COHERENT INC
Form 10-K/A
February 03, 2003

QuickLinks -- Click here to rapidly navigate through this document

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**WASHINGTON, D.C. 20549**

# FORM 10-K/A
# AMENDMENT NO. 1

**(Mark One)**

ý **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

**For the fiscal year ended: September 28, 2002**

**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.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **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, including zip code)

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

Securities registered pursuant to Section 12(b) of the Act: **None**

Securities registered pursuant to Section 12(g) of the Act:

**Common Stock, $.01 par value per share**
**Common Stock Purchase Rights**
(Title of Class)

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 o No ý*

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

As of January 30, 2003, 29,245,480 shares of Common Stock were outstanding. The aggregate market value of the voting shares (based upon the closing price reported by the Nasdaq National Market on January 30, 2003) of Coherent, Inc., held by nonaffiliates was $416,811,155. For purposes of this disclosure, shares of Common Stock held by persons who own 5% or more of the outstanding Common Stock and shares of Common Stock held by each officer and director have been excluded in that such persons may be deemed to be "affiliates" as that term is defined under the Rules and Regulations of the Act. This determination of affiliate status is not necessarily conclusive.

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

**DOCUMENTS INCORPORATED BY REFERENCE**

None.

* Please see the Explanatory Note below.

**EXPLANATORY NOTE**

This Annual Report on Form 10-K/A ("Form 10-K/A") is being filed as Amendment No. 1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended September 28, 2002. This Form 10-K/A is filed with the Securities and Exchange Commission (the "Commission") solely for the purpose of including information that was to be incorporated by reference from the Registrant's definitive proxy statement pursuant to Regulation 14A of the Securities and Exchange Act of 1934. The Registrant did not file its proxy statement within 120 days of its fiscal year ended September 28, 2002 and is therefore amending and restating the following items contained herein in their entirety.

## PART III

### Item 10. Directors and Executive Officers of the Company

**Directors**

The names of the directors of the Company and certain information about them are set forth below.

| Name of Director | Age | Director Since | Principal Occupation |
|---|---|---|---|
| John R. Ambroseo, PhD | 41 | 2002 | President and Chief Executive Officer of the Company |
| Bernard J. Couillaud, PhD | 58 | 1996 | Chairman of the Board of Directors |
| Henry E. Gauthier (1)(3) | 62 | 1983 | Vice Chairman of the Board of Directors |
| Charles W. Cantoni (2)(3) | 67 | 1983 | Owner, Cantoni Consulting |
| Frank P. Carrubba, PhD (2)(3) | 65 | 1989 | Retired Chief Technical Officer, Phillips Electronics N.V. |
| John H. Hart (1)(2) | 56 | 2000 | Retired Sr. Vice President and Chief Technical Officer, 3Com Corporation |
| Jerry E. Robertson, PhD (1)(2) | 70 | 1994 | Retired Executive Vice President, Life Sciences Sector and Corporate Services Division, 3M |

| Name of Director | Age | Director Since | Principal Occupation |
|---|---|---|---|
| Robert J. Quillinan | 55 | 2001 | Executive Vice President, Mergers and Acquisitions of the Company |

(1) Member of the Compensation Committee.

(2) Member of the Audit Committee.

(3) Member of the Nominating Committee

Except as set forth below, each of the nominees has been engaged in his principal occupation set forth above during the past five years. There is no family relationship between any director or executive officer of the Company. Refer to "Officers" for information relating to Dr. Ambroseo and Mr. Quillinan.

Dr. Couillaud has served as Chairman of the Board of Directors since October 2002. He served as Coherent Inc.'s President and Chief Executive Officer, and as a member of the Board of Directors from July 1996 through September 2002. He served as Vice President and General Manager of Coherent Laser Group from March 1992 to July 1996. From July 1990 to March 30, 1992, he served as Manager of the Advanced Systems Business Unit, and from September 1987 to 1990, he served as Director of Research and Development for the Coherent Laser Group. From November 1983, when he joined Coherent, to September 1987, Dr. Couillaud held various managerial positions. Dr. Couillaud received his PhD in Chemistry from Bordeaux University, Bordeaux, France.

Mr. Gauthier has served as Vice Chairman of the Board of Directors since October 2002. He served as Chairman of the Board of Directors from 1997 to October 2002.

Mr. Cantoni has been the owner of Cantoni Consulting, a company providing management and medical marketing consulting services, since June 1998. Prior to founding Cantoni Consulting, Mr. Cantoni was Vice President, Quinton Instruments, Inc., a manufacturer of medical instrumentation products, a position he held from October 1994 until June 1998. From August 1988 until



September 1994, he was President of ImageComm Systems, Inc., a value added reseller of medical image processing systems.

Dr. Carrubba retired from Phillips Electronics, N.V. in 1997. Mr. Carrubba serves as a member of the Board of Directors of Exar Corporation.

Mr. Hart retired from 3Com Corporation in September 2000. From September 2000 until September 2001 he was a Fellow at 3Com. Mr. Hart serves on the Board of Directors of PLX Technologies, Inc.

Dr. Robertson retired from 3M in 1994. He is a member of the Board of Directors of Steris Corporation and Choice Hotels International.

**Officers**

The names, ages and office of all of the executive officers of the Company are set forth below.

| Name of Officer | Age | Office Held |
|---|---|---|
| John R. Ambroseo, PhD | 41 | President and Chief Executive Officer |
| Helene Simonet | 50 | Executive Vice President and Chief Financial Officer |

| Name of Officer | Age | Office Held |
|---|---|---|
| Robert J. Quillinan | 55 | Executive Vice President, Mergers and Acquisitions |
| Vittorio Fossati-Bellani, PhD | 55 | Executive Vice President and Chief Marketing Officer |
| Kevin McCarthy | 46 | Executive Vice President and Chief Information Officer |
| Ronald A. Victor | 57 | Executive Vice President, Human Resources |
| Scott H. Miller | 48 | Senior Vice President and General Counsel |

There are no family relationships between any of the executive officers and directors.

Dr. Ambroseo has served as our President and Chief Executive Officer and as a Director since October 2002. Dr. Ambroseo served as our Chief Operating Officer from June 2001 through September 2002. Dr. Ambroseo has served as our Executive Vice President and as President and General Manager of the Coherent Photonics Group since September 2000. From September 1997 to September 2000, Dr. Ambroseo served as our Executive Vice President and as President and General Manager of the Coherent Laser Group. From March 1997 to September 1997, Dr. Ambroseo served as our Scientific Business Unit Manager. From August 1988, when Dr. Ambroseo joined us, until March 1997, he served as a Sales Engineer, Product Marketing Manager, National Sales Manager and Director of European Operations. Dr. Ambroseo received his PhD in Chemistry from the University of Pennsylvania.

Ms. Simonet has served as our Executive Vice President and Chief Financial Officer since April 2002. Ms. Simonet served as Vice President of Finance of our Medical Group and Vice President of Finance, Photonics Division from December 1999 to April 2002. Prior to joining Coherent, she spent over twenty years in senior finance positions at Raychem Corporations' Division and Corporate organizations, including Vice President of Finance of the Raynet Corporation. Her last assignment was that of Chief Information Officer for Raychem. Ms. Simonet has both a Master's and Bachelor degree from the University of Leuvenn, Belgium.

Mr. Quillinan has served as our Executive Vice President, Mergers and Acquisitions since April 2002 and as a member of our Board of Directors since June 2001. Mr. Quillinan served as our Executive Vice President and Chief Financial Officer from July 1984 through March 2002. Mr. Quillinan served as Vice President and Treasurer from March 1982 to July 1984 and as Corporate



Controller from May 1980 to March 1982. Mr. Quillinan received his MS degree in Accounting from Clarkson University and is a certified public accountant.

Dr. Fossati-Bellani has served as our Executive Vice President and Chief Marketing Officer since November 2002. Dr. Fossati-Bellani served as our Executive Vice President and as President and General Manager of the Coherent Telecom-Actives Group from September 2000 through November 2002. From September 1997 to September 2000, Dr. Fossati-Bellani served as our Executive Vice President and as President and General Manager of the Coherent Semiconductor Group. From May 1992 to September 1997, Dr. Fossati-Bellani served as our Diode Laser Business Unit Manager. From December 1979, when he joined our Italian office, to May 1992, Dr. Fossati-Bellani served in the capacity of Scientific Sales Engineer, Product Manager, Director of Marketing, Director of Business Development, Scientific Business Unit Manager and Diode Laser Business Unit Manager for the Coherent Laser Group. Dr. Fossati-Bellani received his PhD degree in Physics from the University of Milano, Italy.

Mr. McCarthy has served as our Executive Vice President and Chief Information Officer since May 2000. From August 1999 to May 2000, he was Chief Information Officer for Unisphere Solutions, Inc., a subsidiary of Siemens AG, a large diversified industrial company. From September 1993 to July 1999, he was Vice President Information Technology for General Instrument, Inc., a company that develops and sells interactive video, voice and data products. Mr. McCarthy received a BS degree from Lafayette College and an MBA from the Wharton School of Business.

Mr. Victor has served as our Executive Vice President of Human Resources since May 2000. From August 1999 to May 2000, he was our Corporate Vice President of Human Resources. He was Vice President of Human Resources for the Coherent Medical Group from September 1997 to August 1999. Between November 1996 and September 1997, he was Vice President Human Resources for Netsource Communication, Inc., an internet advertisement and communication company. From November 1995 to November 1996, Mr. Victor served as Vice President of Human Resources for Micronics Computers, Inc., a manufacturer of computer components. Between January 1982 and September 1995 he was a Vice President of Human Resources at Syntex, a pharmaceutical company. Mr. Victor received a BA degree from American International College and a MA degree from Springfield College.

Mr. Miller has served as our General Counsel since October 1988 and as Senior Vice President since March 1994. Mr. Miller received a BA degree in Economics from UCLA and a JD from Stanford Law School.

**Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 requires the Company's officers and directors, and persons who own more than ten percent of a registered class of the Company's equity securities to file reports of ownership and changes in ownership with the Securities and Exchange Commission (the "SEC") and the National Association of Securities Dealers. Such officers, directors and ten-percent stockholders are also required by SEC rules to furnish the Company with copies of all forms that they file pursuant to Section 16(a). Based solely on its review of the copies of such forms received by the Company, or on written representations from certain reporting persons that no other reports were required for such persons, the Company believes that, during fiscal 2002, its officers, directors and ten-percent stockholders complied with all applicable Section 16(a) filing requirements.



**Item 11. Executive Compensation**

**Summary Compensation**

The following table shows, as to the Chief Executive Officer and each of the other four most highly compensated executive officers whose salary plus bonus exceeded $100,000, information concerning compensation awarded to, earned by or paid for services to the Company in all capacities during the last three fiscal years (to the extent that such person was the Chief Executive Officer and/or executive officer, as the case may be, during any part of such fiscal year):

**Summary Compensation Table**

| Name | Year | Salary ($) | Bonus ($) | Awards Options (#) | All Other Compensation ($) |
|---|---|---|---|---|---|
| Bernard J. Couillaud, PhD | 2002 | $ 520,000 | $ 197,949 | 50,000 | $ 36,720(1) |
| President and Chief Executive Officer | 2001 | 495,078 | 658,432 | 200,000 | 31,738 |
| | 2000 | 422,503 | 519,459 | 110,000 | 30,064 |
| John R. Ambroseo, PhD | 2002 | $ 380,016 | $ 117,781 | 257,500 | $ 22,191(2) |
| Executive Vice President and Chief Operating | 2001 | 335,400 | 390,682 | 150,000 | 16,683 |
| Officer | 2000 | 267,887 | 350,074 | 58,000 | 12,461 |
| Robert J. Quillinan | 2002 | $ 286,571 | $ 109,362 | 25,000 | $ 20,213(3) |
| Executive Vice President, Mergers and | 2001 | 284,634 | 233,666 | 70,000 | 15,920 |
| Acquisitions | 2000 | 243,279 | 202,731 | 36,000 | 15,290 |
| Vittorio Fossati-Bellani, PhD | 2002 | $ 280,010 | $ 60,479 | 50,000 | $ 19,481(4) |
| Executive Vice President, President and | 2001 | 266,547 | 228,835 | 75,000 | 15,004 |
| General Manager Coherent Telecom-Actives Group | 2000 | 223,275 | 217,498 | 41,000 | 13,455 |
| Kevin McCarthy | 2002 | $ 223,864 | $ 45,342 | 25,000 | $ 10,319(5) |
| Executive Vice President and Chief | 2001 | 235,690(6) | 161,089 | 15,000 | 2,328 |
| Information Officer | 2000 | 120,993 | 31,312 | 40,000 | 199 |

(1) Includes $31,612 contributed by the Company under defined contribution plans and $5,108 in life insurance benefits.

(2)
Includes $21,924 contributed by the Company under defined contribution plans and $267 in life insurance benefits.

(3)
Includes $18,001 contributed by the Company under defined contribution plans and $2,212 in life insurance benefits.

(4)
Includes $17,127 contributed by the Company under defined contribution plans and $2,354 in life insurance benefits.

(5)
Includes $9,576 contributed by the Company under defined contribution plans and $743 in life insurance benefits.

(6)
Includes $8,786 compensation related to relocation.



**Stock Option Grants and Exercises**

The following table shows, as to the individuals named in the Summary Compensation Table above, information concerning stock options granted during the fiscal year ended September 28, 2002.

**Option Grants in Last Fiscal Year**

| | Individual Grants | | | | Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term(3) | |
|---|---|---|---|---|---|---|
| **Name** | **Number of Securities Underlying Options Granted (#)(1)** | **% of Total Options Granted to Employees In Fiscal Year(2)** | **Exercise Price ($/sh)** | **Expiration Date** | **5% ($)** | **10% ($)** |
| Bernard J. Couillaud, PhD | 50,000 | 4.03 | $ 30.92 | 4/25/08 | $ 525,788 | $ 1,192,833 |
| John R. Ambroseo, PhD | 257,500 | 20.73 | $ 30.92 | 4/25/08 | $ 2,707,807 | $ 6,143,092 |
| Robert J. Quillinan | 25,000 | 2.01 | $ 30.92 | 4/25/08 | $ 262,894 | $ 596,417 |
| Vittorio Fossati-Bellani, PhD | 50,000 | 4.03 | $ 30.92 | 4/25/08 | $ 525,788 | $ 1,192,833 |
| Kevin McCarthy | 25,000 | 2.01 | $ 30.92 | 4/25/08 | $ 262,894 | $ 596,417 |

During the past fiscal year, the Company entered into management transition agreements with Bernard Couillaud and Robert Quillinan that amended the terms of certain stock options. (Please see Exhibits 10.13 and 10.14, respectively, to the Company's Report on Form 10-K for the year ended September 28, 2002, filed with the Securities and Exchange Commission).

Under the terms of Dr. Couillaud's agreement, he was granted the right to exercise his stock options vesting on February 1, 2003 (72,000 shares exercisable at $49.875 per share) until February 1, 2006 even if his employment with the Company is terminated prior to that date, provided that this period shall be reduced to 90 days from the date (i) the Company determines Dr. Couillaud has engaged in activities constituting "Cause" under Section 4(b) of his agreement prior to February 1, 2006 or (ii) Dr. Couillaud voluntarily terminates his employment with the Company if such date is prior to September 30, 2003. With respect to his stock options vesting on February 1, 2004 (38,000 shares exercisable at $49.875 per share) and April 1, 2004 (200,000 shares at $32.50 per share) he was granted the right to exercise the options until March 5, 2005, even if Dr. Couillaud's employment with the Company is terminated prior to that date, provided that the Company shall be entitled to cancel these options, repurchase the stock issued upon their exercise for the exercise price, or recapture the net proceeds received upon their exercise and sale if (i) the Company determines Dr. Couillaud has engaged in activities constituting "Cause" under Section 4(b) of his agreement prior to March 5, 2005 or (ii) Dr. Couillaud voluntarily terminates his employment with the Company prior to September 30, 2003.

Under the terms of Mr. Quillinan's agreement, he was granted the right to exercise his stock options vesting on February 1, 2003 (25,000 shares exercisable at $49.875 per share) until February 1, 2006 even if his employment with the Company is terminated prior to that date, provided that this period shall be reduced to 90 days from the date (i) the Company determines Mr. Quillinan has engaged in activities constituting "Cause" under Section 4(b) of his agreement prior to February 1, 2006 or (ii) Mr. Quillinan voluntarily terminates his employment with the Company if such date is prior to April 30, 2003. With respect to his stock options vesting on February 1, 2004 (10,000 shares exercisable at $49.875 per share) and April 1, 2004 (70,000 shares at $32.50 per share) he was granted the right to exercise the options until March 5, 2005, even if Mr. Quillinan's employment with the Company is terminated prior to that date, provided that the Company shall be entitled to cancel these options, repurchase the stock issued upon their exercise for the exercise price, or recapture the net proceeds received upon their exercise and sale if (i) the Company determines Mr. Quillinan has engaged in activities constituting "Cause" under Section 4(b) of his agreement prior to March 5, 2005 or (ii) Mr. Quillinan voluntarily terminates his employment with the Company prior to April 30, 2003.



Except as set forth above, Dr. Couillaud's and Mr. Quillinan's stock options to purchase Coherent stock are governed by the provisions of the applicable option agreements by and between Dr. Couillaud, Mr. Quillinan and Coherent, respectively.

(1)
The Company's 1987 Stock Option Plan, 1995 Stock Plan and 2001 Stock Plan (collectively the "Option Plans") provide for the grant of options and stock purchase rights to officers, employees and consultants of the Company. Options granted under the Option Plans may be either "nonstatutory options" or "incentive stock options." The exercise price is determined by the Board of Directors or its Compensation Committee and, in the case of incentive stock options, may not be less than 100% of the fair market value of the Common Stock on the date of grant (110% in the case of grants to 10% shareholders). The options expire not more than six years from the date of grant and may be exercised only while the optionee is employed by the Company or within such period of time after termination of employment as is determined by the Board or its Committee at the time of grant. The Board of Directors may determine when options granted may be exercisable.

(2)
The Company granted options to purchase an aggregate of 694,675 to all employees other than executive officers and granted options to purchase an aggregate of 547,500 shares to all executive officers as a group (8 persons), during fiscal 2002.

(3)
This column sets forth hypothetical gains or "option spreads" for the options at the end of their respective ten-year terms, as calculated in accordance with the rules of the Securities and Exchange Commission. Each gain is based on an arbitrarily assumed annualized rate of compound appreciation of the market price at the date of grant of 5% and 10% from the date the option was granted to the end of the option term. The 5% and 10% rates of appreciation are specified by the rules of the Securities and Exchange Commission and do not represent the Company's estimate or projection of future Common Stock prices. The Company does not necessarily agree that this method properly values an option. Actual gains, if any, on option exercises are dependent on the future performance of the Company's Common Stock and overall market conditions.

The following table shows, as to the individuals named in the Summary Compensation Table above, information concerning stock options exercised during the fiscal year ended September 28, 2002 and the value of unexercised options at such date.

**Aggregated Option Exercises in Last Fiscal Year**
**and Fiscal Year-End Option Values**

| | | | Number of Securities Underlying Unexercised Options/SARs at September 28, 2002 (#)(2) | | Value of Unexercised In-the-Money Options at September 28, 2002 ($)(3) | |
|---|---|---|---|---|---|---|
| **Name** | **Shares Acquired on Exercise (#)** | **Value Realized ($)(1)** | **Exercisable** | **Unexercisable** | **Exercisable** | **Unexercisable** |
| Bernard J. Couillaud, PhD | 30,000 | $ 140,310 | 460,000 | 122,000 | $ 1,560,285 | $ 0 |
| John R. Ambroseo, PhD | 35,000 | $ 747,488 | 41,230 | 450,500 | $ 66,990 | $ 0 |
| Robert J. Quillinan | 7,016 | $ 63,126 | 150,000 | 51,000 | $ 406,395 | $ 0 |
| Vittorio Fossati-Bellani, PhD | 0 | | 18,000 | 166,000 | $ 54,810 | $ 0 |
| Kevin McCarthy | 0 | | 20,000 | 60,000 | $ 0 | $ 0 |

(1)

The value realized is calculated based on the sale price of the Company's Common Stock as reported by the Nasdaq National Market on the date of exercise minus the exercise price of the option, and does not necessarily indicate that the optionee sold such stock.

(2)
The Company has not granted any stock appreciation rights and its stock plans do not provide for the granting of such rights.



(3)
The market value of underlying securities is based on the difference between the closing price of the Company's Common Stock on September 28, 2002 of $18.92 (as reported by Nasdaq National Market) and the exercise price.

**Director Compensation**

In fiscal year 2002, members of the Board of Directors who were not employees of the Company received $16,000 plus $1,500 per meeting attended plus $750 per committee meeting attended. Effective April 1, 2002, the Chairman of the Audit Committee is paid $1,500 per committee meeting attended. All members of the Board of Directors who were not employees of the Company were reimbursed for their expenses incurred in attending such meetings.

The Company's 1990 Directors' Stock Option Plan (the "Directors' Option Plan") was adopted by the Board of Directors on December 8, 1989 and was approved by the stockholders on March 29, 1990. The Directors' Option Plan was amended by the Board of Directors on January 25, 1996, and the amendment was approved by the stockholders on March 20, 1996. The Directors' Option Plan terminated on December 8, 1999 and no further options will be granted under this plan. The Directors' Option Plan provided for the automatic and non-discretionary grant of a non-statutory stock options to purchase 20,000 shares of the Company's Common Stock to each non-employee director on the later of the effective date of the Directors' Option Plan or the date on which such person became a director. Thereafter, during the term of the Directors' Option Plan, each non-employee director was automatically granted a non-statutory stock option to purchase 5,000 shares of Common Stock on the date of and immediately following each Annual Meeting of Stockholders at which such non-employee director was reelected to serve on the Board of Directors, if, on such date, he or she had served on the Board of Directors for at least three months. Such plan provided that the exercise price shall be equal to the fair market value of the Common Stock on the date of grant of the options.

Two non-employee directors each have been granted options to purchase 65,000 shares of the Company's Common Stock under the Directors' Option Plan at a weighted average exercise price of $11.62 per share. One non-employee director has been granted options to purchase 45,000 shares of the Company's Common Stock under such plan at a weighted average exercise price of $13.73 per share. One non-employee director has been granted options to purchase 30,000 shares of the Company's Common Stock under such plan at a weighted average exercise price of $21.33 per share. As of the fiscal year ended September 28, 2002, options have been granted to purchase 295,000 shares under the Directors' Option Plan.

The Company's 1998 Directors' Stock Option Plan (the "1998 Directors' Plan") was adopted by the Board of Directors on November 24, 1998 and was approved by the stockholders on March 17, 1999. 100,000 shares of Common Stock were reserved for issuance thereunder. Under the terms of the 1998 Directors' Plan, the number of shares reserved for issuance thereunder is increased each year by the number of shares necessary to restore the total number of shares reserved to 100,000 shares. The 1998 Director's Plan replaced the Directors' Option Plan which expired on December 8, 1999. Like its predecessor, the 1998 Directors' Plan provides for the automatic and non-discretionary grant of a non-statutory stock options to purchase 20,000 shares of the Company's Common Stock to each non-employee director on the date on which such person becomes a director. Thereafter, each non-employee director will be automatically granted a non-statutory stock option to purchase 5,000 shares of Common Stock on the date of and immediately following each Annual Meeting of Stockholders at which such non-employee director is reelected to serve on the Board of Directors, if, on such date, he or she has served on the Board for at least three months. Such plan provides that the exercise price shall be equal to the fair market value of the Common Stock on the date of grant of the options.



Four non-employee directors have each been granted options to purchase 15,000 shares of the Company's Common Stock under such plan at a weighted average exercise price of $49.22. One non-employee director has been granted options to purchase 30,000 shares of the Company's Common Stock under such plan at a weighted average exercise price of $48.82 per share. As of the fiscal year ended September 28, 2002, options have been granted to purchase 95,000 shares under the 1998 Directors' Plan.

The following table shows options granted to each director of the Company during the last fiscal year. All options were granted under the 1998 Directors' Plan, except for the options granted to Dr. Couillaud and Mr. Quillinan, which were granted under the Company's 1995 Stock Plan.

**Option Grants to Directors During Last Fiscal Year**

| Name | Number of Options |
|---|---|
| Bernard J. Couillaud, PhD | 50,000 |
| Robert J. Quillinan | 25,000 |
| Henry E. Gauthier | 5,000 |
| Charles W. Cantoni | 5,000 |
| Frank P. Carrubba, PhD | 5,000 |
| John H. Hart | 5,000 |
| Jerry E. Robertson, PhD | 5,000 |

As of January 6, 2003, 190,000 shares of the Company's Common Stock had been issued on exercise of such options by non-employee directors. The following table shows, as to each non-employee director, information concerning options exercised under the Directors' Option Plan during the last fiscal year:

**Option Exercises in Last Fiscal Year by Directors**

| Name | Shares Acquired On Exercise | Value Realized(1) |
|---|---|---|
| Charles W. Cantoni | 2,000 | $ 13,750 |
| Frank P. Carrubba, PhD | 5,000 | $ 62,363 |
| Henry E. Gauthier (2) | 22,000 | $ 304,425 |
| John H. Hart | | $ 0 |
| Jerry E. Robertson, PhD | | $ 0 |

(1) The value realized is calculated based on closing price of the Company's Common stock as reported by the Nasdaq National Market on the date of exercise minus the exercise price and does not necessarily indicate that the optionee sold such stock.

(2) Represents shares exercised under the Company's 1995 Stock Option Plan.

**Other Employee Benefit Plans**

*Employee Retirement and Investment Plan and Supplementary Retirement Plan*

Effective January 1, 1979, the Company adopted the Coherent Employee Retirement and Investment Plan. Employees become eligible to participate upon their being hired by the Company. Under this plan, the Company will match employee contributions to the plan up to a maximum of 6% of the individual's employee earnings after one (1) year of service. The vesting schedule for the Company matching funds is as follows: employees with two (2) years but less than three (3) years of service are 20% vested, employees with three (3) years but less than four (4) years of service are 40% vested, employees with four (4) years but less than five (5) years of service are 80% vested, and



employees with five (5) years or more of service are 100% vested. Effective as of 1985, the plan was amended and restated to conform the plan to new regulations and to qualify under Section 401(k) of the Internal Revenue Code of 1986, as amended to permit employees to make contributions to the plan from their pre-tax earnings.

Effective January 1, 1990, the Company adopted the Supplementary Retirement Plan, which provides that certain senior management, may contribute income to a trust fund. The Company will match such contributions up to 6% of the participant's income. Such contributions are subject to the same vesting requirements as contributions made under the Employment Retirement and Investment Plan.

*Variable Compensation Plan*

The Company's Variable Compensation Plan was designed to promote the growth and profitability of the Company by providing incentive compensation in keeping with targeted marketplace incentive rates to key employees who are critical to the attainment of the Company's business objectives. The plan provides for the payment of quarterly cash bonuses to participants based upon performance against pre-established goals for pre-tax profits, revenue and the management of the Company's assets. Minimal performance thresholds are established at the beginning of each fiscal year for the Company in general and for each business unit.

*Productivity Incentive Plan*

Under the Company's Productivity Incentive Plan (the "Incentive Plan"), 450,000 shares of Common Stock were initially reserved, and as of the fiscal year ended September 28, 2002, 83,148 shares of Common Stock were available for issuance to employees of the Company and its designated subsidiaries who are customarily employed for at least twenty hours per week. The purpose of the Incentive Plan is to enhance an employee's proprietary interest in the Company and to create an incentive for the Company's success.

The Incentive Plan provides for the quarterly distribution of cash or Common Stock, at the election of each participant, based upon the quarterly profitability of the Company. The amount of cash or number of shares of Common Stock distributed to each participant is determined by dividing a participant's "incentive compensation" by the fair market value of the Company's Common Stock at the end of each three-month period.

*Employee Stock Purchase Plan*

The Company's Employee Stock Purchase Plan (the "Purchase Plan") was adopted by the Board of Directors and approved by the stockholders in 1980. A total of 4,575,000 shares of Common Stock have been reserved under the Purchase Plan, and as of the end of fiscal year 2002, 1,187,424 shares of Common Stock remained available for issuance thereunder. The Purchase Plan permits employees who are employed for at least twenty hours per to purchase Common Stock of the Company, through payroll deductions at the lower of 85% of the fair market value of the Common Stock at the beginning or at the end of each six-month period. Payroll deductions may not exceed 10% of an employee's compensation. The Purchase Plan provides for two offerings during each fiscal year, each having a duration of six months.



**Item 12. Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth as of January 30, 2003 certain information with respect to the beneficial ownership of the Company's Common Stock by (i) any person (including any "group" as that term is used in Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) known by the Company to be the beneficial owner of more than 5% of the Company's voting securities, (ii) each director and each nominee for director to the Company, (iii) each of the executive officers named in the Summary Compensation Table appearing herein, and (iv) all executive officers and directors of the Company as a group.

| Name and Address | Number of Shares(1) | Percent of Total |
|---|---|---|
| Oppenheimer Funds, Inc.(2)<br>777 Central Blvd.<br>Carlstadt, NJ 07072 | 3,100,000 | 10.60% |
| PRIMECAP Management(3)<br>225 S. Lake Ave, #400<br>Pasadena, CA 91101 | 2,320,000 | 7.93% |
| Franklin Advisers, Inc.(4)<br>777 Mariners Blvd. | 2,312,554 | 7.91% |

| Name and Address | Number of Shares(1) | Percent of Total |
|---|---|---|
| San Mateo, CA 94404 | | |
| Bernard, J. Couillaud, PhD(5) | 612,718 | 2.10 |
| John Ambroseo, PhD(6) | 116,560 | * |
| Robert J. Quillinan(7) | 166,079 | * |
| Vittorio Fossati-Bellani, PhD(8) | 58,532 | * |
| Kevin McCarthy(9) | 21,188 | * |
| Charles W. Cantoni(10) | 15,000 | * |
| Frank Carrubba(11) | 30,000 | * |
| Henry E. Gauthier(12) | 88,330 | * |
| John H. Hart(13) | 10,000 | * |
| Jerry Robertson(14) | 36,500 | * |
| All directors and executive officers as a group (13 persons)(15) | 1,289,260 | 4.27% |

*
Represents less than 1%.

(1)
Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission (the "SEC") and generally includes voting or investment power with respect to the securities. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, each share of Coherent Common Stock subject to options held by that person that will be exercisable on or before March 31, 2003, are deemed outstanding. Such shares, however, are not deemed outstanding for the purpose of computing the percentage ownership of any other person.

(2)
Based on Schedule 13F as filed with the SEC by Oppenheimer funds, Inc. as of September 30, 2002.

(3)
Based on Schedule 13F as filed with the SEC by PRIMECAP Management Company as of September 30, 2002.

(4)
Based on Schedule 13F as filed with the SEC by Franklin Advisors, Inc. as of as of September 30, 2002.

10

(5)
Includes 532,000 shares issuable upon exercise of options held by Dr. Couillaud which are currently exercisable or will become exercisable within 60 days of January 30, 2003.

(6)
Includes 77,230 shares issuable upon exercise of options held by Dr. Ambroseo which are currently exercisable or will become exercisable within 60 days of January 30, 2003.

(7)
Includes 154,000 shares issuable upon exercise of options held by Mr. Quillinan which are currently exercisable or will become exercisable within 60 days of January 30, 2003.

(8)
Includes 44,000 shares issuable upon exercise of options held by Dr. Vittorio Fossati-Bellani which are currently exercisable or will become exercisable within 60 days of January 30, 2003.

(9)
Includes 20,000 shares issuable upon exercise of options held by Mr. McCarthy which are currently exercisable or will become exercisable within 60 days of January 30, 2003.

(10)

Includes 10,000 shares issuable upon exercise of options held by Mr. Cantoni which are currently exercisable or will become exercisable within 60 days of January 30, 2003.

(11)
Includes 10,000 shares issuable upon exercise of options held by Dr. Carrubba which are currently exercisable or will become exercisable within 60 days of January 30, 2003.

(12)
Includes 25,000 shares issuable upon exercise of options held by Mr. Gauthier which are currently exercisable or will become exercisable within 60 days of January 30, 2003.

(13)
Includes 10,000 shares issuable upon exercise of options held by Mr. Hart which are currently exercisable or will become exercisable within 60 days of January 30, 2003.

(14)
Includes 5,000 shares issuable upon exercise of options held by Dr. Robertson which are currently exercisable or will become exercisable within 60 days of January 30, 2003.

(15)
Includes an aggregate of 974,230 options which are currently exercisable or will become exercisable within 60 days of January 30, 2003.



**Item 13. Certain Relationships and Related Transactions**

The following table sets forth information with respect to all executive officers of the Company who had indebtedness outstanding during the past fiscal year. This indebtedness arose as a result of the delivery of promissory notes in connection with the exercise of stock options.

| Name | New Loans During 2002(1) | Interest Rates | Maturity Date(s) | Largest Amount Outstanding During 2002 | Balance at September 28, 2002 |
|---|---|---|---|---|---|
| John Ambroseo, PhD | $ 541,017 | 4.75% | 1/25/07 | $ 541,017 | $ 541,017 |
| Bernard Couillaud, PhD | $ 774,306 | 4.75-8.50% | 3/1/04-4/26/07 | $ 1,118,755 | $ 1,118,755 |
| Vittorio Fossati-Bellani, PhD | $ 77,649 | 6.50% | 8/31/06 | $ 77,649 | $ 77,649 |
| Scott Miller | | 4.83-6.71% | 3/1/04-5/24/05 | $ 608,609 | $ 608,609 |
| Robert Quillinan | $ 162,506 | 4.75% | 2/27/07 | $ 162,506 | $ 162,506 |

(1)
These loans were entered into prior to the effective date of Section 402 of the Sarbanes-Oxley Act of 2002.

All promissory notes are full recourse and are secured by the shares of Common Stock of the Company issued upon exercise of the options. Interest is paid annually.

**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND FORM 8-K REPORTS**

**Exhibits.** Item 15 is amended to add the following exhibits:

| Exhibit Numbers | |
|---|---|
| 99.3 | Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

**Exhibit Numbers**

| | |
|---|---|
| 99.4 | Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

12

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Amendment No. 1 to Form 10-K on Form 10-K/A to be signed on its behalf by the undersigned, thereunto duly authorized on this 31st day of January 2003.

COHERENT, INC.

By: /s/ HELENE SIMONET

Helene Simonet
Executive Vice President &
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Amendment No. 1 to Form 10-K on Form 10-K/A has been signed below by the following persons on January 31, 2003 on behalf of the Registrant and in the capacities and on the dates indicated:

| Signatures | Title |
|---|---|
| * <br> John Ambroseo, PhD | Director, President & Chief Executive Officer (Principal Executive Officer) |
| /s/ HELENE SIMONET <br> Helene Simonet | Executive Vice President & Chief Financial Officer |
| * <br> Bernard J. Couillaud, PhD | Director, Chairman of the Board |
| * <br> Henry E. Gauthier | Director, Vice Chairman of the Board |
| * <br> Charles W. Cantoni | Director |
| * <br> Frank P. Carrubba, PhD | Director |
| * <br> John H. Hart | Director |
| * | Director |

| Signatures | Title |
|---|---|
| Robert J. Quillinan | |
| * | Director |
| Jerry E. Robertson, PhD | |

*By: /s/ HELENE SIMONET

Helene Simonet
Attorney-in-Fact



**CERTIFICATIONS**

I, John R. Ambroseo, certify that:

1. I have reviewed this annual report on Form 10-K, as amended, of Coherent, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. Coherent Inc.'s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for Coherent, Inc. and we have:

   a. designed such disclosure controls and procedures to ensure that material information relating to Coherent, Inc., including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. evaluated the effectiveness of Coherent, Inc.'s disclosure controls and procedures as of a date within 90 days prior to the filing date of the annual report (the "Evaluation Date"); and

   c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluations as of the Evaluation Date;

5. Coherent, Inc.'s other certifying officer and I have disclosed, based on our most recent evaluation, to Coherent, Inc.'s auditors and the audit committee of Coherent Inc.'s board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for Coherent Inc.'s auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in Coherent Inc.'s internal controls; and

6. Coherent, Inc.'s other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 31, 2003

By: /s/ JOHN R. AMBROSEO

John R. Ambroseo
President and Chief Executive Officer

14

---

I, Helene Simonet, certify that:

1. I have reviewed this annual report on Form 10-K, as amended, of Coherent, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. Coherent Inc.'s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for Coherent, Inc. and we have:

   a. designed such disclosure controls and procedures to ensure that material information relating to Coherent, Inc., including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b. evaluated the effectiveness of Coherent, Inc.'s disclosure controls and procedures as of a date within 90 days prior to the filing date of the annual report (the "Evaluation Date"); and

   c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluations as of the Evaluation Date;

5. Coherent, Inc.'s other certifying officer and I have disclosed, based on our most recent evaluation, to Coherent, Inc.'s auditors and the audit committee of Coherent Inc.'s board of directors (or persons performing the equivalent functions):

   a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for Coherent Inc.'s auditors any material weaknesses in internal controls; and

b. any fraud, whether or not material, that involves management or other employees who have a significant role in Coherent Inc.'s internal controls; and

6. Coherent, Inc.'s other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: January 31, 2003

By: /s/ HELENE SIMONET

Helene Simonet
Executive Vice President and Chief Financial Officer



**INDEX TO EXHIBITS**

| Exhibit Number | Exhibit |
| --- | --- |
| 99.3 | Certification by the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 99.4 | Certification by the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |



QuickLinks

...................................... 639,200 12,983,750 Verizon Communications ....................................... 248,954 12,478,819 ------------- 43,738,563 ------------- TRANSPORTATION (2.4%) AMR Corp. (a) ................................................ 180,000 7,053,750 Canadian Pacific, Ltd. ....................................... 200,000 5,712,500 Delta Air Lines, Inc. ......................................... 156,500 7,854,344 Southwest Airlines Co. ....................................... 169,300 5,676,629 United Parcel Service, Inc. Class B ........................... 123,500 7,263,344 ------------- 33,560,567 ------------- TOTAL COMMON STOCKS (Cost $1,036,904,592) ..................... 1,340,923,782 ------------- PREFERRED STOCK (0.3%) BROADCASTING & CABLE (0.3%) The News Corp. Ltd. (b) (Cost $4,611,740) ...................... 150,000 4,359,375 ------------- 26 ALL-STAR EQUITY FUND See Notes to Schedule of Investments. SCHEDULE OF INVESTMENTS ------------------------------------------------------------------------------ INTEREST MATURITY PAR SHORT-TERM INVESTMENTS (4.6%) RATE DATE VALUE MARKET VALUE ---------------------------------------------------------------------------------------------------------- COMMERCIAL PAPER (1.2%) American Express 6.45% 1/2/01 $8,000,000 $ 7,998,567 Ford Motor Credit Corp. 6.30 1/4/01 3,000,000 2,998,425 Household Finance 6.50 1/5/01 5,000,000 4,996,389 ---------------- TOTAL COMMERCIAL PAPER (COST $15,993,381) .................................................. 15,993,381 ---------------- REPURCHASE AGREEMENT (3.4%) SBC Warburg Ltd., Repurchase Agreement dated 12/29/00, 6.00% to be repurchased at $46,537,004 on 01/02/01, collateralized by U.S. Treasury bonds and/or notes with various maturities to 2028, with a current market value of $47,397,171. ......................... 46,506,000 46,506,000 ---------------- TOTAL SHORT-TERM INVESTMENTS (COST $62,499,381) ............................................ 62,499,381 ---------------- TOTAL INVESTMENTS (102.3%) (COST $1,104,015,713) (c) ....................................... 1,407,782,538 ---------------- OTHER ASSETS AND LIABILITIES, NET (-2.3%) .................................................. (31,609,825) ---------------- NET ASSETS (100.0%) ............................................................................ $1,376,172,713 ---------------- ---------------- NET ASSET VALUE PER SHARE (101,113,522 SHARES OUTSTANDING) .................................. $13.61 ---------------- ---------------- NOTES TO SCHEDULE OF INVESTMENTS: (a) Non-income producing security. (b) Represents an American Depositary Receipt. (c) Cost for federal income tax purposes is $1,109,005,384. Gross unrealized appreciation and depreciation of investments at December 31, 2000 is as follows: Gross unrealized appreciation $387,229,538 Gross unrealized depreciation (88,452,384) ------------ Net unrealized appreciation $298,777,154 ------------ ------------ See Notes to Financial Statements. ALL-STAR EQUITY FUND 27 FINANCIAL STATEMENTS ------------------------------------------------------------------------------ STATEMENTS OF ASSETS AND LIABILITIES DECEMBER 31, 2000 ---------------------------------------------------------------------------------------------------------- ASSETS: Investments at market value (identified cost $1,104,015,713) .......................... $1,407,782,538 Receivable for investments sold ...................................................... 4,643,931 Dividends and interest receivable ..................................................... 809,500 Other assets ......................................................................... 53,171 ------------- TOTAL ASSETS .................................................................. 1,413,289,140 ------------- LIABILITIES: Payable due to custodian bank ........................................................ 2,425 Payable for investments purchased ..................................................... 19,155,523 Distributions payable to shareholders ................................................. 16,553,604 Management, administrative and bookkeeping fees payable ............................... 1,019,089 Accrued expenses ..................................................................... 373,961 Other liabilities ...................................................................... 11,825 ------------- TOTAL LIABILITIES ............................................................ 37,116,427 ------------- NET ASSETS ......................................................................... $1,376,172,713 ------------- ------------- NET ASSETS REPRESENTED BY: Paid-in capital (unlimited number of shares of beneficial interest without par value authorized, 101,113,522 shares outstanding) ........................... $ 980,864,627 Accumulated net realized gains on investments less distributions .......................................................................... 91,541,261 Net unrealized appreciation on investments .............................................. 303,766,825 ------------- TOTAL NET ASSETS APPLICABLE TO OUTSTANDING SHARES OF BENEFICIAL INTEREST ($13.61 PER SHARE) ................................................ $1,376,172,713 ------------- ------------- 28 ALL-STAR EQUITY FUND See Notes to Financial Statements. FINANCIAL STATEMENTS ------------------------------------------------------------------------------ STATEMENTS OF OPERATIONS YEAR ENDED DECEMBER 31, 2000 ---------------------------------------------------------------------------------------------------------- INVESTMENT INCOME: Dividends .................................................................................. $ 16,137,964 Interest ............................................................................................ 2,414,223 ------------ TOTAL INVESTMENT INCOME (NET OF

FOREIGN TAXES WITHHELD AT SOURCE WHICH AMOUNTED TO $38,636) .................................. 18,552,187 EXPENSES: Management fees ............................................. $ 9,804,500 Administrative fee .......................................... 2,451,561 Bookkeeping fee ............................................. 283,483 Custodian and transfer agent fees ........................... 274,778 Proxy and shareholder communication expense .................. 181,692 Printing expense ........................................... 172,096 Legal and audit fees ........................................ 58,296 Trustees' fees and expense .................................. 83,920 NYSE fees .................................................. 86,536 Miscellaneous expense ....................................... 26,903 ---------------- TOTAL EXPENSES ................................................................ 13,423,765 ------------ NET INVESTMENT INCOME ........................................................................ 5,128,422 REALIZED AND UNREALIZED GAINS (LOSSES) ON INVESTMENTS: Net realized gains on investment transactions: Proceeds from sales ......................................... 1,250,026,665 Cost of investments sold ..................................... 1,082,915,951 ---------------- Net realized gains on investment transactions ...................................... 167,110,714 Net unrealized appreciation on investments: Beginning of year .......................................... 373,928,811 End of year ................................................. 303,766,825 ----------------- Change in unrealized appreciation-net ............................................ (70,161,986) ------------ NET INCREASE IN NET ASSETS RESULTING FROM OPERATIONS ......................................... $102,077,150 ------------ ------------ See Notes to Financial Statements. ALL-STAR EQUITY FUND 29 FINANCIAL STATEMENTS ---------------------------------------------------------------------------- YEAR ENDED DECEMBER 31, ----------------------- STATEMENT OF CHANGES IN NET ASSETS 2000 1999 ------------------------------------------------------------------------------------------------------------ OPERATIONS: Net investment income ......................................... $ 5,128,422 $ 5,017,012 Net realized gains on investment transactions ................. 167,110,714 157,250,175 Change in unrealized appreciation--net ......................... (70,161,986) (38,966,121) ---------------- --------------- Net increase in net assets resulting from operations ........... 102,077,150 123,301,066 ---------------- --------------- DISTRIBUTIONS DECLARED FROM: Net investment income .......................................... (5,712,380) (4,396,010) Net realized gains on investments ............................. (135,687,387) (129,123,874) ---------------- --------------- Total distributions ........................................... (141,399,767) (133,519,884) ---------------- --------------- CAPITAL TRANSACTIONS: Increase in net assets from capital share transactions ......... 19,294,351 55,329,487 ---------------- --------------- Total increase (decrease) in net assets ........................ (20,028,266) 45,110,669 NET ASSETS: Beginning of year ............................................. 1,396,200,979 1,351,090,310 ---------------- --------------- End of year .................................................. $ 1,376,172,713 $1,396,200,979 ================ ============== Undistributed net investment income ............................ $ -- $ 583,958 ---------------- --------------- 30 ALL-STAR EQUITY FUND See Notes to Financial Statements. FINANCIAL HIGHLIGHTS --------------------------------------------------------------------------- YEAR ENDED DECEMBER 31 ------------------------------------------------------------------- 2000 1999 1998 1997 1996 ------------------------------------------------------------------------------------------------------------ PER SHARE OPERATING PERFORMANCE: Net asset value at beginning of year .......... $14.02 $14.22 $13.32 $11.95 $11.03 ------- ------- ------- ------- ------- Income from Investment Operations: Net investment income (a) ............... 0.05 0.05 0.05 0.05 0.08 Net realized and unrealized gains (losses) on investments ............. 0.96 1.22 2.35 3.01(b) 2.15(b) Provision for federal income tax ........ -- -- -- (0.36) (0.13) ------- ------- ------- ------- ------- Total from Investment Operations .............. 1.01 1.27 2.40 2.70 2.10 ------- ------- ------- ------- ------- Less Distributions from: Net investment income .................. (0.06) (0.05) (0.05) (0.05) (0.08) Realized capital gains ................. (1.36) (1.34) (1.35) (1.28) (1.10) ------- ------- ------- ------- ------- Total Distributions .......................... (1.42) (1.39) (1.40) (1.33) (1.18) ------- ------- ------- ------- ------- Change due to rights offering (c) ............. -- -- (0.10) -- -- Impact of shares issued in dividend reinvestment (d) ....................... -- (0.08) -- -- -- ------- ------- ------- ------- ------- Total Distributions, Reinvestments and Rights Offering ..................... (1.42) (1.47) (1.50) (1.33) (1.18) ------- ------- ------- ------- ------- Net asset value at end of year ................ $13.61 $14.02 $14.22 $13.32 $11.95 ------- ------- ------- ------- ------- ------- ------- ------- ------- ------- Market price at end of year ................... $12.375 $11.063 $12.938 $13.313 $11.250 ------- ------- ------- ------- ------- ------- ------- ------- ------- ------- TOTAL INVESTMENT RETURN FOR SHAREHOLDERS: (e) Based on net asset value ...................... 8.8% 10.2% 19.8% 26.6% 21.7% Based on market price ......................... 25.4% (4.4)% 9.1% 34.4% 16.2% RATIOS AND SUPPLEMENTAL DATA: Net assets at end of year (millions) .......... $1,376 $1,396 $1,351 $1,150 $988 Ratio of expenses to average net assets ....... 0.96% 0.97% 1.00% 1.01% 1.03% Ratio of net investment income to average net assets ........................ 0.37% 0.37% 0.39% 0.38%

0.73% Portfolio turnover rate ....................... 83% 90% 76% 99% 70% (a) The per share net investment income amounts do not reflect the period's reclassification of differences between book and tax basis income (b) Before provision for federal income tax. (c) Effect of All-Star's rights offerings for shares at a price below net asset value. (d) Effect of payment of a portion of distributions in newly issued shares at a discount from net asset value. (e) Calculated assuming all distributions reinvested at actual reinvestment price and all primary rights exercised. See Notes to Financial Statements. ALL-STAR EQUITY FUND 31 NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2000 ------------------------------------------------------------------------------ NOTE 1. ORGANIZATION AND ACCOUNTING POLICIES Liberty All-Star Equity Fund (All-Star or the Fund), organized as a Massachusetts business trust on August 20, 1986, is a closed-end, diversified management investment company. All-Star's investment objective is to seek total investment return, comprised of long term capital appreciation and current income, through investment primarily in a diversified portfolio of equity securities. All-Star is managed by Liberty Asset Management Company (the "Manager"). The Manager is a subsidiary of Liberty Financial Companies, Inc., a publicly traded company of which Liberty Mutual Insurance Company is the majority shareholder. The following is a summary of significant accounting policies followed by All-Star in the preparation of its financial statements. The preparation of financial statements in conformity with generally accepted accounting principles 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. VALUATION OF INVESTMENTS - Portfolio securities listed on an exchange and over-the-counter securities quoted on the NASDAQ system are valued on the basis of the last sale on the date as of which the valuation is made, or, lacking any sales, at the current bid prices. Over-the-counter securities not quoted on the NASDAQ system are valued on the basis of the mean between the current bid and asked prices on that date. Securities for which reliable quotations are not readily available are valued at fair value, as determined in good faith and pursuant to procedures established by the Trustees. Short-term instruments maturing in more than 60 days for which market quotations are readily available are valued at current market value. Short-term instruments with remaining maturities of 60 days or less are valued at amortized cost, unless the Board of Trustees determines that this does not represent fair value. PROVISION FOR FEDERAL INCOME TAX - The Fund qualifies as a "regulated investment company." As a result, a federal income tax provision is not required for amounts distributed to shareholders. OTHER - Security transactions are accounted for on the trade date. Interest income and expenses are recorded on the accrual basis. Dividend income is recorded on the ex-dividend date. NOTE 2. FEES PAID TO AFFILIATES Under All-Star's Management and Portfolio Management Agreements, All-Star pays the Manager a management fee for its investment management services at an annual rate of 0.80% of All-Star's average weekly net assets. The Manager pays each Portfolio Manager a portfolio management fee at an annual rate of 0.40% of the average weekly net assets of the portion of the investment portfolio managed by it. All-Star also pays the Manager an administrative fee for its administrative services at an annual rate of 0.20% of All-Star's average weekly net assets. The annual fund management and administrative fees are reduced to 0.72% and 0.18%, respectively, on average weekly net assets in excess of $400 million and the aggregate annual fees payable by the Manager to the Portfolio Managers are reduced to 0.36% of All-Star's average weekly net assets in excess of $400 million. The annual fund management and administrative fees are further reduced to 0.648% and 0.162%, respectively, on average weekly net assets in excess of $800 million to $1.2 billion and 0.584% and 0.146%, respectively, on average weekly net assets in excess of $1.2 billion. The aggregate annual fees payable by the Manager to the Portfolio. 32 ALL-STAR EQUITY FUND NOTES TO FINANCIAL STATEMENTS ------------------------------------------------------------------------------ Managers are also reduced to 0.324% of the Fund's average weekly net assets in excess of $800 million to $1.2 billion and 0.292% of the Fund's average net assets in excess of $1.2 billion. Colonial Management Associates, Inc., an affiliate of the Manager, provides bookkeeping and pricing services for $36,000 per year plus 0.0233% of All-Star's average weekly net assets over $50 million, 0.0167% in excess of $500 million, and 0.015% in excess of $1 billion. NOTE 3. CAPITAL TRANSACTIONS During the years ended December 31, 2000, and December 31, 1999, distributions in the amount of $19,294,351 and $55,329,487 respectively, were paid in newly issued shares valued at market value or net asset value, but not less than 95% of market value, resulting in the issuance of 1,535,869 and 4,579,753 shares, respectively. NOTE 4. SECURITIES TRANSACTIONS Realized gains and losses are recorded on the identified cost basis for both financial reporting and federal income tax purposes. The cost of investments purchased and the proceeds from investments sold excluding short-term debt obligations for the year ended December

31, 2000 were $1,127,955,001 and $1,250,026,665, respectively. The Fund may enter into repurchase agreements and require the seller of the instrument to maintain on deposit with the Fund's custodian bank or in the Federal Reserve Book-Entry System securities in the amount at all times equal to or in excess of the value of the repurchase agreement, plus accrued interest. The Fund may experience costs and delays in liquidating the collateral if the issuer defaults or enters bankruptcy. NOTE 5. DISTRIBUTIONS TO SHAREHOLDERS All-Star currently has a policy of paying distributions on its common shares totaling approximately 10% of its net asset value per year, payable in four quarterly distributions of 2.5% of All-Star's net asset value at the close of the New York Stock Exchange on the Friday prior to each quarterly declaration date. Distributions to shareholders are recorded on the ex-dividend date. Income and capital gain distributions are determined in accordance with federal income tax regulations, which may differ from generally accepted accounting principles. Reclassifications are made to the Fund's capital accounts to reflect income and gains available for distribution (or available capital loss carryovers) under income tax regulations. These reclassifications are excluded from the per share amounts in the Financial Highlights. ALL-STAR EQUITY FUND 33 REPORT OF INDEPENDENT ACCOUNTANTS ------------------------------------------------------------------------------ TO THE SHAREHOLDERS AND THE TRUSTEES OF LIBERTY ALL-STAR EQUITY FUND In our opinion, the accompanying statement of assets and liabilities, including the investment portfolio, and the related statements of operations and changes in net assets and the financial highlights present fairly, in all material respects, the financial position of Liberty All-Star Equity Fund (the "Fund") at December 31, 2000, the results of its operations, the changes in its net assets and the financial highlights for years ended December 31, 2000 and 1999, in conformity with accounting principles generally accepted in the United States of America. These financial statements and the financial highlights (hereafter referred to as "financial statements") are the responsibility of the Fund's management; our responsibility is to express an opinion based on our audits. We conducted our audits of these financial statements in accordance with auditing standards generally accepted in the United States of America which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating our overall financial statement presentation. We believe that our audits, which included confirmation of portfolio positions at December 31, 2000 by correspondence with the custodian and brokers, provide a reasonable basis for our opinion. The financial highlights of the Fund for periods prior to January 1, 1999 were audited by other independent accountants whose report dated February 12, 1999 expressed an unqualified opinion on those statements. PricewaterhouseCoopers LLP Boston, Massachusetts February 12, 2001 34 ALL-STAR EQUITY FUND AUTOMATIC DIVIDEND REINVESTMENT & CASH PURCHASE PLAN ------------------------------------------------------------------------------ Under the Fund's Automatic Dividend Reinvestment and Cash Purchase Plan (the "Plan"), shareholders may elect to participate and have all their Fund dividends and distributions automatically reinvested by State Street Bank and Trust Company, as agent for participants in the Plan (the "Plan Agent"), in additional shares of the Fund. For further information and enrollment forms, call Investor Assistance at 1-800-LIB-FUND (1-800-542-3863) weekdays between 9 a.m. and 5 p.m. Eastern Time. Shareholders whose shares are held in the name of a brokerage firm, bank or other nominee can participate in the Plan only if their brokerage firm, bank or nominee is able to do so on their behalf. Shareholders participating in the Plan through a brokerage firm may not be able to transfer their shares to another brokerage firm and continue to participate in the Plan. Under the Plan, distributions declared payable in shares or cash at the option of shareholders are paid to participants in the Plan entirely in newly issued full and fractional shares valued at the lower of market value or net asset value per share on the valuation date for the distribution (but not at a discount of more than 5 percent from market price). Distributions declared payable only in cash will be reinvested for the accounts of participants in the Plan in additional shares purchased by the Plan Agent on the open market at prevailing market prices. If, prior to the Plan Agent's completion of such open market purchases, the market price of a share equals or exceeds its net asset value, the remainder of the distribution will be paid in newly issued shares valued at net asset value (but not at a discount of more than 5 percent from market price). Dividends and distributions are subject to taxation, whether received in cash or in shares. Participants in the Plan have the option of making additional cash payments in any amount on a monthly basis for investment in shares of the Fund purchased on the open market. These voluntary cash payments will be invested on or shortly after the 15th day of each calendar month, and voluntary payments should be sent so as to be received by the Plan Agent no later than five business days before the next investment date. Barring suspension of trading, voluntary cash payments will be invested within 45 days of receipt. A participant may withdraw a voluntary cash payment by written notice received by the Plan Agent at least 48 hours before such payment is to be invested. The Plan Agent maintains all shareholder accounts in the Plan and furnishes written confirmations of all transactions in the account, including information needed by shareholders for tax records. Shares in the account of each Plan participant will be held by the Plan Agent in non-certificated form in the name of the participant, and each shareholder's proxy will include those shares purchased or received pursuant to the Plan. There is no charge to participants for reinvesting distributions pursuant to the Plan. The Plan Agent's fees are paid by the Fund. There are no brokerage charges with respect to shares issued directly by the Fund as a result of dividends or distributions declared payable in shares or in cash. However, each participant bears a pro rata share of brokerage commissions incurred with respect to the Plan Agent's open market purchases in connection with the reinvestment of distributions declared payable in cash. With respect to purchases from voluntary cash payments, the Plan Agent will charge $1.25 for each such purchase for a participant, plus a pro rata share of the brokerage commissions. Brokerage charges for purchasing small amounts of shares for individual accounts through the Plan are expected to be less than the usual brokerage charges for such transactions, as the Plan Agent will be purchasing shares for all participants in blocks and prorating the lower commission thus attainable. Shareholders may terminate their participation in the Plan by written notice to the Plan Agent, State Street Bank and Trust Company, c/o EquiServe, P.O. Box 43011, Providence, RI 02940-3011. Such termination will be effective immediately if received not less than 10 days prior to the record date for a dividend or distribution; otherwise it will be effective on the first business day after the payment date of such dividend or distribution. On termination, participants may either have certificates for the Fund shares in their Plan accounts delivered to them or have the Plan Agent sell such shares in the open market and deliver the proceeds, less a $2.50 fee plus brokerage commissions, to the participant. Experience under the Plan may indicate that changes are desirable. Accordingly, the Fund reserves the right to amend or terminate the Plan. ALL-STAR EQUITY FUND 35 TAX INFORMATION (UNAUDITED) -------------------------------------------------------------------------- All 2000 distributions whether received in cash or shares of the Fund consist of the following: (1) ordinary income and (2) long-term capital gains distributions Below is a table that details the breakdown of each 2000 distribution for federal income tax purposes. TAX STATUS OF 2000 DISTRIBUTIONS ORDINARY INCOME ------------------- NET SHORT-TERM LONG-TERM AMOUNT INVESTMENT CAPITAL CAPITAL DATE PAID PER SHARE INCOME GAINS GAINS ---------------------------------------------------------------------------------------------- 03/20/00 $0.33 1.78% -- 98.22% ---------------------------------------------------------------------------------------------- 06/19/00 $0.36 6.20% -- 93.80% ---------------------------------------------------------------------------------------------- 09/18/00 $0.37 8.09% 36.17% 55.74% ---------------------------------------------------------------------------------------------- 01/02/01 $0.36 -- 39.35% 60.65% ---------------------------------------------------------------------------------------------- FOR CORPORATE SHAREHOLDERS -------------------------------------------------------------------------- 23% of the ordinary income dividends qualify for the 70% dividend received deduction available for corporations for the year ended December 31, 2000. 36 ALL-STAR EQUITY FUND [LOGO] ALL STAR EQUITY FUND -SM- FUND MANAGER Liberty Asset Management Company Federal Reserve Plaza 600 Atlantic Avenue Boston, Massachusetts 02210-2214 617-722-6036 www.all-starfunds.com INDEPENDENT ACCOUNTANTS PricewaterhouseCoopers, LLP 160 Federal Street Boston, Massachusetts 02110 CUSTODIAN JP Morgan Chase and Company 270 Park Avenue New York, New York 10017-2070 INVESTOR ASSISTANCE, TRANSFER & DIVIDEND DISBURSING AGENT & REGISTRAR State Street Bank and Trust Company c/o EquiServe P.O. Box 43011, Providence, Rhode Island 02940-3011 1-800-LIB-FUND (1-800-542-3863) www.equiserve.com LEGAL COUNSEL Bingham Dana LLP 150 Federal Street Boston, Massachusetts 02110 TRUSTEES Robert J. Birnbaum* James E. Grinnell* Richard W. Lowry* William E. Mayer Dr. John J. Neuhauser* Joseph R. Palombo OFFICERS Joseph R. Palombo, Chairman of the Board of Trustees William R. Parmentier, Jr., President and Chief Executive Officer Kevin M. Carome, Executive Vice President Christopher S. Carabell, Vice President Mark T. Haley, Vice President J. Kevin Connaughton, Treasurer William J. Ballou, Secretary *Member of the audit committee. [LOGO] USA LISTED NYSE [LOGO] ALL STAR EQUITY FUND -SM- Liberty Asset Management Company, Fund Manager Federal Reserve Plaza 600 Atlantic Avenue Boston, Massachusetts 02210-2214 617-722-6036 www.all-starfunds.com [LOGO] [LOGO] USA A MEMBER OF THE LISTED CLOSED-END NYSE FUND ASSOCIATION, INC. www.closed-endfunds.com [PICTURE OF STAR]