to other PCB formats, although this will require a different cost structure for the tool and laser. We are currently testing concepts for this purpose. Microvia drilling, which utilizes both carbon dioxide and ultraviolet lasers, is also picking up as inventories and microvia PCB pricing seems to have bottomed out.

Bookings in the OEM components and instrumentation market decreased in the second fiscal quarter from the same period a year ago after coming off two successive quarters of growth. Our instrumentation business remains healthy as our Sapphire and Compass products continue to dominate this market. Emerging applications in HIV screening, live imaging microscopy and automated hematology hold future promise. Orders from medical OEM customers were weaker following inventory build-up in the preceding quarter. Similarly, bookings from laser OEMs were down sequentially after several annual buys were placed in the first quarter of fiscal 2005.

Bookings in the materials processing market decreased compared to the same prior year periods primarily due to the unusually high level of bookings in the second quarter of fiscal 2004. This is our third successive quarter of increasing demand, which was evident in several end markets, including textiles and marking and engraving. We believe an additional increase in demand was created when, earlier this year, the World Trade Organization lifted quotas on Chinese-made apparel, thereby creating demand for more processing capacity. We are also seeing a slight shift away from locally made carbon dioxide lasers in China towards commercial grade products. It is far too early to call this a trend, but it is a development worth watching as we estimate more than 10,000 domestic carbon dioxide lasers are sold in China each year. In the longer term, we remain concerned about energy prices and interest rates given their historical impact on this market.

Bookings in the scientific and government programs market decreased from the periods one year ago, but remained solid. We again experienced strong demand from the biological imaging market, which is consistent with our previous predictions. We posted the second highest-ever order rate for our Chameleon products. Our amplifier business was mixed as orders for standard products were in-line with expectations and stiff price competition from European suppliers led us to pass on some custom laser business. We set a record-high for orders of our Evolution laser, which has emerged as the standard for pumping amplifiers, including those from other vendors. On a geographic basis, the U.S. market recovered from its first quarter sluggishness and Asia remained on track. European bookings in the second fiscal quarter were disappointing and were due mostly to funding delays.

Bookings in the graphic arts and display market increased from the same prior year periods, driven by several applications. We have experienced an increase in demand for Paladin solid-state ultraviolet lasers used in newspaper printing. The main customer benefits are print speed and lower operating costs. Our penetration into the professional film finishing and digital film writing areas continues to gain momentum with new placements of our Sapphire series lasers. While green lasers used in computer-to-plate printing have nearly completely succumbed to diode lasers, there is a substantial installed based of legacy systems, which drove a moderately sizeable order for service stock. We have run a number of demonstrations of our previously announced RGB laser emitter for the consumer and commercial display market. Based upon feedback, we appear to be on target in terms of fit, form and function. Not surprisingly, lifetime and cost have rapidly emerged as key success factors. We are continuing to evolve the technology for this and other markets while we explore various manufacturing models.

In our Lambda Physik segment, second fiscal quarter bookings increased 3.7%, with increases in the lithography market partially offset by slight decreases in the industrial and scientific and medical markets. Year-to-date bookings increased 25.8%, with increases in the industrial and lithography markets partially offset by decreases in the scientific and medical market.

The industrial market dominated the current quarter order stream for the Lambda Physik segment, although second fiscal quarter orders were down slightly from the strong orders in the same quarter in the prior year. More than half of the industrial bookings came from a large order for lasers used in low-temperature poly-silicon (LTPS) annealing. Despite recent reports of excess capacity in the flat panel display (FPD) market, this large order helps demonstrate that LTPS continues to gain share against amorphous silicon. In fact, one recent report suggested that LTPS panels would account for 30% of the FPD market by 2008, versus its current 9% share.

Lithography bookings increased from the prior year periods and should remain mostly service-related. We will continue to support our installed base, but have discontinued future investments in lithography. We are also exploring options to sell Lambda Physik s interest in Xtreme Technologies, its joint venture with Jenoptik to develop extreme ultra-violet (EUV) light sources.

SciMed bookings grew slightly due to strong increases in our OptexPro lasers which have gained traction with customers in the medical OEM and scientific markets, partially offset by some unusually high scientific orders in the second quarter of fiscal 2004.

Net Sales

Net sales include sales of lasers, laser-based systems, precision optics, related accessories and service contracts. Net sales for the second fiscal quarter increased 1.4% in our Electro-Optics segment and 18.0% in our Lambda Physik segment from the same quarter one year ago. Net sales for the first six months of fiscal 2005 increased 6.0% in our Electro-Optics segment and 29.9% in our Lambda Physik segment from the same period 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 in the second fiscal quarter increased from 42.8% to 46.8% in our Electro-Optics segment and increased from 32.2% to 35.6% in our Lambda Physik segment from the same quarter one year ago. Gross profit percentage in the first six months of fiscal 2005 increased from 42.6% to 46.3% in our Electro-Optics segment and increased from 25.6% to 28.8% in our Lambda Physik segment from the same period 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 12.4% to 10.8% in the second fiscal quarter and decreased from 13.1% to 11.1% for the six months ended April 2, 2005 from the same quarter and year-to-date periods, respectively, one year ago. For a more complete description of the reasons for changes in R&D percentage, refer to the Results of Operations section of this Form 10-Q/A.

Net Cash Provided by Operating Activities

Net cash provided by continuing operating activities shown on our Condensed Consolidated Statements of Cash Flows primarily 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 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 continuing 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 cash flow 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 second quarter of fiscal 2005 decreased 1.4 days from the same quarter one year ago primarily due to Lambda s write-off of lithography inventory and better management of inventory levels in relation to sales volumes in both segments, 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 cash flow 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 second quarter of fiscal 2005 decreased 3.7 days from the same quarter one year ago. The improvement in DSO is primarily due to a lower volume of receivables with longer terms in our Lambda segment, as well as 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 4.6% to 2.8% compared to the same quarter one year ago primarily due to lower spending for information technology and manufacturing equipment. Our capital spending percentage decreased from 14.3% to 3.1% for the first six months of fiscal 2005 compared to the same year-to-date period one year ago primarily due to our purchase of our previously leased facility in Santa Clara, California, in the first quarter of fiscal 2004 and lower spending on information technology. We anticipate that capital spending for fiscal 2005 will be approximately 4% to 5% 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. Through the end of fiscal 2004, we had purchased a total of 4,588,500 outstanding shares for approximately $49.0 million, resulting in a total ownership percentage of 95.01% (inclusive of shares previously owned). During the second quarter of fiscal 2005, we acquired the remaining 661,500 outstanding shares for approximately $11.8 million, resulting in our full ownership of Lambda Physik.

In December 2004, our Lambda Physik subsidiary decided to discontinue future product development and investments in the semiconductor lithography market. As a result, during the six months ended April 2, 2005, we recognized a charge of $2.7 million (net of minority interest of $0.1 million) 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.

During the second quarter of fiscal 2005, we recorded a reduction of $10.2 million of valuation allowance on Lambda Physik s deferred tax assets as we believe that it is more likely than not that we will be able to realize these assets.

RESULTS OF OPERATIONS

CONSOLIDATED SUMMARY

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

	Three Months Ended		Six Months Ended	
	April 2, 2005	April 3, 2004	April 2, 2005	April 3, 2004
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	55.4%	59.0%	57.2%	60.3%
Gross profit	44.6%	41.0%	42.8%	39.7%

Operating expenses:				
Research and development	10.8%	12.4%	11.1%	13.1%
Selling, general and administrative	21.9%	23.5%	22.2%	24.4%
Restructuring, impairment and other charges	0.0%	0.0%	0.1%	0.1%
Intangibles amortization	1.2%	1.4%	1.2%	1.6%
Total operating expenses	33.9%	37.3%	34.6%	39.2%
Income from operations	10.7%	3.7%	8.2%	0.5%
Other income (expense):				
Interest and dividend income	0.8%	0.5%	0.8%	0.6%
Interest expense	(0.4)%	(0.6)%	(0.5)%	(0.7)%
Foreign exchange gain	0.2%	0.3%	0.1%	0.3%
Other net	(0.1)%	0.1%	0.3%	0.9%
Total other income (expense), net	0.6%	0.3%	0.7%	1.1%
Income from continuing operations before income taxes and minority interest	11.3%	4.0%	8.9%	1.7%
Provision (benefit) for income taxes	(3.6)%	1.9%	(0.8)%	0.6%
Income from continuing operations before minority interest	14.9%	2.1%	9.6%	1.1%
Minority interest in subsidiaries losses		0.1%	0.1%	0.2%
Income from continuing operations	14.9%	2.2%	9.7%	1.3%
Discontinued operations, net of tax	0.0%	0.2%	0.0%	0.1%
Net income	14.9%	2.4%	9.7%	1.4%

Net income for the second quarter of fiscal 2005 was $19.6 million ($0.63 per diluted share) including a tax benefit from the reversal of a deferred tax valuation allowance of $9.6 million related to our Lambda Physik segment (tax benefit) and a favorable adjustment of $0.3 million related to our Lambda Physik segment s first quarter of fiscal 2005 decision to discontinue future lithography investments. For the same quarter in the prior year, net income from continuing operations was $2.8 million ($0.09 per share). Net income for the first six months of fiscal 2005 was $25.0 million ($0.81 per diluted share) including a tax benefit from the reversal of a deferred tax valuation allowance of $9.6 million related to our Lambda Physik segment and a tax benefit of $0.5 million related to federal tax law changes enacted in the first quarter of fiscal 2005, partially offset by a charge of $2.7 million related to our decision to discontinue future lithography investments. For the same six months in the prior year, net income from continuing operations was $3.0 million ($0.10 per share). The increase in net income for the quarter is primarily due to the current quarter s tax benefit, higher gross margins as a percentage of sales, higher sales volumes and lower R&D expenses. Year-to-date, the increase in net income is primarily due to the current quarter s tax benefit, higher sales volumes, higher gross margins as a percentage of sales and lower R&D expenses, partially offset by the charges related to our decision to discontinue future lithography investments.

NET SALES:

	Three Months Ended				
	April 2, 2005		April 3, 2004		
	Amount	Percentage of total net sales		Amount	Percentage of total net sales
	(dollars in thousands)				
Consolidated:					
Domestic	$ 44,141	33.7%	$	47,147	37.5%
Foreign	87,034	66.3%		78,661	62.5%
Total	$ 131,175	100.0%	$	125,808	100.0%
Electro-Optics:					
Domestic	$ 40,045	30.6%	$	44,704	35.5%
Foreign	65,338	49.8%		59,242	47.1%
Total	$ 105,383	80.4%	$	103,946	82.6%
Lambda Physik:					
Domestic	$ 4,096	3.1%	$	2,443	2.0%
Foreign	21,696	16.5%		19,419	15.4%
Total	$ 25,792	19.6%	$	21,862	17.4%

	Six Months Ended				
	April 2, 2005		April 3, 2004		
	Amount	Percentage of total net sales		Amount	Percentage of total net sales
	(dollars in thousands)				
Consolidated:					
Domestic	$ 89,070	34.6%	$	91,292	39.1%
Foreign	168,127	65.4%		142,467	60.9%
Total	$ 257,197	100.0%	$	233,759	100.0%
Electro-Optics:					
Domestic	$ 81,394	31.6%	$	85,950	36.8%
Foreign	124,888	48.6%		108,619	46.4%
Total	$ 206,282	80.2%	$	194,569	83.2%
Lambda Physik:					
Domestic	$ 7,676	3.0%	$	5,342	2.3%

Foreign	43,239	16.8%	Contractual Obligations:

In July 2015, we amended our lease with CA-10880 Wilshire Limited Partnership to expand the rented square feet in our office by approximately 26,000 square feet. The lease is expected to commence on or about April 1, 2016, and increases the monthly rent in the Los Angeles location by approximately $150,000 per month with annual increases of approximately 3% per year for the 10-year lease term.

In addition, in July 2015, amended our office lease with PR 701 Gateway, LLC (as successor in interest to DWF III Gateway, LLC) to expand the rented square feet in our South San Francisco location by approximately 13,000 square feet. The lease is expected to commence on or about April 1, 2016, and increases the monthly rent in the South San Francisco location by approximately

$51,400 with annual increases of approximately 3% per year for the 10-year lease term.

Non-GAAP Financial Measures:

In addition to our operating results, as calculated in accordance with accounting principles generally accepted in the United States of America, or GAAP, we use certain non-GAAP financial measures when planning, monitoring, and evaluating our operational performance. The following table presents our net loss and net loss per share, as calculated in accordance with GAAP, as adjusted to remove the impact of employee stock-based compensation. These non-GAAP financial measures are not, and should not be viewed as, substitutes for GAAP reporting measures. We believe these non-GAAP measures enhance understanding of our financial performance, are more indicative of our operational performance and facilitate a better comparison among fiscal periods.

For the three and nine months ended September 30, 2015, stock-based compensation represented approximately 41.1% and 41.1% of our loss from operations, respectively, compared to 29.1% and 24.1% for the three and nine months ended September 30, 2014, respectively. This cost is related to our employee hiring practice and the fair market value of the stock option grants on the day granted.

Reconciliation of GAAP Net Loss to Non-GAAP Adjusted Net Loss and

GAAP Net Loss Per Share to Non-GAAP Adjusted Net Loss Per Share

(in thousands except share and per share data)

	Three months ended September 30,		Nine months ended September 30,		
	2015	2014	2015	2014	
GAAP net loss	$(60,417)	$(35,844)	$(177,565)	$(94,482)	
Adjustments:					
Stock-based compensation -					
General and administrative	4,747	1,377	12,173	4,081	(1)
Research and development	20,209	9,073	61,081	18,699	(2)
Non-GAAP adjusted net loss	$(35,461)	$(25,394)	$(104,311)	$(71,702)	
GAAP net loss per share—basic and diluted	$(1.87)	$(1.19)	$(5.55)	$(3.16)	
Adjustment to net loss (as detailed above)	0.77	0.35	2.29	0.76	
Non-GAAP adjusted net loss per share	$(1.10)	$(0.84)	$(3.26)	$(2.40)	(3)

(1) To reflect a non-cash charge to operating expense for general and administrative stock-based compensation.

(2) To reflect a non-cash charge to operating expense for research and development stock-based compensation.

(3) Non-GAAP adjusted net loss per share was calculated based on 32,303,203 and 30,117,819 weighted average common shares outstanding for the three months ended September 30, 2015 and 2014, respectively, and 32,018,869 and 29,936,254 weighted average common shares outstanding for the nine months ended September 30, 2015 and 2014, respectively.

Off-Balance Sheet Arrangements

We do not have any "off-balance sheet agreements," as defined by SEC regulations.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary objective of our investing activities is to preserve principal while maximizing the income we receive from our investments without significantly increasing the risk of loss. Some of the investable securities permitted under our cash management policy may be subject to market risk for changes in interest rates. To mitigate this risk, we maintain a portfolio of cash equivalents and available-for-sale investments in a variety of securities, which may include investment grade commercial paper, money market funds, government debt issued by the United States of America, state debt, certificates of deposit and investment grade corporate debt. Presently, we are exposed to minimal market risks associated with interest rate changes because of the relatively short maturities of our investments and we do not expect interest rate fluctuations to materially affect the aggregate value of our financial instruments. We manage our sensitivity to these risks by maintaining investment grade short-term investments. We do not purchase or hold derivative or commodity instruments or other financial instruments for trading purposes. Additionally, we periodically monitor our investments for adverse material holdings related to the underlying financial solvency of the issuer. As of September 30, 2015, our investments consisted primarily of corporate obligations. Our results of operations and financial condition would not be significantly impacted by either a 10% increase or 10% decrease in interest rates due mainly to the short-term nature of our investment portfolio. We have not used derivative financial instruments in our investment portfolio. Additionally, we do not invest in foreign currencies or other foreign investments.

Item 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the timelines specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer (the Company's principal executive officer) and Senior Vice President, Finance and Administration and Treasurer (the Company's principal financial and accounting officer), as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can only provide reasonable assurance of achieving the desired control objectives, and in reaching a reasonable level of assurance, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

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Under the supervision and with the participation of our management, including our Chief Executive Officer and Senior Vice President, Finance and Administration and Treasurer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined under Exchange Act Rule 13a-15(e)), as of September 30, 2015. Based on that evaluation, our Chief Executive Officer and Senior Vice President, Finance and Administration and Treasurer have concluded that these disclosure controls and procedures were effective as of September 30, 2015.

Changes in Internal Control over Financial Reporting

There was no change in our internal control over financial reporting that occurred during the fiscal quarter ended September 30, 2015, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Hsu vs. Puma Biotechnology, Inc., et. al.

On June 3, 2015, Hsingching Hsu, individually and on behalf of all others similarly situated, filed a class action lawsuit against us and certain of our executive officers in the United States District Court for the Central District of California (Case No. 8:15-cv-00865-AG-JCG). On October 16, 2015, lead Plaintiff Norfolk Pension Fund filed an amended complaint on behalf of all persons who purchased our securities between July 22, 2014 and May 29, 2015. The amended complaint alleges that we and certain of our executive officers made false and/or misleading statements and failed to disclose material adverse facts about our business, operations, prospects and performance in violation of Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Exchange Act. The plaintiff seeks damages, interest, costs, attorneys' fees, and other unspecified equitable relief. We intend to vigorously defend this matter.

Item 1A. RISK FACTORS

Under Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014, which was filed with the SEC on March 2, 2015, and Item IA of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, which was filed with the SEC on August 10, 2015, we identified important factors that could affect our financial performance and could cause our actual results for future periods to differ materially from our anticipated results or other expectations, including those expressed in any forward-looking statements made in this Form 10-Q. Other than the additional risks set forth below, there has been no material change to our risk factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2014 and our Quarterly Report on Form 10-Q for the quarter ended June 30, 2015. However, the risks described in our Annual Report and Quarterly Reports are not the only risks we face. Additional risks and uncertainties that we currently deem to be immaterial or not currently known to us, as well as other risks reported from time to time in our reports to the SEC, also could cause our actual results to differ materially from our anticipated results or other expectations.

We and certain of our executive officers have been named as defendants in a purported securities class action lawsuit, which could cause us to incur substantial costs and divert management's attention, financial resources and other company assets.

In the past, securities class action litigation has often been brought against a company following periods of volatility in the market price of its securities. This risk is especially relevant for us because pharmaceutical companies have experienced significant stock price volatility in recent years. On June 3, 2015, we and certain of our executive officers were named as defendants in a purported securities class action lawsuit. The amended complaint, filed on October 16, 2015, on behalf of all persons who purchased our securities between July 22, 2014 and May 29, 2015, generally alleges that we and such executive officers made false and/or misleading statements and failed to disclose material adverse facts about our business, operations, prospects and performance. This lawsuit and any future lawsuits to which we may become a party are subject to inherent uncertainties and will likely be expensive and time-consuming to investigate, defend and resolve, and will divert our management's attention and financial and other resources. The outcome of litigation is necessarily uncertain, and we could be forced to expend significant resources in the defense of this and other suits, and we may not prevail. Any litigation to which we are a party may result in an onerous or unfavorable judgment that may not be reversed upon appeal or in payments of substantial monetary damages or fines, or we may decide to settle this or other lawsuits on similarly unfavorable terms, which could adversely affect our business, financial condition, results of operations or stock price. See Item 1. "Legal Proceedings" above for additional information regarding the class action.

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

Recent Sales of Unregistered Securities

We did not sell any of our equity securities without registration under the Securities Act of 1933, as amended, during the quarter ended September 30, 2015.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Neither we nor any “affiliated purchasers” within the definition of Rule 10b-18(a)(3) made any purchases of our equity securities during the quarter ended September 30, 2015.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

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Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

(a) Exhibits required by Item 601 of Regulation S-K.

Exhibit	Description
10.1	Fourth Amendment to Lease, dated July 31, 2015, by and between CA-10880 Wilshire Limited Partnership and the Company
10.2	Third Amendment to Lease, dated July 21, 2015, by and between PR 701 Gateway, LLC (as successor in interest to DFW III Gateway, LLC) and the Company
10.3+	Letter Agreement, dated August 21, 2015, between the Company and Steven Lo

31.1	Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015
31.2	Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, with respect to the registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2015
32.1	Certification of Principal 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 Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase

	Document
101.PRE	XBRL Taxonomy Extension Linkbase Document
+	Management contract or compensatory plan or arrangement.

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SIGNATURES

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

PUMA BIOTECHNOLOGY, INC.

Date: November 9, 2015	By:	/s/ Alan H. Auerbach
		Alan H. Auerbach President and Chief Executive Officer (Principal Executive Officer)
Date: November 9, 2015	By:	/s/ Charles R. Eyler
		Charles R. Eyler Senior Vice President, Finance and Administration and Treasurer (Principal Financial and Accounting Officer)