Good afternoon and welcome to Coherent’s first fiscal quarter conference call. On today’s call, I will provide financial information and John Ambroseo, our President and CEO, will provide a business overview.

As a reminder, any guidance and any statements in today’s conference call pertaining to future guidance, market trends, plans, events or performance, are forward-looking statements that involve risks and uncertainties, and actual results may differ significantly. We encourage you to refer to the risk disclosures and critical accounting policies described in the Company’s reports on Forms 10-K, 10-Q and 8-K, as applicable and as filed from time-to-time by the Company. These forward looking statements are subject to the safe harbor provisions of the private securities litigation reform act. The Company undertakes no obligation to update any forward looking statements.

The full text of today’s prepared remarks and trended GAAP and non-GAAP supplemental financial information will be posted on the Coherent Investor Relations website. A replay of this webcast will also be made available for approximately 90 days following the call.

**Highlights of the Quarter**

Let me first give you the highlights of the quarter. Bookings for the quarter were $201.5 million resulting in a book to bill of 1:04. Revenues for the quarter were $193.6 million with corresponding pro forma earnings of $0.68 per diluted share. Earnings per share were below our expectations primarily due to lower than expected revenues and higher than usual unrealized foreign currency exchange losses. Revenues are at the lower end of our guidance primarily due to softness in the advanced packaging market. Notwithstanding the lower than expected revenue, our gross profit percentage was slightly above guidance and has increased consecutively for the past three quarters. As indicated in prior conference calls, we expect this promising trend to continue. Cash generation is another positive highlight for the quarter. We
ended the quarter with a cash balance of $274 million, reflecting a quarterly cash flow from operations of approximately $29 million. Our pro forma EBITDA% for the quarter was 16.4% and compares to 18.1% the same quarter a year ago.

Sales

Net sales for the first quarter declined $19.6 million or 9.2% sequentially and increased $10.4 million or 5.7% compared to the same quarter a year ago. The backlog, shippable within 12 months, at the end of December was $286 million, unchanged from the prior quarter. Flat panel display applications’ backlog is approximately $73 million or 25% of the total. None of these numbers reflect the large $100+ million flat panel display order we highlighted in the press release. Those orders will be part of the second quarter bookings and backlog.

Geographically, on a trailing twelve month basis, Asia accounted for 51% of the company’s revenues, US 23%, Europe 19% and rest of the world 7%.

Similar to fiscal 2013, we had one customer in South Korea, an integrator to large flat panel display manufacturers, who contributed more than 10% of the company’s first quarter revenues.

With respect to the first quarter revenues by major market applications, we achieved double digit sequential growth of approximately 10% and 12% in Scientific and OEM Components & Instrumentation markets, respectively. Scientific benefited from strength in Europe while the growth of OEM Components and Instrumentation was the result of strong revenues in our newer medical applications such as cataract surgery and dental treatment, as well as continued successes in the bioinstrumentation market. The Microelectronics sequential decline of 20% is mainly impacted by the timing of excimer annealing system shipments and as mentioned earlier, the softness in the advanced packaging market. These declines were partially offset by a robust performance in our semiconductor submarket. Materials Processing sequentially declined 12% which is not an unusual pattern based on historical revenue comparisons of our fourth to first fiscal quarters. When compared to the first quarter of last year, materials processing grew 5.5%.
Service revenues for the quarter were $60 million or 31% of sales and compare to $64 million last quarter and $43 million a year ago. About 70% of the year over year service revenue growth originated from flat panel annealing tube replacements. On a trailing twelve month basis service revenues represented 27% of the total company revenues.

The Company’s sales by major market application for the first quarter are as follows (in $ millions).

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<td>Microelectronics</td>
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<td>Material Processing</td>
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<td>OEM Comp. &amp; Instrumentation</td>
<td>40.0</td>
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<td>Total</td>
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**Gross Profit, Operating Expenses**

The first quarter pro forma gross profit, excluding $0.5 million stock compensation charges and $1.5 million intangibles amortization was $79.6 million, or 41.1% of sales, an increase of 30 basis points from the 40.8% we recorded last quarter. The increase is due to a favorable product mix primarily in the microelectronics market, partially offset by the negative impact from lower volumes and a stronger Euro.

Our total pro forma operating expenses were 29.2% of sales or 28.1% excluding the impact of an increase in our employee deferred compensation plan liabilities which resulted from exceptional investment returns last quarter. An offsetting income to this charge is included in other income so the net impact to the company is insignificant. The period expenses ratio of 28.1% is slightly above the high end of our guidance mainly due to lower revenues and some nominal higher spending compared to last quarter.
Other income and expenses include larger than usual foreign currency exchange losses offset by the benefit of the aforementioned employee deferred compensation plans. Unrealized exchange losses amounted to $1.6 million and reduced our earnings by approximately $0.05 per diluted share.

**Balance Sheet**

Our cash and cash equivalents balance for the quarter was $274 million compared to $250 million for the prior quarter. Approximately $181 million or 66% of the cash balance is held internationally, with the majority positioned in Europe. Cash flow from operations for the first quarter was about $29 million and was mainly driven by another meaningful improvement in our accounts receivable days’ sales outstanding. This improvement was primarily the result of better shipment linearity during the quarter. Days’ sales outstanding declined to 54 days from 58 days last quarter and 62 days a year ago. Inventory turns on the other hand declined to 2.7 from 3.0 at the end of fiscal 2013 which is mainly due to a buildup of service inventory to support a growing installed base. When compared to the same quarter last year, inventory turns improved from 2.5. Capital spending for the quarter was $6.8 million or 3.5% of sales.

**Second quarter of fiscal year 2014 guidance**

We expect our second fiscal quarter revenues to increase to a range of $196 to $203 million or 1% to 5% growth when compared to the first fiscal quarter’s revenue. This growth takes into account a continued sluggish demand in advanced packaging.

With respect to the pro forma gross profit percentage, we expect further expansion and we are guiding to a range of 41% to 42%. As a reminder, the pro forma guidance excludes intangibles amortization of $1.5 million and stock compensation costs estimated at $0.5 million.

We project the pro forma period expenses to be approximately 28% of sales. This excludes intangibles amortization estimated at $0.9 million and stock compensation costs of approximately $4.0 million.
We are assuming a pro forma tax rate of 28% for the remainder of the year.
We continue to project our full fiscal 2014 capital spending to be approximately 4.0% to 4.5% of sales.
And, we are assuming weighted outstanding shares of 25.2 million for the second quarter.
I will now turn over the call to John Ambroseo, our President and CEO.
Thanks, Leen.

Good afternoon everyone and welcome to our first fiscal quarter conference call. There is no question that our first quarter revenues and earnings were lackluster. Bookings, however, paint an attractive long-term picture. Numerous commercial customers across various markets have locked in deliveries over upcoming quarters. For Coherent, securing these longer-term orders should help us further improve our gross margin and sustain our strong cash generation. The scientific market has shaken off some of the effects of sequestration and appears to reverting to its traditional global GDP plus/minus model.

**Quarterly Results**

First quarter bookings of $201.5 million increased 0.6% sequentially and 14.5% compared to the prior year period. The book-to-bill for the first quarter was 1.04.

**Scientific**

Scientific orders in the first quarter of $38.1 million were up 11.4% sequentially and 4.8% versus the prior year period.

The imaging market remains robust with orders near the highs set during the ARRA stimulus period. This is consistent with brain function research projects in the U.S. and Europe that I mentioned in previous conference calls. The long-term trend has supported considerable growth in our Chameleon™ product portfolio and we are about to ship our 2000th laser system, making it our most successful scientific product. Bookings for amplifiers and excimer lasers were higher than our expectations. Orders for applied physics and materials processing research in Asia, especially China, were stronger than expected. Demand from applied physics research in Germany and France was equally impressive, resulting in the best quarterly bookings in Europe in the past two years. The only area of disappointment was Japan. We have not seen any appreciable effect from the stem cell stimulus package. It is possible the money is being directed into other technologies or towards Japanese vendors.

Our outlook for the scientific market in 2014 improved modestly with the passage of the Ryan-Murray budget bill. Funding was restored to a number of agencies including the NIH and the NSF, two of the largest underwriters of scientific research in the U.S. We estimate that spending could increase by 3-5% in the U.S. market.

We’re introducing several new research products at the upcoming Photonics West tradeshow at San Francisco’s Moscone Center. These products will offer researchers new capabilities. They have been designed and will be manufactured using HALT and HASS protocols, which may be the first time these methods have been applied to research lasers. We’ve done this to support the continuing evolution of the scientific market from being widget-oriented to results driven.
Instrumentation and OEM Components

Instrumentation and OEM components orders of $54.0 million were up 24.0% sequentially and 60.1% versus the prior year period.

Several factors influenced the outstanding bookings performance. Customer sentiment in the bioinstrumentation space improved due to higher clinical adoption and relief provided by the Ryan-Murray bill. This led to longer-term orders for systems and subsystems. We also saw further penetration and market share gains of our OBISTM platform in this space.

Within the medical OEM area, orders for ophthalmic applications were very strong. We received a long-term order for ExcistarTM excimer lasers used in LASIK. We booked a record order for StaccatoTM lasers used in cataract surgery. We also had a key design win for high-power OPSTM lasers in photocoagulation. The win was accompanied by the initial volume order.

Microelectronics

Microelectronics orders of $80.5 million decreased 16.8% sequentially and increased 1.8% compared to the prior year period.

Semicap orders improved modestly from a very strong fourth quarter and are nearly 50% higher than the prior year period. This is consistent with market expectations for the overall semicap equipment market in 2014. New orders were largely for sub 28nm applications. We also entered into a development contract with a major OEM targeting inspection and metrology applications down to 14nm. This is the first step in securing our leadership position for several generations of deployment.

Despite the uptick in semicap demand, advanced packaging for circuit boards remains sluggish. It is possible this is a result of the uncertainty created by an ownership change at a major integrator. It is more likely the result of a capacity overbuild since demand has been slow for lasers serving several applications in this space. It may take between one to three quarters for the capacity to undergo a correction. In contrast to the PCB market, interest in IC packaging is increasing. This application will rely upon short pulse lasers such as our HyperRapid laser system. We have received an initial order from a major IC packaging system integrator.

We have recently received record orders of $101.4 million dollars for annealing laser systems. The order consists of two different ELA platforms: Linebeam 750’s and a new configuration derived from the Linebeam 1300. A number of the 750s will fill open slots in the second half of fiscal 2014. The balance of the 750s will ship in fiscal 2015. The exact numbers will be reflected in our quarterly guidance. During the rollout of the Linebeam 1300, customers identified an unexpected benefit that supported higher pixel per inch or ppi density. Working in conjunction with them, we have outlined a path to exploit this benefit further while increasing throughput by increasing the laser power and modifying the optical delivery system. We expect
to make the initial shipment of this new system in the first half of fiscal 2015. The unit ASP is approximately $20 million dollars and the service events, based on today’s approach, will be approximately $750,000. There are several of these new systems included in the $101.4 million order.

There has been a very intriguing transaction in the strengthened glass market. Corning has acquired part of Innolas, a system integrator with significant experience in glass cutting. It is reasonable to assume the deal is intended to accelerate the adoption of strengthened glass through better process flow. With respect to our business, we booked a multi-unit HyperRapid order for strengthened glass cutting. This is our first production deployment in this field.

**Materials Processing**

Materials processing orders of $28.8 million were up 11.9% sequentially and 7.6% versus the prior year period.

Bookings increased due to growth in kilowatt class products. We received orders from multiple customers for the Highlight™ FL-1000 fiber laser. Most of these customers are engaged in metal cutting in China. The Diamond E-1000 CO\textsubscript{2} laser also performed well with Japanese and Korean cutting tool manufacturers.

Customers continued to evaluate our three kilowatt fiber laser prototype. The general conclusions are the device delivers cutting speed and quality consistent with other lasers for low reflectivity metals and outperforms on high reflectivity metals. We attribute the latter to our laser architecture that minimizes optical feedback. There has been constructive feedback regarding the configuration and capabilities of a production device. We will continue to work with customers to learn more about how to optimize the final design. In one case, the customer has decided to pursue what I can only describe as a component level strategy for cost and brand management. We don’t think this will be an approach mimicked by others, but it certainly deserves to be watched.

Additive manufacturing remains a hot topic. We have been receiving orders for a range of different lasers from UV through CO\textsubscript{2} supporting different processes and materials. We have also gained traction in automotive and aerospace manufacturing for processing carbon fiber reinforced polymers or CFRPs.

The materials processing market has enjoyed consistent growth for several years with China playing a pivotal role. Recent economic data out of China implies slower growth, which should raise a cautionary flag for materials processing. Input from customers in China is somewhat mixed. The larger players have seen their growth slow over the last several months. The smaller players have a more optimistic view, but their businesses can swing wildly on a small number of orders. When we consolidate all the current inputs, we conclude that 2014 will be slower for materials processing in China compared to 2013.
Wrap

Given the number of positive market developments and the strength of our product pipeline, we believe the business will build momentum throughout fiscal 2014 and into fiscal 2015. Any uptick in China or a rebound in advanced packaging should add to the momentum.

We’re presenting at the Stifel technology conference in San Francisco on February 11th and the Sidoti conference in New York on March 18th.

I’ll now turn the call back over to the operator for the Q&A session.

SPECIAL NOTE REGARDING NON-GAAP FINANCIAL MEASURES

NON-GAAP FINANCIAL MEASURES: Coherent utilizes a number of different financial measures, both GAAP and non-GAAP, in analyzing and assessing the overall business performance, for making operating decisions and for forecasting and planning future periods. Coherent considers the use of non-GAAP financial measures helpful in assessing its current financial performance, ongoing operations and prospects for the future. Ongoing operations are the ongoing revenue and expenses of the business, excluding certain costs that Coherent does not anticipate to recur on a quarterly basis or which do not reflect ongoing operations. While Coherent uses non-GAAP financial measures as a tool to enhance its understanding of certain aspects of its financial performance, Coherent does not consider these measures to be a substitute for, or superior to, the information provided by GAAP financial measures. Consistent with this approach, Coherent believes that disclosing non-GAAP financial measures to the readers of its financial statements provides such readers with useful supplemental data that, while not a substitute for GAAP financial measures, allows for greater transparency in the review of its financial and operational performance. In assessing the overall health of its business, Coherent excluded items in the following general categories described below:

Pro forma Net income (loss) and net income (loss) per basic or diluted share. We have excluded certain recurring and non-recurring items in order to enhance investors’ understanding of our ongoing operations and to compare these results across multiple fiscal periods, particularly where a one-time event may have an impact in one fiscal quarter and not another.

Pro forma EBITDA is defined as operating income adjusted for depreciation, amortization, stock compensation expenses, major restructuring costs and certain other non-operating income and expense items. We have excluded these items in order to enhance investors’ understanding of our ongoing operations. This measure is used by some investors when assessing the performance of Coherent.

Each of the non-GAAP financial measures described above, and used herein, should not be considered in isolation from, or as a substitute for, a measure of financial performance prepared in accordance with GAAP. Further, investors are cautioned that there are inherent limitations associated with the use of each of these non-GAAP financial measures as an analytical tool. In particular, these non-GAAP financial measures are not based on a comprehensive set of accounting rules or principles and many of the adjustments to the GAAP financial measures reflect the exclusion of items that are recurring and will be reflected in Coherent’s financial results for the foreseeable future. In addition, other companies, including other companies in Coherent’s industry, may calculate non-GAAP financial measures differently than Coherent does, limiting their usefulness as a comparative tool.