



**COHERENT, INC.**

**Board of Directors**

**Governance Guidelines**

**Effective: December 12, 2013**

## ***1. Mission of the Board***

The Board of Directors (the “Board”) has the ultimate responsibility for the well being of the enterprise on behalf of Coherent’s stockholders. This includes the monitoring and support of management in increasing the value for the stockholders while addressing the interests of other stakeholders essential to the Company’s long-term success in an ethically and socially responsible manner.

Duties of the Board include:

- (a) Selecting, evaluating the performance of, determining the compensation of, and planning for the succession of, the Chief Executive Officer (“CEO”) and the Company’s top management.
- (b) Providing oversight, advice and counsel to the executive management of the Company in managing the affairs of the Company.
- (c) On the recommendation of the Governance and Nominating Committee, nominating directors for election by the stockholders, and filling any vacancies existing on the Board that may arise from time to time.
- (d) Serving as stewards of the assets of the Company and overseeing the processes for maintaining the integrity of the Company with regard to its financial statements and other public disclosures.
- (e) Reviewing and approving the Company’s major strategies and financial objectives.
- (f) Ensuring that the Company has effective business plans in place and monitoring the Company’s performance against these plans.
- (g) Approving the capital-spending plan of the Company and ensuring that it is consistent with the Company financial resources.
- (h) Reviewing the adequacy of systems for compliance with all applicable laws, regulations and standards of appropriate behavior.

## ***2. Size of the Board***

The Board shall, from time to time on recommendation of the Governance and Nominating Committee, determine the optimum number of directors to serve on the Board within the range of authorized directors set forth in the Bylaws of the Company. It is the policy of the Board that the number of directors not exceed a number that can function efficiently as a body.

### **3. *Mix of the Board***

At least three quarters of the members of the Board shall satisfy the applicable independence requirements of the Securities Exchange Act of 1934, the rules and regulations of the Nasdaq Stock Market and any other applicable regulatory authority and be free from any relationship that might interfere with the exercise of independent judgment in the performance of director responsibilities (hereinafter “Independent Directors”). No interlocking directorships shall be allowed.

### **4. *Conduct and Organization of the Board***

The Board shall organize and conduct its business in accordance with the Bylaws of the Company and these Governance Guidelines.

The Board shall meet at least four times per year and at each such meeting. At each of the four mandatory Board meetings per year, the Independent Directors shall also meet separately in executive session. The Company shall state in its annual proxy, the number of meetings each year held by the Board and how often such meetings included an executive session.

The Chair of the Board will chair the Board meetings. In the Chair’s absence, if applicable, the Lead Independent Director will chair the Board meetings. If there is no Lead Independent Director or in such Lead Independent Director’s absence, the directors present at the meeting shall elect a chair for the meeting.

In addition to the duties of all Board members (which shall not be limited or diminished by the Chair’s role), the specific responsibilities of the Chair of the Board are to:

- a. Seek input from all directors as to the preparation of the agendas for the Board and Committee meetings;
- b. Advise the Board as to the quality, quantity and timeliness of the flow of information from the Company’s management that is necessary for the Independent Directors to effectively and responsibly perform their duties;
- c. Assist management in assuring compliance with and implementation of all applicable corporate and securities laws and be principally responsible for revisions to these guidelines for compliance and implementation of same; and
- d. Retain counsel and advisors to assist in discharging the duties of the Chair of the Board.

It is the sense of the Board that consideration be given to rotating the Chair of the Board, but that this not be a hard rule, since there may be valid considerations for extending his or her services in such capacity.

The CEO of the Company shall not serve as Chair of the Board and the Chair of the Board must qualify as an Independent Director.



A Director who also serves as the Company's CEO and/or President shall not serve on more than one (1) public company board of directors in addition to the Company; non-Independent Directors who are not serving as the Company's CEO and/or President shall not serve on more than three (3) other public company boards in addition to the Company; and Independent Directors shall not serve on more than four (4) other public company boards in addition to the Company, unless the other Independent Directors consent. Independent Directors serving on the Audit Committee of the Board shall not serve on more than three (3) other public company audit committees in addition to the Company, unless the other Independent Directors consent.

#### **5. *Selection of Agenda Items for Board Meetings***

The Chair of the Board will establish the agenda for each Board meeting after consultation with the Chief Executive Officer. Other directors are encouraged to suggest to the Chair the inclusion of items on the Board's agenda.

#### **6. *Board Materials Distributed in Advance***

Board materials should be distributed in advance of each meeting, to allow time for review and assessment so that the Board meeting time may be conserved for discussions focused on questions that the Board has about the material. On those occasions when the subject matter is too sensitive to be distributed, the subject will have to be introduced at the meeting. Management and the Chair of the Board will make every effort to see that the material is distributed in advance, and that it is presented in an efficient and effective format.

#### **7. *Board Participation***

Directors are expected to prepare for, attend and actively participate in all Board and applicable Committee meetings.

#### **8. *Attendance of Non-Directors at Board Meetings***

It is anticipated that certain members of management (e.g. the Chief Financial Officer, the General Counsel and such other members of the executive staff as the Chair or CEO may from time to time designate) will attend Board meetings on a regular basis. Other members of management and staff will attend meetings and present reports from time to time. Legal personnel (whether Company legal personnel or outside counsel) shall attend meetings of the Board or a designated committee thereof where options are granted and shall prepare minutes of the meeting. The Board also encourages management to schedule managers to be present at Board meetings who can provide additional insight into the items being discussed because of personal involvement in these areas, and to expose the Board to managers who have potential for senior positions within the Company. It is understood that visitors attending Board meetings may be asked from time to time to leave the meeting in order for the Board to meet in executive session on sensitive matters.

## 9. *Board Committees*

- (a) The Board shall form committees as follows:
- (1) **Audit Committee.** This Committee will be solely responsible for hiring the independent auditors of the Company, and such other responsibilities as set forth in its Charter, including assisting the Board in oversight and monitoring of (i) the quality and integrity of the Company's financial statements, (ii) the Company's compliance with legal and regulatory requirements, (iii) the independent auditor's qualifications, independence and performance, (iv) the performance of internal auditors, (v) the Company's internal accounting and financial controls and (vi) the financial complaint hotline for reporting suspected financial irregularities.
  - (2) **Compensation and H.R. Committee.** This Committee, in compliance with Nasdaq listing requirements, will be responsible for (i) reviewing the compensation to be paid to the CEO and other executive officers of the Company and/or making a recommendation to the Board for approval of such compensation (it being noted that the CEO will not be present during voting or deliberations with respect to the CEO's own compensation), (ii) reviewing the compensation paid to Board and Committee members and/or making a recommendation to the Board for approval of such compensation, and (iii) such other responsibilities as set forth in its Charter.
  - (3) **Governance and Nominating Committee.** This Committee will be responsible for reviewing the Company's Corporate Governance Guidelines and recommending any changes to the Board, and recommending for approval people to serve (i) as members of the Board, (ii) on various Committees of the Board, (iii) as Chair of the Board and its Committees and (iv) such other responsibilities as set forth in its Charter. The Governance and Nominating Committee shall consider and make recommendations to the Board concerning the appropriate size and needs of the Board.
- (b) All members of the Audit Committee, Compensation and H.R. Committee and Governance and Nominating Committee shall be comprised solely of Independent Directors and shall meet any enhanced independence requirements as may be prescribed from time to time for that Committee by the rules and regulations of the Securities and Exchange Commission or the Nasdaq Stock Market.
- (c) From time to time the Board may establish such other standing or special Committees as may be necessary to carry out its responsibilities.
- (d) It is the sense of the Board that consideration be given to rotating memberships on the various Committees and the Chair of each Committee, but that this not be a hard rule, since there may be valid considerations for extending the tenure of a member or Chair.

- (e) The Chair of each Committee, in consultation with the Committee members and the appropriate members of management, will determine the frequency and length of meetings of each Committee and will develop the Committee's agenda. Each Committee will issue an agenda of subjects to be covered at meetings throughout the year, to the extent feasible, and distribute these agendas to directors. Notices of meetings shall be given in accordance with the Company's Bylaws or as otherwise specified in the Committees' Charters. Formal minutes will be kept of Committee meetings and published for all directors to review and will be maintained at the Company by the General Counsel.
- (f) Directors who are not Committee members may attend, subject to the Chair of such Committee's approval, Committee meetings as observers, though such attendance is not required. Non-Committee members attending any Committee meeting shall participate in discussions only to the extent invited by members of the Committee.

#### ***10. Lead Independent Director***

In the event the Chair of the Board is not an Independent Director or the guideline requiring separation of the Chair of the Board from the CEO is revised, the Independent Directors, by majority vote, shall appoint a "Lead Independent Director" who will have the responsibility to schedule and prepare agendas for meetings of Independent Directors. The Independent Directors shall meet separately at each of the four mandatory Board meetings per year, and at such other times as may be requested by any Independent Director.

The Lead Independent Director shall regularly communicate with the Chair and CEO, disseminate information to the rest of the Board in a timely manner and raise issues with management on behalf of the Independent Directors when appropriate. All directors are encouraged to communicate from time to time with the Chair and CEO.

It is the sense of the Board that consideration be given to rotating the Lead Independent Director, but that this not be a hard rule, since there may be valid considerations for extending his or her services in such capacity.

#### ***11. Board Access***

Directors will have full access to the Company's management, employees and principal advisers, including its auditors, legal counsel, investment bankers and executive compensation advisers, and to Company information that they believe is necessary to fulfill their obligations as directors. Directors will use judgment to ensure that such contact is not distracting to the business or operations of the Company.

There may be occasions when an outside advisor is retained directly by the Board or a Committee in connection with a particular matter. The Board and its Committees shall be authorized to retain outside experts and advisors at the Company's expense to the extent they consider it necessary or advisable under the circumstances, or as otherwise provided under any Committee's Charter.

## ***12. Related and Interested Party Transactions***

The Audit Committee shall review and approve in advance any proposed related party transactions in compliance with the rules and regulations of the Nasdaq Stock Market. The Audit Committee shall review, approve and monitor the Company's Code of Ethics, consider questions of possible conflicts of interest of directors and of corporate officers, review actual and potential conflicts of interest (including corporate opportunities) of directors and corporate officers, and clear any involvement of such persons in matters that may involve a conflict of interest or corporate opportunity. From time to time, directors may be asked to leave a meeting when the Audit Committee is considering a transaction in which the director (or another organization in which the director is a director or officer) has a financial or other interest.

Each director shall be required to sign the Company's Code of Ethics.

## ***13. Election of Directors***

While the Governance and Nominating Committee has the responsibility to determine whether any set criteria for Board membership should be adopted generally, the Board seeks members from diverse professional backgrounds who combine a broad spectrum of experience and expertise with a reputation for integrity and do not have professional commitments which might otherwise unreasonably interfere with the demands and duties needed to fully consider Company related matters or conflict with the Company's interests. Exceptional candidates who do not meet all of these criteria may still be considered. Directors should have or have had experience in positions with a high degree of responsibility, be leaders in the companies or institutions with which they are or were affiliated, and be selected based upon contributions and guidance they can provide. A candidate's qualifications are assessed within the context of the Company's needs at that point in time as well as anticipated requirements.

The Governance and Nominating Committee shall be responsible for identifying and interviewing prospective candidates, including those identified and recommended by the Company's stockholders detailed below, and recommending to the Board the slate of candidates to be voted on at the annual meeting of stockholders, and any candidate to fill any vacancy that may exist from time to time.

The Board shall establish a procedure, to be conducted by the Governance and Nominating Committee of the Board, to elicit, receive and consider nominations for the Board from each individual or entity holding the Company's common stock and include appropriate disclosure in the Company's annual proxy related to same, including:

- (a) An appropriate review, including background information and interviews of prospective candidates will be conducted and qualified candidates will be sent to the Governance and Nominating Committee for review.
- (b) The Governance and Nominating Committee shall consider in good faith any potential director recommended pursuant to the foregoing procedure.



On recommendation of the Governance and Nominating Committee, the Board, by majority vote, shall nominate a slate of directors for election at the annual meeting of stockholders each year. Directors shall be elected at the annual meeting of stockholders, in accordance with the Bylaws of the Company.

In the event of a vacancy, upon recommendation of the Governance and Nominating Committee, the Board, by majority vote, shall select a replacement. It is the responsibility of the Chair of the Board to extend an invitation to a duly nominated individual to join the Board.

It is the policy of the Board that directors must submit a resignation effective as of the annual meeting of stockholders next following the date they attain the age of 72. Within three months of such 72<sup>nd</sup> birthday, the director must submit his or her resignation to the Governance and Nominating Committee. The Committee will determine whether or not to accept such resignation. Exceptions to this policy may be made on a case-by-case basis, at the discretion of the Board.

#### **14. *Term Limits***

The Board does not believe it should establish term limits for directors. While such limits might contribute fresh ideas to the Board, they have the disadvantage of losing the contribution of directors who have developed, over a period of time, insight into the future direction and operations of the Company.

#### **15. *Annual Board Evaluations***

Each director will evaluate the performance of the Board annually utilizing an approved, pre-determined process, as determined by the Governance and Nominating Committee.

#### **16. *Minimum Stock Ownership***

Each director shall acquire within five years of his or her tenure on the Board and thereafter maintain a minimum value of Coherent stock equal to three times such director's annual cash retainer, exclusive of any cash retainer for service as Chair of the Board, Chair of any Committee of the Board or for service as a member of any Committee of the Board.

#### **17. *Directors Status***

If a director changes professional status, he/she shall promptly notify the Chair of the Board who shall refer the matter to the Governance and Nominating Committee. The Governance and Nominating Committee shall review the continued appropriateness of Board membership in light of such changes, and make a recommendation to the Board at its next meeting. The Board may in its sole discretion decide whether to nominate such director for re-election at the next annual stockholders meeting.

When any executive officer of the Company who also serves as a director resigns from active management with the Company that he/she will offer his/her resignation from the Board. The Board shall decide to accept or reject such letter of resignation by majority vote.



### ***18. Succession Planning***

The Board will review the Company's succession planning and senior management development on an annual basis. In conducting its review, the Board shall consider, among other factors that it deems appropriate, the Company's strategic direction, organizational and operational needs, competitive challenges, leadership/management potential and development, and emergency situations. To assist the Board with its review, the CEO shall provide the Governance and Nominating Committee with a performance assessment of senior management and their succession potential to the position of CEO, including in the event of an unexpected emergency, along with a review of any development plans recommended for such individuals. In evaluating the CEO's potential successor, the Board and the Governance and Nominating Committee may consider persons outside of the Company and engage third party consultants or search firms to assist in the succession planning process. In addition, the Compensation and H.R. Committee will periodically review the Company's organizational development activities in order to retain and attract top leadership talent. The Governance Committee and Nominating Committee will report the summary results of these assessments to the Board on an annual basis or more frequently if warranted.

### ***19. Board Interaction with Institutional Investors, the Media, etc.***

It is the sense of the Board that management speaks for the Company. Individual directors may, from time to time, meet or otherwise communicate with various people that are involved with the Company. However, it is expected that directors would speak for the Company only with the knowledge of management, and usually at the request of management.

### ***20. Director Orientation and Continuing Education***

It is critical that new directors understand the Company, the role of the Board, the role of the Committees and the commitment of time and energy expected as a member of the Board. All new directors shall participate in the Company's Director Orientation Program following their election or appointment to the Board.

The Company recognizes the importance of continuing education for members of the Board. Accordingly, the Company encourages members of the Board to participate in appropriate training classes and shall reimburse the members for their reasonable costs for such classes. The Governance and Nominating Committee shall be responsible for establishing guidelines for director training.

### ***21. Publication of Guidelines***

The Company shall publish these Governance Guidelines on its website.