PATIENT INFOSYSTEMS INC
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PROSPECTUS

PATIENT INFOSYSTEMS, INC.

877,125 Shares of Common Stock

The stockholders named on page 48 are selling up to 877,125 shares of our common stock. 62,500 of the shares we are registering are issuable upon the exercise of outstanding common stock purchase warrants. The selling stockholders may offer and sell their shares on a continuous or delayed basis in the future. These sales may be conducted in the open market or in privately negotiated transactions and at market prices, fixed prices or negotiated prices. We will not receive any of the proceeds from the sale of shares by the selling stockholders, but we will receive funds from the exercise of their warrants.

Our common stock is currently listed on the OTC Bulletin Board under the symbol "PATY." On June 30, 2004, the last reported sale price of our common stock on the Nasdaq OTC Bulletin Board was $3.30 per share.

Investing in our common stock involves risks. Please read the "Risk Factors" section beginning on page 5 to read about certain risks that you should consider before purchasing shares of our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this Prospectus is July 2, 2004

No dealer, salesperson or other person has been authorized to give any information or to make any representations other than those contained in this prospectus, and if given or made, such information or representations must not be relied upon as having been authorized by us, the selling stockholders or any underwriter. You should rely only on the information contained in this prospectus. This prospectus does not constitute an offer to sell or the solicitation of an offer to buy any security other than the common stock offered by this prospectus, or an offer to sell or a solicitation of an offer to buy any security by any person in any jurisdiction in which such offer or solicitation would be unlawful. Neither the delivery of this prospectus nor any sale made hereunder shall, under any circumstances, imply that the information in this prospectus is correct as of any time subsequent to the date of this prospectus.

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SUMMARY

You should read this summary together with the more detailed information, including our financial statements and related notes, appearing elsewhere in this prospectus. Unless otherwise indicated, all share and per share information contained herein gives effect to a 1 for 12 reverse stock split effected at the close of business on January 9, 2004.

Our Company

We are a health management solutions company which primarily engages in integrating clinical expertise with advanced Internet, call center and data management capabilities. We have evolved to offer a comprehensive portfolio of products and services designed to improve patient clinical outcomes and quality of life, reduce healthcare costs and facilitate patient-provider-payor communication. These products are now marketed under the label Care Team Connect for Health. On December 31, 2003, we acquired the assets and assumed the liabilities of American Caresource Corporation.

Our principal executive offices are located at 46 Prince Street, Rochester, New York 14607 and our telephone number is (585) 242-7200. We are incorporated under the laws of Delaware. Our Internet address is www.ptisys.com. The information on our web site is not incorporated by reference into, and does not constitute part of, this prospectus.

Recent Developments

On June 17, 2004, Patient Infosystems Inc. sold 3,365,000 shares of common stock to institutional and other accredited investors for an aggregate purchase price of $5,653,200 in gross proceeds. C.E. Unterberg, Towbin acted as placement agent in the transaction. C.E. Unterberg, Towbin was paid $360,158 in fees and expenses and received a warrant to purchase 93,450 shares of the Company's common stock. In addition, Lipman Capital Group received 50,000 shares of the Company's common stock in connection with consulting services relating to the transaction. Derace Shaffer, our Chairmanommon stock in the private placement.

As a result of the transaction, we were obligated pursuant to the anti-dilution provisions in our agreements with the Selling Stockholders, to issue an additional 155,161 shares of common stock to such Selling Stockholders such that the effective price per share for the shares originally purchased by the Selling Stockholders would be $1.68, being the price per share for the stock sold on June 17, 2004.

The Offering

Shares of common stock offered	877,125
Use of Proceeds	We will not receive any proceeds from the sale of the common stock offered by the selling stockholders. However, we may receive an aggregate of $162,500 upon the exercise of all the warrants held by selling stockholders, if such warrants are exercised for cash. We will use such funds, if any, for working capital and general corporate purposes.
OTC Bulletin Board Symbol	PATY

Summary Financial Information

The summary financial data is derived from the historical financial statements of Patient Infosystems, Inc. This summary financial data should be read in conjunction with "Management's Discussion and Analysis or Plan of Operation" as well as our historical financial statements and the related notes thereto, included elsewhere in this prospectus.

Statement of operations data:

	Year Ended December 31,			
	2003	2002	2001	
Statement of Operations Data:				
Revenues	$5,687,293	$2,355,677	$1,586,443	$2,
Costs and expenses:				
Cost of sales	4,162,759	1,914,464	2,420,151	3
Sales and marketing	893,833	746,353	813,975	1
General and administrative	1,125,926	1,282,683	2,028,804	2
Research and development	131,782	105,614	190,731	
Total costs and expenses	6,314,300	4,049,114	5,453,661	7,
Operating loss	(627,007)	(1,693,437)	(3,867,218)	(5,

Other income	(2,750,954)	(530,924)	(598,087)	(
NET LOSS	$(3,377,960)	$(2,224,361)	$(4,465,305)	$(6,
Convertible preferred stock dividends	(7,671,557)	(90,000)	(90,000)	(
NET LOSS ATTRIBUTABLE TO COMMON SHAREHOLDERS	$(11,049,517)	$(2,314,361)	$(4,555,305)	$(6,
Net loss per share - basic and diluted	$ (3.25)	$ (2.36)	$ (5.17)	$
Weighted average common shares outstanding	3,399,616	979,668	880,875	

	As of December 31,			
	2003	2002	2001	
Balance Sheet Data:				
Cash and cash equivalents	$ 397,851	$ 5,011	$ 29,449	$
Working capital	(2,808,649)	(6,135,451)	(4,686,322)	(1,
Total assets	9,111,158	1,217,266	1,222,133	2
Long term obligations	3,040,295	3,000,000	2,500,000	2
Total liabilities	7,174,782	9,887,505	7,578,011	4
Total stockholders' (deficit) equity	1,936,376	(8,670,239)	(6,355,878)	(2,

RISK FACTORS

Prospective investors should carefully consider the following factors, in addition to the other information contained in this prospectus, in connection with an investment in our common stock. This prospectus contains certain forward-looking statements, which involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of certain factors, including those set forth below and elsewhere in this prospectus. An investment in our common stock involves a high degree of risk and is suitable only for investors who can afford to lose their entire investment.

Working Capital Shortfalls; Urgent Need for Working Capital; Possible Cessation of Operations

Patient Infosystems has never earned a profit and has depended upon the over $30 million that the Company has raised to date through its initial public offering, private placements of its equity securities and debt, to fund its working capital requirements. Patient Infosystems incurred an operating loss of approximately $0.6 million with a net loss of approximately $3.4 million for the year ended December 31, 2003 and had an approximate $2.8 million deficit in working capital and shareholders' equity of approximately $2 million at December 31, 2003. As of December 31, 2003, Patient Infosystems had total liabilities of $7,174,782 and a working capital deficit of $2,808,649. Since May 2003, Patient Infosystems' operation has been supported substantially by its operational cash flow. On December 31, 2003, Patient Infosystems acquired the assets of and assumed the liabilities for American Caresource Corporation and placed the operational assets and liabilities into a wholly-owned subsidiary, American Caresource Holdings, Inc. ("ACS"). It is anticipated that ACS will require significant additional working capital until it can fund its operational needs from operational cash flow, if at all. Existing working capital will last no more than a few months, and the Company anticipates that it will be required to raise at least an additional $2 million in 2004 to sustain the operation of ACS. As with any forward-looking projection, no assurances can be given concerning the outcome of Patient Infosystems' actual financial status given the substantial uncertainties that exist. There can be no assurances that Patient Infosystems can raise either the required working capital through the sale of its securities or that Patient Infosystems can borrow the additional amounts needed. If it is unable to identify additional sources of capital, Patient Infosystems will likely be forced to curtail its operations or the operations of ACS. As a result of the above, the Auditors' Report on Patient Infosystems' consolidated financial statements appearing on page 59 includes an emphasis paragraph indicating that Patient Infosystems' recurring losses from operations and negative working capital raise substantial doubt about its ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

ACS' History of Operating Losses

ACS has incurred losses in each of the past four years and has not, since its inception, operated profitability. There can be no assurance that the acquisition of ACS will result in an increase in revenue or cash flows of Patient Infosystems.

During the last six months, ACS has received written notification of the termination of contractual relations from Pinnacol Assurance and two of its other customers which in the aggregate accounted for over 56% of ACS' revenues during the fiscal year ended December 31, 2003. The termination of these contracts will result in a significant reduction of ACS' revenues. Although a variety of reasons may be provided for the termination of each of the customer agreements, the termination of such an extensive amount of customer business may reflect a substantial level of customer dissatisfaction with the services provided by ACS. Although Patient Infosystems believes that it can provide assistance to ACS and that in combination with Patient Infosystems, ACS will be able to provide better services, no assurance can be given that more customers will not terminate their relationships with ACS following the closing of the Acquisition. In addition, ACS generally does not have long-term contracts with its other customers. Significant declines in the level of use of ACS services by one or more of its remaining customers could have a material adverse effect on ACS' business and results of operations. Additionally, an adverse change in the financial condition of any of these customers, including an adverse change as a result of a change in governmental or private reimbursement programs, could have a material adverse effect on its business.

History of Operating Losses; Continued Limited Patient Enrollment

Patient Infosystems has incurred losses in every quarter since its inception in February 1995. Patient Infosystems' ability to operate profitably is dependent upon its ability to develop and market its products in an economically successful manner. To date, Patient Infosystems has been unable to do so. No assurances can be given that Patient Infosystems will be able to generate revenues or ever operate profitably in the future.

Patient Infosystems' prospects must be considered in light of the numerous risks, expenses, delays and difficulties frequently encountered in an industry characterized by intense competition, as well as the risks inherent in the development of new programs and the commercialization of new services particularly given its failure to date to operate profitably. There can be no assurance that Patient Infosystems will achieve recurring revenue or profitability on a consistent basis, if at all.

Patient Infosystems currently has patients enrolled in its disease-specific programs. Through January 2004, an aggregate of approximately 775,000 persons have been enrolled in Patient Infosystems' programs. While Patient Infosystems has been able to enroll a sufficient number of patients to cover the cost of its programs, it still has not been able to generate sufficient operational margin to achieve a net profit.

Significant Customer Concentration

During 2000, a significant customer ceased operation of services supplied by Patient Infosystems, which had a material adverse effect on the results of operations. As of December 31, 2003, Patient Infosystems now has more customers than it did at December 31, 2001 or 2002. While the customer base is more diverse, there is still a significant concentration of Patient Infosystems' business in a small number of customers, with several of Patient Infosystems' most significant contracts being with IHI, CBCA and CHA Health. Patient Infosystems expects that its sale of services will be concentrated in a small number of customers for the foreseeable future. Consequently, the loss of any one of its customers could have a material adverse effect on Patient Infosystems and its operations. There can be no assurance that customers will maintain their agreements with Patient Infosystems, enroll a sufficient number of patients in the programs developed by Patient Infosystems for Patient Infosystems to achieve or maintain profitability, or that customers will renew their contracts upon expiration, or on terms favorable to, Patient Infosystems.

ACS' five largest customers (including its non-continuing customers) account for approximately 85% of its revenues. In addition, ACS does not have long-term contracts with its customers. The loss of one or more of these customers, or an adverse change in the financial condition of one or more of these customers, could have a material adverse effect on the business and results of operations of Patient Infosystems.

Consequences of the Need to Raise Additional Working Capital

As Patient Infosystems seeks additional financing or purchases, it is likely that it will issue a substantial number of additional shares that may be extremely dilutive to the current stockholders and required substantial and material charges to earnings which will impact the net loss attributable to the common shareholders. As a result, the value of outstanding shares of common stock could decline further.

Only One Independent Director

The Board of Directors of Patient Infosystems now only consists of three persons. One director, Mr. Chaufournier, is also the Chief Executive Officer of Patient Infosystems. There are no independent directors. It is anticipated that it will be difficult to attract additional independent directors to join the Board of Directors. The Company is seeking to identify additional persons who can serve as independent members of the Board of Directors and who may serve as members of its Audit Committee.

Terminability of Agreements

Patient Infosystems' current services agreements with its customers generally automatically renew and may be terminated by those customers without cause upon notice of between 30 and 90 days. In general, customer contracts may include significant performance criteria and implementation schedules for Patient Infosystems. Failure to satisfy such criteria or meet such schedules could result in termination of the agreements.

New Concept; Uncertainty of Market Acceptance; Limitations of Commercialization Strategy

In connection with the commercialization of Patient Infosystems' health information system, Patient Infosystems is marketing relatively new services designed to link patients, health care providers and payors in order to provide specialized disease management services for targeted chronic diseases. However, at this time, services of this type have not gained general acceptance from Patient Infosystems' customers. This is still perceived to be a new business concept in an industry characterized by an increasing number of market entrants who have introduced or are developing an array of new services. As is typical in the case of a new business concept, demand and market acceptance for newly introduced services are subject to a high level of uncertainty, and there can be no assurance as to the ultimate level of market acceptance for Patient Infosystems' system, especially in the health care industry, in which the containment of costs is emphasized. Because of the subjective nature of patient compliance, Patient Infosystems may be unable, for an extensive period of time, to develop a significant amount of data to demonstrate to potential customers the effectiveness of its services. Even after such time, no assurance can be given that Patient Infosystems' data and results will be convincing or determinative as to the success of its system. There can be no assurance that increased marketing efforts and the implementation of Patient Infosystems' strategies will result in market acceptance for its services or that a market for Patient Infosystems' services will develop or not be limited.

Unpredictability of Patient Behavior May Affect Success of Programs

The ability of Patient Infosystems to monitor and modify patient behavior and to provide information to health care providers and payors, and consequently the success of Patient Infosystems' disease management system, is dependent upon the accuracy of information received from patients. Patient Infosystems has not taken and does not expect that it will take, specific measures to determine the accuracy of information provided to Patient Infosystems by patients regarding their medical histories. No assurance can be given that the information provided to Patient Infosystems by patients will be accurate. To the extent that patients have chosen not to comply with prescribed treatments, such patients might provide inaccurate information to avoid detection. Because of the subjective nature of medical treatment, it will be difficult for Patient Infosystems to validate or confirm any such information. In the event that patients enrolled in Patient Infosystems' programs provide inaccurate information to a significant degree, Patient Infosystems would be materially and adversely affected. Furthermore, there can be no assurance that patient interventions by Patient Infosystems will be successful in modifying patient behavior, improving patient health or reducing costs in any given case. Many potential customers may seek data from Patient Infosystems with respect to the results of its programs prior to retaining it to develop new disease management or other health information programs. Patient Infosystems' ability to market its system to new customers may be limited if it is unable to demonstrate successful results for its programs.

Competition

The market for health care information products and services is intensely competitive and we expect this competition to increase. Patient Infosystems competes with various companies in each of its disease target markets. Many of Patient Infosystems' competitors have significantly greater financial, technical, product development and marketing resources than Patient Infosystems. Furthermore, other major information, pharmaceutical and health care companies not presently offering disease management or other health care information services may enter the markets in which Patient Infosystems intends to compete. In addition, with sufficient financial and other resources, many of these competitors may provide services similar to those of Patient Infosystems without substantial barriers. Patient Infosystems does not possess any patents with respect to its integrated information capture and delivery system.

Patient Infosystems' competitors include specialty health care companies, health care information system and software vendors, health care management organizations, pharmaceutical companies and other service companies within the health care industry. Many of these competitors have substantial installed customer bases in the health care industry and the ability to fund significant product development and acquisition efforts. Patient Infosystems also competes against other companies that provide statistical and data management services, including clinical trial services to pharmaceutical companies.

Patient Infosystems believes that the principal competitive factors in its market are the ability to link patients, health care providers and payors, and provide the relevant health care information at an acceptable cost. In addition, Patient Infosystems believes that the ability to anticipate changes in the health care industry and identify current needs are important competitive factors. There can be no assurance that competitive pressures will not have a material adverse effect on Patient Infosystems.

Substantial Fluctuation in Quarterly Operating Results

Patient Infosystems' results of operations have fluctuated significantly from quarter to quarter as a result of a number of factors, including the volume and timing of sales and the rate at which customers implement disease management and other health information programs within their patient populations. Accordingly, Patient Infosystems' future operating results are likely to be subject to variability from quarter to quarter and could be adversely affected in any particular quarter.

Dependence on Data Processing and Telephone Equipment

The business of Patient Infosystems is dependent upon its ability to store, retrieve, process and manage data and to maintain and upgrade its data processing capabilities. Interruption of data processing capabilities for any extended length of time, loss of stored data, programming errors, other computer problems or interruptions of telephone service could have a material adverse effect on the business of Patient Infosystems.

Quality Control

Patient Infosystems has developed quality control measures designed to insure that information obtained from patients is accurately transcribed, that reports covering each patient contact are delivered to health care providers and patients and that Patient Infosystems' personnel and technologies are interacting appropriately with patients and health care providers. Quality control systems include random monitoring of telephone calls, patient surveys to confirm patient participation and effectiveness of the particular program, and supervisory reviews of telephone agents.

Patient Infosystems may have difficulty integrating the business of ACS with existing operations

The acquisition of ACS will involve the integration of a company that has previously operated in an entirely different business than that of Patient Infosystems. Patient Infosystems cannot assure you that the integration of Patient Infosystems with ACS will be successfully completed without encountering difficulties or experiencing the loss of key Patient Infosystems or ACS employees, customers or suppliers, or that the benefits from such integration will be realized. In addition, Patient Infosystems cannot assure you that the management teams of ACS and Patient Infosystems will be able to successfully work with each other.

Government Regulation

The health care industry, including the current business of Patient Infosystems and the expanded operations of Patient Infosystems, including the business of ACS, is subject to extensive regulation by both the Federal and state governments. A number of states have extensive licensing and other regulatory requirements applicable to companies that provide health care services. Additionally, services provided to health benefit plans in certain cases are subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and may be affected by other state and Federal statutes. Generally, state laws prohibit the practice of medicine and nursing without a license. Many states interpret the practice of nursing to include health teaching, health counseling, the provision of care supportive to, or restorative of, life and well being and the execution of medical regimens prescribed by a physician. Accordingly, to the extent that Patient Infosystems assists providers in improving patient compliance by publishing educational materials or providing behavior modification training to patients, such activities could be deemed by a state to be the practice of medicine or nursing. Although Patient Infosystems has not conducted a survey of the applicable law in all 50 states, it believes that it is not engaged in the practice of medicine or nursing. There can be no assurance, however, that Patient Infosystems' operations will not be challenged as constituting the unlicensed practice of medicine or nursing. If such a challenge were made successfully in any state, Patient Infosystems could be subject to civil and criminal penalties under such state's law and could be required to restructure its contractual arrangements in that state. Such results or the inability to successfully restructure its contractual arrangements could have a material adverse effect on Patient Infosystems.

Patient Infosystems is subject to state laws governing the confidentiality of patient information. A variety of statutes and regulations exist to safeguard privacy and regulating the disclosure and use of medical information. State constitutions may provide privacy rights and states may provide private causes of action for violations of an individual's "expectation of privacy." Tort liability may result from unauthorized access and breaches of patient confidence. Patient Infosystems intends to comply with state law and regulations governing medical information privacy.

In addition, on August 21, 1996 Congress passed the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), P.L. 104-191. This legislation required the Secretary of the Department of Health and Human Services to adopt national standards for electronic health transactions and the data elements used in such transactions. The Secretary is required to adopt safeguards to ensure the integrity and confidentiality of such health information. Violation of the standards is punishable by fines and, in the case of negligent or intentional disclosure of individually identifiable health information, imprisonment. The Secretary has promulgated final rules addressing the standards, however, the implementation time line extends into 2003 and beyond. Although Patient Infosystems intends to comply with all applicable laws and regulations regarding medical information privacy, failure to do so could have an adverse effect on Patient Infosystems' business.

Patient Infosystems and its customers may be subject to Federal and state laws and regulations that govern financial and other arrangements among health care providers. These laws prohibit certain fee splitting arrangements among health care providers, as well as direct and indirect payments, referrals or other financial arrangements that are designed to induce or encourage the referral of patients to, or the recommendation of, a particular provider for medical products and services. Possible sanctions for violation of these restrictions include civil and criminal penalties. Specifically, HIPAA increased the amount of civil monetary penalties from $2,000 to $10,000. Criminal penalties range from misdemeanors, which carry fines of not more than $10,000 or imprisonment for not more than one year, or both, to felonies, which carry fines of not more than $25,000 or imprisonment for not more than five years, or both. Further, criminal violations may result in permanent mandatory exclusions and additional permissive exclusions from participation in Medicare and Medicaid programs.

Furthermore, Patient Infosystems and its customers may be subject to federal and state laws and regulations governing the submission of false healthcare claims to the government and private payers. Possible sanctions for violations of these laws and regulations include minimum civil penalties between $5,000-$10,000 for each false claim and treble damages.

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Regulation in the health care field is constantly evolving. Patient Infosystems is unable to predict what government regulations, if any, affecting its business may be promulgated in the future. Patient Infosystems' business could be adversely affected by the failure to obtain required licenses and governmental approvals, comply with applicable regulations or comply with existing or future laws, rules or regulations or their interpretations.

Significant and Extensive Changes in the Health Care Industry

The health care industry is subject to changing political, economic and regulatory influences that may affect the procurement practices and operations of health care industry participants. Several lawmakers have announced that they intend to propose programs to reform the U.S. health care system. These programs may contain proposals to increase governmental involvement in health care, lower reimbursement rates and otherwise change the operating environment for Patient Infosystems and its targeted customers. Health care industry participants may react to these proposals and the uncertainty surrounding such proposals by curtailing or deferring certain expenditures, including those for Patient Infosystems' programs. Patient Infosystems cannot predict what impact, if any, such changes in the health care industry might have on its business, financial condition and results of operations. In addition, many health care providers are consolidating to create larger health care delivery enterprises with greater regional market power. As a result, the remaining enterprises could have greater bargaining power, which may lead to price erosion of Patient Infosystems' programs. The failure of Patient Infosystems to maintain adequate price levels could have a material adverse effect on its business.

Dependence on Customers for Marketing and Patient Enrollment

Patient Infosystems has limited financial, personnel and other resources to undertake extensive marketing activities. One element of Patient Infosystems' marketing strategy involves marketing specialized disease management programs to pharmaceutical companies and managed care organizations, with the intent that those customers will market the program to parties responsible for the payment of health care costs, who will enroll patients in the programs. Accordingly, Patient Infosystems, will to a degree, be dependent upon its customers, over whom it has no control, for the marketing and implementation of its programs and for the receipt of valid patient information. The timing and extent of patient enrollment is completely within the control of Patient Infosystems' customers. Patient Infosystems has faced difficulty in receiving reliable patient information from certain customers, which has hampered its ability to complete certain of its projects. To the extent that an adequate number of patients are not enrolled in the program, or enrollment of initial patients by a customer is delayed for any reason, Patient Infosystems' revenue may be insufficient to support its activities.

Control of Patient Infosystems

The executive officers, directors and certain stockholders of Patient Infosystems who beneficially own in the aggregate approximately 87.5% of the outstanding common stock control Patient Infosystems. As a result of such ownership, these stockholders, in the event they act in concert, will have control over the management policies of Patient Infosystems and all matters requiring approval by the stockholders of Patient Infosystems, including the election of directors.

Potential Liability and Insurance

Patient Infosystems will provide information to health care providers and managed care organizations upon which determinations affecting medical care will be made. As a result, it could share in potential liabilities for resulting adverse medical consequences to patients. In addition, Patient Infosystems could have potential legal liability in the event it fails to record or disseminate correctly patient information. Patient Infosystems maintains an errors and omissions insurance policy with coverage of $5 million in the aggregate and per occurrence. Although Patient Infosystems does not believe that it will directly engage in the practice of medicine or direct delivery of medical services and has not been a party to any such litigation, it maintains a professional liability policy with coverage of $5 million in the aggregate and per occurrence. There can be no assurance that Patient Infosystems' procedures for limiting liability have been or will be effective, that Patient Infosystems will not be subject to litigation that may adversely affect Patient Infosystems' results of operations, that appropriate insurance will be available to it in the future at acceptable cost or at all or that any insurance maintained by Patient Infosystems will cover, as to scope or amount, any claims that may be made against Patient Infosystems.

Intellectual Property

Patient Infosystems considers its methodologies, processes and know-how to be proprietary. Patient Infosystems seeks to protect its proprietary information through confidentiality agreements with its employees. Patient Infosystems' policy is to have employees enter into confidentiality agreements that contain provisions prohibiting the disclosure of confidential information to anyone outside Patient Infosystems. In addition, the policy requires employees to acknowledge, and, if requested, assist in confirming Patient Infosystems' ownership of any new ideas, developments, discoveries or inventions conceived during employment, and requires assignment to Patient Infosystems of proprietary rights to such matters that are related to Patient Infosystems' business.

SPECIAL CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains many forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate," and "continue" or similar words. You should read statements that contain these words carefully because they discuss our future expectations, contain projections of our future operating results or of our financial condition or state other "forward-looking" information.

We believe in the importance of communicating our future expectations to our investors. However, we may be unable to accurately predict or control events in the future. The factors listed in the sections captioned "Risk Factors" and "Management's Discussion and Analysis or Plan of Operation," as well as any other cautionary language in this prospectus, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements.

USE OF PROCEEDS

We will not receive any proceeds from the sale of common stock by the selling stockholders. We will receive proceeds upon the exercise of any warrants. If all of the selling stockholders exercise all of their warrants for cash, we will receive an aggregate of $162,500. We will use such funds, if any, for working capital and general corporate purposes.

MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

During the fiscal years ended December 31, 2002 and 2003 and through January 9, 2004, our common stock traded on the OTC Bulletin Board under the symbol PATI. From January 12, 2004, our common stock has traded on the OTC Bulletin Board under the symbol PATY. The closing price for our common stock on June 30, 2004 was $3.30.

The following table sets forth, for the periods indicated, the range of high and low bid quotations for shares of our common stock as quoted on the OTC Bulletin Board. The reported bid quotations reflect inter-dealer prices, without retail markup, markdown or commissions, and may not necessarily represent actual transactions. Information contained herein gives effect to a 1 for 12 reverse stock split effected at the close of business on January 9, 2004.

	High	Low
2002		
First Quarter	$2.40	$0.72
Second Quarter	$2.40	$1.44
Third Quarter	$3.60	$1.08
Fourth Quarter	$6.12	$0.96
2003		
First Quarter	$3.12	$1.68
Second Quarter	$3.00	$0.96
Third Quarter	$3.00	$0.96

Fourth Quarter	$4.08	$1.32
2004		
First Quarter	$6.00	$1.44
Second Quarter	$5.50	$2.00

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Holders of common stock

As of February 27, 2004, there were approximately 89 holders of record of our common stock.

Dividends

We have never paid or declared a cash dividend on our common stock.

We are obligated to declare 9% cumulative dividends on our 75,000 shares of Series C Cumulative Convertible Preferred Stock that was issued on March 31, 2000 and our 840,118 shares of Series D Cumulative Convertible Preferred Stock that was issued between April 2003 and January 2004.

Equity Compensation Plan Information

	Number of securities to be issued upon the exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number o securiti remaining ava for future is under equ compensation (excludi securiti reflected in (a)) (c)
Equity compensation plans approved by securities holders	101,160	$9.36	3,
Equity compensation plans not approved by securities holders			
Total	101,160	$9.36	3,

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Description of Business

General

Patient Infosystems, Inc. ("Patient Infosystems") was incorporated in the State of Delaware on February 22, 1995 under the name DSMI Corp., changed its name to Disease State Management, Inc. on October 13, 1995, and then changed its name to Patient Infosystems, Inc. on June 28, 1996. Patient Infosystems' principal executive offices are located at 46 Prince Street, Rochester, New York 14607 and its telephone number is 585-242-7200. Patient Infosystems' Internet address is www.ptisys.com.

Patient Infosystems is a health management solutions company that integrates clinical expertise with advanced Internet, call center and data management capabilities. Founded in 1995 as a disease management company, Patient Infosystems has evolved to offer a comprehensive portfolio of products and services designed to improve patient clinical outcomes and quality of life, reduce healthcare costs and facilitate patient-provider- payor communication. These products are now marketed under the label Care Team Connect for Health.

Patient Infosystems has historically marketed its services to a broad range of clients, including self-insured employers and trust funds, insurance companies, pharmaceutical and medical equipment and device manufacturers, pharmacy benefit managers ("PBMs"), other healthcare payors, such as managed care organizations ("MCOs") and healthcare providers, including integrated delivery networks ("IDN's"). Current marketing efforts are targeted to self-insured employers, employer groups, union health and welfare funds, and others who pay for the health care of defined populations.

During its first two years of operations, Patient Infosystems emphasized the development of pure disease management programs, which accounted for a substantial portion of its revenue through 1997. However, beginning in 1998, Patient Infosystems devoted resources to the development of broader applications of its technology platform, and its additional products grew to account for nearly 45% of the total revenue of Patient Infosystems during the fiscal year ended December 31, 2002. During 2003, the Company further expanded its product mix to include services in support of providers and their clinical improvement efforts. These services include support for development, training and maintenance of clinical registry software, consultative services in improvement methodologies and support of web-based informational and reporting resources. On December 31, 2003, Patient Infosystems acquired the assets of American Caresource Corporation ("ACS"). ACS provides ancillary benefits management services, including a network of ancillary specialty providers and value-added services that assist our clients control the cost of a range of ancillary medical services.

The Care Team Connect portfolio now represents 40% percent of the Company's revenue; innovation and improvement services for providers represent 60% of the 2003 revenue.

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Products and Capabilities

Care Team Connect for Health

Care Team Connect for Health, which is Patient Infosystems' principal product line, provides a complete solution for population health management that can be marketed as a comprehensive solution or a set of discrete services that complement a client's existing operations. Care Team Connect integrates a number of components that had historically been marketed by the Company as stand alone products. During the 2002 year, the clinical content of these components was revised and all components were migrated to an updated technology platform. During 2003, the Care Team Connect product was expanded to include certain wellness services, as well as utilization management and case management services, provided through subcontract relationships with partner organizations. Care Team Connect includes the following:

- 24-hour nurse help/triage line,
- Population analysis and identification,
- Disease management services,
- Care management,
- Smoking cessation program,

Nurse help line

The Care Team Connect for Health nurse help line is a triage, advice, referral and health-counseling service that provides employees and members with round-the-clock access to registered nurses who use algorithm-based assessment tools and have access to provider and/or network information. The help line can provide users with information about a specific health problems or answers to their health-related questions. Use of nationally recognized clinical algorithms assist callers in determining the most cost-effective options for acute care treatment and has effectively been able to reduce the use of emergency rooms and after hours physician contact. Through the Nurse Help Line, individuals may also be identified for referral into disease management or case management intervention. The nurse help line is operated from Patient Infosystems' Utilization Review Accreditation Commission ("URAC") accredited call center.

Population analysis and identification

As part of its disease management services, Patient Infosystems provides comprehensive medical and pharmaceutical claims analysis that includes the administration of proprietary algorithms to identify patients with chronic disease and then stratifies them by level of risk for high resource utilization.

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The stratification algorithm employed is categorical in nature as patients are classified into low, moderate, high and critical groupings. The data employed in the algorithm are both nominal (using claim codes known as "ICD9" and procedure codes known as "CPT") and ratio (usage of resources). The nominal data determines the presence of a particular chronic condition and thus identifies patients with a specific condition. A combination of the nominal and ratio data, as defined in the algorithm for each condition, determines the risk level for the individual patient.

Following identification and stratification, patients/employees can be enrolled into the appropriate (low, moderate or high) disease management intervention program.

The first time the claims analysis is completed on the client's historical claims data, the client will be provided with a summary report that profiles its population as related to health care dollars spent, prevalence of disease, and the numbers of identified at-risk members by risk level. Claims data is used on a retrospective basis to assess the financial impact of the Care Team Connect programs and calculate savings and return on investment.

Disease management services

Patient Infosystems' disease management services are provided for individuals with a diagnosis of asthma, diabetes, hypertension, or congestive heart failure. These services are comprehensive in approach and focus on both the medical and behavioral aspects of chronic health care management. The programs involve clinical assessments and the delivery of messages on self-care, medication compliance and treatment adherence. Through monitoring and on-going assistance, they empower the participants to become more proficient and proactive in managing their disease or condition. By including 24-hour access to the nurse help line, participants always have a place to turn for questions or issues that arise with their disease. The long-term goal of Patient Infosystems' disease management services is a judicious use of health care resources through health care education, as well as reinforcement of the provider's treatment plan.

The disease management programs are based on nationally recognized treatment guidelines for each disease state. The programs provide condition-specific assessment, support and education with behavior-based interventions according to the patient's identified risk level. Each of Patient Infosystems' chronic condition management programs is reviewed and updated as needed on an annual basis to assure that these programs reflect current knowledge and practices in clinical management.

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Disease management interventions include various components according to the risk level of the target individual. These components are as follows:

Low risk:	o Quality of life surveys o Reminders o Static educational mailings o 24-hour nurse help line
Moderate risk:	o Nurse engagement o Quality of life surveys o Chronic condition management program o Reminders o Static educational mailings o 24-hour nurse help line
High risk:	o Nurse engagement o Quality of life surveys o "Gold" chronic condition management program o Telemonitoring signs and symptoms assessment o Reminders o Static educational mailings o 24-hour nurse help line
Critical risk:	o Dedicated registered nurse as disease care manager o Baseline clinical assessment and treatment action plan o Regularly scheduled on-going clinical patient assessments

Disease management program components

Nurse engagement call

All moderate, high and critical risk disease management programs begin with a nurse engagement call. The nurse care counselor explains the specific program for which the member is targeted and the benefits of the program, while starting to build a relationship with the member. The nurse care counselor confirms the patient's acceptance to participate and obtains pertinent member information.

The nurse intervention assesses specific areas of clinical management based on national clinical practice guidelines. Specific to each disease, these include the following types of information:

o Healthcare utilization.
o Disease status.
o Functional status.
o Quality of care.
o Treatment adherence and self-care practices.
o Education/knowledge.
o Motivation and program evaluation.

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The assessment focuses on the most important health behaviors the patient must manage in order to effectively control symptoms of their disease.

Chronic condition management program

Moderate risk patients are enrolled in our chronic condition management programs. Each of the chronic condition management programs utilize a combination of telephone and mail interventions to monitor patients while providing educational information about disease-specific treatment guidelines.

By providing unique, individually tailored intervention strategies, Patient Infosystems provides each patient with personalized, educational feedback and positive reinforcement, both verbally and through written communication. Each telephonic intervention also generates an on-demand published report for the patient's physician/case manager.

"Gold" chronic condition management program

High risk patients are enrolled in our "gold" chronic condition management program. The "gold" program includes all of the components of the chronic condition management programs described previously, plus the incorporation of symptom assessment and monitoring throughout the duration of the contract.

Quality of life re-assessment and on-going monitoring

Quality of life surveys are periodically administered to assess patients' functional status.

Educational mailings

During the re-assessment and on-going monitoring portion of the program, patients receive disease-specific educational or reminder mailings.

Reminders

Patients are periodically reminded of preventive measures they should take to better manage their health.

Disease care management for critical risk patients

Disease care management is a specialized clinical intervention. The highly specialized clinical support by a registered nurse provides the management and coordination of patient care services for critical-risk individuals in a population.

The program's key functions are the following:

1. One-on-one support by a dedicated registered nurse.

2. Establishing an extensive baseline clinical assessment and treatment action plan.

3. Regularly scheduled on-going clinical patient assessments that include extensive disease monitoring and surveillance.

All facets of the individual's care are comprehensively and regularly reviewed by the disease care manager and regular communication is made with all members of the health care team.

At any point during a disease care management intervention, if the patient is assessed to require even more intense management, the Nurse will connect the patient with traditional case management.

Care management services

Care management programs include the components of utilization management and case management and ensure that participants receive quality medical care at the best possible price, while maximizing plan benefits. The programs assist in avoiding unnecessary expenditures with an objective, information-intensive approach that combines clinical judgment with accepted practice patterns.

Care management services are provided through subcontracts with partner companies that are accredited by URAC. All policies and procedures reflect compliance with URAC standards and are further developed to ensure compliance with the legislative requirements of the states in which utilization review functions are performed.

The data collected from the Care Team Connect for Health interventions is stored in an integrated information warehouse which links the numerous programs and services. This integrated data warehouse allows our clients, the patient's providers and other associated service providers access to program data as necessary in order to best manage the member's health.

Smoking Cessation Services

During 2003, Patient Infosystems began providing the call center operations for a smoking cessation program which is owned by and marketed by Behavioral Solutions. Patient Infosystems has the right to independently market this program for direct sales.

Provider innovation and improvement support

In 2003, Patient Infosystems expanded its role in services to certain federally funded health centers that are sponsored by the Bureau of Primary Healthcare through the Institute for Healthcare Improvement that promote disease management programs directly to the providers in the health centers.

Population Health Disease Management Systems and Strategies

Patient Infosystems provides technical assistance to the health centers relative to management of chronic disease. This includes organizations such as the federal government, health plans, state primary care associations, and the National Association of Community Health Centers.

Learning Organization Services

Patient Infosystems serves as a teaching organization promoting improvement in care delivery systems. This includes logistics support for learning sessions, training; recruitment, development and support of faculty, subject matter experts in key topics; training in improvement methods and knowledge management of best practices. Topics include chronic disease management, idealized clinical practice design and the business case for planned care. Patient Infosystems collaborates with the Institute for Healthcare Improvement on such initiatives.

Technical assistance

Patient Infosystems assists with the development of clinical registries used to more effectively manage patients with chronic disease. Patient Infosystems services include (i) project management and Implementation of a patient registry for federally qualified health centers through a national initiative known as the Health Disparities Collaboratives and (ii) Patient Infosystems provides technical assistance in web based reporting applications for clinical outcomes. This project is administered as a subcontract through the Institute for Healthcare Improvement.

Outcome Assessment, Data Collection and Reporting

Patient Infosystems collects data about clinical, financial, quality of life and satisfaction. This data is analyzed and outcomes are reported.

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Ancillary benefits management

Ancillary healthcare services include a broad array of services that supplement or support the care provided by hospitals and physicians, including the non-hospital, non-physician services associated with surgery centers, free-standing diagnostic imaging centers, home health and infusion, durable medical equipment, orthotics and prosthetics, laboratory and many other services. These ancillary services are provided to patients as benefits under Group Health plans and Workers Compensation plans.

o Home Health Services
o Surgical Centers
o Laboratory Services
o Home Infusion therapy
o Chiropractic Services
o Diagnostic Imaging/Radiology
o Dialysis Services
o Durable Medical Equipment
o OrthoticsOandaProstheticspy/Rehab
o Pain Management
o Pharmacy
o Respiratory Services
o Sleep Studies
o Sub-Acute and Skilled Nursing facilities
o Hospice Services
o Bone Growth Stimulators

ACS manages the administration of these non-hospital, non-physician services.

Through its contracts with over 5000 ancillary service providers (with over 13,000 sites nationwide), ACS is able to offer its clients direct cost savings in the form of discounted rates for contracted services and administrative cost savings by functioning as a single point of contact for managing a comprehensive array of ancillary benefits. ACS benefits management services include processing the claims submitted by its covered providers, re-pricing the claims, submitting the claims for payment, receiving and disbursing claims payments and performing customer service functions for its clients and contracted providers. For preferred provider organization ("PPO"), third party administrator ("TPA") and similar clients, contracting with ACS also allows the clients to market comprehensive, efficient and affordable ancillary service benefits to their payor customers.

As part of its ancillary benefits management services, ancillary providers submit claims at full retail charges to ACS for services performed for covered members. ACS re-prices these claims under the relevant payor fee schedules, performs electronic conversion and HIPAA formatting services, and submits the re-priced claims to the appropriate payors. After adjudication of the claims by the Payor, the Payor issues an Explanation of Benefits and check for each claim. In most cases, these checks are sent to ACS. ACS then pays the providers under the relevant provider fee schedules. The difference between the amounts received by ACS from its clients and the amounts paid by ACS to its contracted providers represents ACS gross margin on its benefits management services.

Value-added services that ACS provides to its clients include the following:

Ancillary network analysis. ACS analyzes the available claims history from each client and develops a specific plan to meet their needs. This analysis identifies high-volume providers that are not already in ACS network. ACS attempts to contract with such providers to maximize discount levels and capture rates.

Ancillary out-of-network negotiations. For services performed by providers outside of the ACS network, ACS negotiates a discounted rate for the client on a case specific basis.

Ancillary custom network. ACS customizes its network to meet the needs of each client. In particular, ACS reviews the "out-of-network" claims history through its network analysis service and develops a strategy to create a network that efficiently serves the client's needs. This may involve adding additional providers for a client and removing providers the client wants excluded from their network.

Ancillary reimbursement. ACS uses its network analysis to develop a single reimbursement level for all ancillary providers. ACS also processes denials and appeals for its clients and for its contracted providers.

Ancillary network management. ACS manages ancillary service provider contracts, reimbursement and credentialing for its clients. This provides administrative benefits to ACS clients and reduces the burden on providers who typically must supply credentialing documentation and engage in contract negotiation with separate payors.

Ancillary utilization management support. ACS provides support for utilization and case management efforts used by each payor. ACS facilitates preauthorization at the point of referral based on pre-established criteria. ACS also "flags" cases for follow-up, review, and concurrent reviews to ensure all the payor guidelines are followed by each service provider and the efficacy of services and progress of the patient is satisfactory. There are a large number of high demand cases that are subject to case management efforts. For those cases, ACS helps coordinate the supporting documentation and preparation of reports to manage and monitor progress and establishment of reserves for specific claims.

Ancillary systems integration. ACS has created a proprietary software system that enables it to manage many different customized accounts and includes the following modules:

- o Provider network management
- o Credentialing
- o Eligibility management and card printing
- o Claims and case referral management
- o Data transfer management/EDI
- o Repricing and auto-adjudication
- o Multi-level reimbursement management
- o Posting, EOB, check, and e-funds processes
- o Customer service management
- o Directory management
- o Claim repricing / adjudication
- o Advanced data reporting

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Ancillary reporting. ACS provides a complete suite of reports to each client monthly. The reports cover contracting efforts and capture rates, discount levels, referral volumes by service category and complete claims and utilization reports.

Ancillary claims management. ACS provides claims management services through its operation in Pittsboro, Indiana. ACS can manage ancillary claims flow, both electronic and paper, and integrate into the client's process electronically or through repriced paper claims. ACS can also perform a number of customized processes that add additional value for each client. As part of the claims management process, ACS manages the documentation requirements specific to each payor. When claims are submitted from the service provider without required documentation, ACS works with the provider to get the documentation so that the claim is not denied by the payor. This also saves labor costs for the payors.

ACS estimates that at least 80% of all claims in ACS ancillary categories are submitted by paper. ACS is able to provide a conversion of these paper claims into the HIPAA-compliant Electronic Data Interchange ("EDI") form through its scanning operations.

Sales and Marketing

Through 1997, Patient Infosystems' efforts focused primarily on the development of disease management programs. Beginning in 1998, Patient Infosystems began aggressively marketing the other services that its technology platform can provide, including demand management, patient surveys, pharmaceutical support programs and outcomes analysis. During 2002 and 2003, Patient Infosystems has marketed its integrated Care Team Connect for Health product. Its target market is the organization that pays for health care services on behalf of its members, employees or beneficiaries. These industry organizations include several groups: insurance companies, managed care organizations, third party administrators (TPA's), Taft-Hartley health and welfare funds, purchasing coalitions, and self-funded employer groups.

Sales and marketing efforts for the ACS product line are currently focused on healthcare payor organizations as well as certain value-added re-sellers in the form of TPAs or PPOs. ACS spent several years developing its business model, know-how, infrastructure, client base and provider base and until 2001, ACS focused on managing ancillary benefits in the Workers Compensation market. In early 2001, ACS expanded and refocused its business to address the management of ancillary benefits in the Group Health market. It launched its Group Health initiatives by marketing to healthcare networks such as TPAs and PPOs. As of the end of 2003, ACS began to focus its marketing efforts on the direct payor community. This is in alignment with the marketing focus for the Care Team Connect product line.

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Patient Infosystems currently employs a sales and marketing staff of three persons to market its services. The Ancillary Network of ACS is marketed through one full time sales person and independent contractors providing additional commission salespersons. In addition, the senior members of Patient Infosystems' management are actively engaged in marketing Patient Infosystems' programs.

Patient Infosystems has agreements in place with several organizations to co-market Patient Infosystems' products and services. These agreements are in place with CBCA, formerly USI Administrators, Inc., Gilsbar, and Behavioral Solutions. CBCA and Gilsbar are third-party administrators; Behavioral Solutions is a subsidiary of Nelson Communications and the developers of the Quitting Your Way smoking cessation program. These agreements permit either company to co-market and sub-contract for the services of the other company.

Competition

The market for health care information products and services is intensely competitive. Competitors vary in size and in scope and breadth of products and services offered, and Patient Infosystems competes with various companies in each of its disease target markets. Patient Infosystems' competitors include specialty health care companies, health care information system and software vendors, health care management organizations, pharmaceutical companies and other service companies within the health care industry. Many of these competitors have substantial installed customer bases in the health care industry and the ability to fund significant product development and acquisition efforts. Patient Infosystems also competes against other companies that provide statistical and data management services, including clinical trial services to pharmaceutical companies.

Research and Development

Research and development expenses consist primarily of salaries, related benefits and administrative costs allocated to Patient Infosystems' research and development personnel. These personnel are actively involved in the conversion of Patient Infosystems' technology platform to a fully web-enabled design. Patient Infosystems' research and development expenses were $131,782, or 2.3% of total revenues for the fiscal year ended December 31, 2003, $105,614, or 4.5% of total revenues, for the fiscal year ended December 31, 2002, and $190,731, or 12.0%, of total revenues, for the fiscal year ended December 31, 2001. Patient Infosystems anticipates that the amount spent on research and development will remain relatively constant in future periods as it continues its internal process to update its products.

Government Regulation

The health care industry, including the current business of Patient

Infosystems and the expanded operations of Patient Infosystems, including the business of ACS, following the closing of the acquisition described in the Asset Purchase Agreement, is subject to extensive regulation by both the Federal and state governments. A number of states have extensive licensing and other regulatory requirements applicable to companies that provide health care services. Additionally, services provided to health benefit plans in certain cases are subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

Furthermore, state laws govern the confidentiality of patient information through statutes and regulations that safeguard privacy rights. In addition, on August 21, 1996 Congress passed the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), P.L. 104-191. This legislation required the Secretary of the Department of Health and Human Services to adopt national standards for electronic health transactions and the data elements used in such transactions. Patient Infosystems and its customers may be subject to Federal and state laws and regulations that govern financial and other arrangements among health care providers. Furthermore, Patient Infosystems and its customers may be subject to federal and state laws and regulations governing the submission of false healthcare claims to the government and private payers. Possible sanctions for violations of these laws and regulations include minimum civil penalties between $5,000-$10,000 for each false claim and treble damages.

Threrefor, Patient Infosystems must continually adapt to changing regulations. If Patient Infosystems' fails to comply with these applicable laws, the company may be subject to fines, civil penalties, or criminal prosecution.

Employees

As of March 1, 2004, Patient Infosystems had 90 full time and 37 part-time employees.

Legal Proceedings

Neither Patient Infosystems, nor any of its subsidiaries, is a party to any material legal proceeding, nor, to the knowledge of Patient Infosystems, is any such proceeding threatened against it or any of its subsidiaries.

MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

The following discussion of our financial condition and plan of operation should be read in conjunction with our financial statements and the related notes included elsewhere in this prospectus. This prospectus contains certain statements of a forward-looking nature relating to future events or our future financial performance. We caution prospective investors that such statements involve risks and uncertainties, and that actual events or results may differ materially. In evaluating such statements, prospective investors should specifically consider the various factors identified in this prospectus, including the matters set forth under the caption "Risk Factors" which could cause actual results to differ materially from those indicated by such forward-looking statements. We disclaim any obligation to update information contained in any forward-looking statement.

Overview

Patient Infosystems was formed on February 22, 1995. Although Patient Infosystems has completed the development of its core systems and has developed several disease management programs for specific diseases, Patient Infosystems is continuing to refine its products for additional applications. In October 1996, Patient Infosystems began enrolling patients in its first disease management program and began substantial patient contacts during 1998. Also in 1998, Patient Infosystems expanded its offered products to include demand management and health related surveys.

On December 31, 2003, Patient Infosystems acquired substantially all the assets and liabilities of American Caresource Corporation in exchange for 1,100,000 shares of Patient Infosystems common stock. Patient Infosystems created a wholly-owned subsidiary, American Caresource Holdings, Inc. ("ACS"), a Delaware corporation, and assigned the acquired assets and liabilities into this subsidiary, net of certain amounts which represented borrowings between Patient Infosystems and American Caresource Corporation. ACS enters into agreements with the providers of ancillary services pursuant to which ACS provides administrative services for its contracted providers, including patient scheduling services, call center services, payor contracting services, and billing and collection services. ACS also enters into agreements with preferred provider organizations ("PPOs"), third party administrators ("TPAs"), workers compensation benefits administrators, utilization review companies, case management companies and other healthcare networks pursuant to which ACS provides ancillary benefits management services for these payor clients.

Because the acquisition of assets and the operation of ACS occurred on December 31, 2003, the 2003 consolidated statement of operations of Patient Infosystems does not include any ACS operational results. Patient Infosystems acquired $1,118,567 of assets and assumed $2,368,327 of liabilities, resulting in a deficiency on the fair value of the net assets acquired of $1,249,760. During 2004, Patient Infosystems will complete an independent valuation of the identifiable intangible assets acquired and any changes to the estimated amounts will be offset by a corresponding change in goodwill.

Patient Infosystems currently has patients enrolled in more than 30 of its disease-specific, demand management or survey programs. Through January 2004, an aggregate of over 775,000 persons have been enrolled or participated in Patient Infosystems' programs. Patient Infosystems has never been able to enroll a sufficient number of patients to cover the administrative cost of the business. The enrollment of patients in Patient Infosystems' programs has been limited by several factors, including the limited ability of clients to provide Patient Infosystems with accurate information with respect to the specific patient populations and coding errors that necessitated extensive labor-intensive data processing prior to program implementation.

In response to these market dynamics, Patient Infosystems has taken several tactical and strategic steps including, formal designation of internal personnel at customer sites to assist clients with implementation; closer integration of Patient Infosystems' systems personnel with clients to facilitate accurate data transfers; promotion of a broader product line to enable clients to enter Patient Infosystems' disease management programs through a variety of channels; fully integrating demand, disease and case management services to facilitate internal mechanisms for patient referrals and providing the customers access and control over their patients' confidential information through targeted use of Internet technology. The clinical design of the programs has been refined to enable participation through mail only, retaining those patients who previously would have been unable to participate because of missing or inaccurate telephone contact information. Patient Infosystems' demand management services and surveys (general health and disease-specific), can also provide mechanisms for enrollment into Patient Infosystems' disease management programs. Patient Infosystems continues to develop capabilities or relationships that will enable its customers to more effectively leverage the data stored in their legacy systems. Nevertheless, no assurance can be given that Patient Infosystems' efforts will succeed in increasing patient enrollment in its programs.

Patient Infosystems has entered into service agreements to develop, implement and operate programs for: (i) patients who have recently experienced certain cardiovascular events; (ii) patients who have been diagnosed with primary congestive heart failure; (iii) patients suffering from asthma; (iv) patients suffering from diabetes, (v) patients who are suffering from hypertension, (vi) demand management, which provides access to nurses, (vii) case and utilization management services provided by a third party, (viii) various survey initiatives which assess, among other things, satisfaction, compliance of providers or payors to national standards, health status or risk of specific health related events and (ix) the performance of specific administrative and management functions on behalf of a customer. These contracts provide for fees paid by its customers based upon the number of patients participating in each of its programs, as well as initial program implementation and set-up fees from customers. To the extent that Patient Infosystems has had limited enrollment of patients in its programs, Patient Infosystems' operations revenue has been, and may continue to be, limited.

Patient Infosystems has completed the development of its primary disease management programs, it anticipates that development revenue will continue to be minimal unless and until Patient Infosystems enters into new development agreements. Substantially all of the development revenue recognized during the years ended December 31, 2003, 2002 and 2001 of $51,110, $36,239 and $78,632 related to requested feature modification or customization. These revenues are recognized upon completion and delivery of the requested feature.

Patient Infosystems' contracts typically call for a fee to be paid by the customer for each patient enrolled for a series of program services, require payment for services incrementally as they are delivered or require payment of a fixed fee per patient or member each month for program services. The timing of customer payments for the delivery of program services varies by contract. Revenues from program operations are recognized ratably as the program services are delivered. The amount of the per patient fee varies from program to program depending upon the number of patient contacts required, the complexity of the interventions, the cost of the resources used and the detail of the reports generated.

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Patient Infosystems' administration and management services cover a predefined set of deliverables and responsibilities undertaken on behalf of the customer. The customer pays for these services on a monthly basis and Patient Infosystems recognizes revenue each month based upon the services provided. During the year ended December 31, 2003, revenues received for administrative and management services were the most significant source of revenue. The services included: assisting organizations with the development of clinical registries used to increase effective management of patients with chronic disease. Patient Infosystems is supporting the development, including project management and implementation, of a patient registry for federally qualified health centers, through a national initiative known as the Health Disparities Collaboratives. The contract for these services is renewed annually. No assurances can be given that Patient Infosystems will be able to retain his source of revenue at its current level if at all.

Revenues from operations of $2,241,796 for the year ended December 31, 2003, which includes fees received by Patient Infosystems for operating its programs, is the most strategically important source of Patient Infosystems' revenues. Patient Infosystems is continuing to devote significant efforts to increasing the number of programs that are in operation, as well as developing resources to expand its products. The revenue from these services currently exceeds the cost to provide them, but the volume of patients must grow substantially in order to provide sufficient operating margin to cover the administrative overhead of Patient Infosystems.

During 2003, Patient Infosystems found new sources of revenue that increased its revenue from $2.4 million for the fiscal year ended December 31, 2002 to $5.7 million for the same period of 2003. Patient Infosystems maintained control on costs and reduced its operating loss from $1.7 million for the fiscal year ended December 31, 2002 to $0.6 million for the same period of 2003. The most significant new sources of revenue were (i) Provider Innovation and Improvement support services provided to the Institute for Healthcare Improvement which provided $3.2 million of revenue in 2003 as compared to $0.1 million in 2002, (ii) Care Team Connect service provided to Park Place Entertainment which provided $0.6 million of new revenue in 2003 and (iii) the Care Team Connect smoking cessation program which provided $0.5 million of new revenue in 2003. No assurances can be given that revenue from these sources will continue at their current level, if at all, in future periods.

One source of additional new revenue in 2004 is ACS. ACS recognizes revenues for ancillary services when services by providers have been authorized and performed and collections from payors are reasonably assured. Patient claims revenues are recognized by ACS as services are provided. Cost of revenues for ancillary services consist of expenses due to providers for providing employee (patient) services and ACS' related direct labor and overhead of processing invoices, collections and payments. ACS is not liable for costs incurred by independent contract service providers until payment is received by ACS from the

payors. ACS recognizes actual or estimated liabilities to independent contract service providers as the related revenues are recognized. Patient claim costs of revenue consist of amounts due the providers as well as ACS' direct labor and overhead to administer the patient claims. ACS has never operated at a profit, and will require significant growth in either claims volume from existing contracts, new contracts or both in order to generate sufficient operational margin to become profitable. No assurances can be given that sufficient sources of new revenue will be identified and other sources of capital will have to be secured by Patient Infosystems to support these operations. If Patient Infosystems in unable to generate enough working capital either from its own operations or through the sale of its equity securities, ACS may be required to curtail or cease operations.

The sales cycle for Patient Infosystems may be extensive from initial contact to contract execution. During these periods, Patient Infosystems may expend substantial time, effort and funds to prepare a contract proposal and negotiate the contract. Patient Infosystems may be unable to consummate a commercial relationship after the expenditure of such time, effort and financial resources.

During 2003, the pressure of working capital shortfalls eased for Patient Infosystems. Patient Infosystems' had $123,998 of net cash provided by operating activities during 2003. During 2003. Patient Infosystems raised an additional $3.5 million of working capital and an additional $1.6 million as of March 31, 2004, through and the sale of its equity securities. These additional funds are being used to provide working capital for ACS. Patient Infosystems and ACS continue to incur losses and must identify substantial additional capital to sustain its operations. ACS' working capital shortfall is currently being funded by Patient Infosystems. There can be no assurances given that Patient Infosystems can raise either the required working capital through the sale of its securities or that Patient Infosystems can borrow the additional amounts needed. In such instance, if Patient Infosystems is unable to identify any additional sources of capital, it will likely be forced to curtail or cease its operations or the operations of ACS. As a result of the above, the Auditors' Report on Patient Infosystems' consolidated financial statements appearing at page 59 includes an emphasis paragraph indicating that Patient Infosystems' recurring losses from operations, negative working capital and stockholders' deficit raise substantial doubt about Patient Infosystems' ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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Results of Operations

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Revenues

Revenues are comprised of revenues from operations fees, development fees and licensing fees. Revenues increased 141% to $5,687,293 for the fiscal year ended December 31, 2003 from $2,355,677 for the fiscal year ended December 31, 2002. A summary of these revenues by category is as follows for the fiscal years ended December 31:

Revenues	2003	2002
Operations Fees	$ 2,241,796	$ 2,125,522
Consulting Fees	3,391,867	168,606
Development Fees	51,110	36,239
Licensing Fees	2,520	25,310
Total	$ 5,687,293	$ 2,355,677

Revenues from operations fees increased 5.5% from $2,125,522 for the fiscal year ended December 31, 2002 to $2,241,796 for the fiscal year ended December 31, 2003. Operations revenues are generated as Patient Infosystems provides services to its customers for their disease-specific programs, patient surveys, health risk assessments, patient satisfaction surveys, physician education programs and marketing support programs. Operations revenues increased in 2002 due to the growth of its disease and demand management business despite the loss of $1,125,823 of revenue from a customer who terminated as of December 31, 2002. This growth is attributable primarily to Park Place Entertainment which added $622,067 of new revenues and a new smoking cessation program which added $491,362 of new revenues. Patient Infosystems has devoted the majority of its sales and marketing efforts toward increasing revenue from operations, and anticipates that it will retain most of its existing business and continue to add additional new clients. No assurances can be given that these revenues will increase, or that any change will be material to Patient Infosystems operating results.

Revenues from consulting increased 1,912% from $168,606 for the fiscal year ended December 31, 2002 to $3,391,867 for the fiscal year ended December 31, 2003. This increase is due to Patient Infosystems' expanded role in support of the Health Disparities Collaboratives funded by the Bureau of Primary Healthcare and administered by the Institute for Healthcare Improvement. Revenues from consulting may increase during 2004. No assurances can be given that these revenues will increase, or that any change will be material to Patient Infosystems operating results.

Revenues from development fees increased 41% from $36,239 for the fiscal year ended December 31, 2002 to $51,110 for the fiscal year ended December 31, 2003. In 2002 and 2003, Patient Infosystems received development revenues in connection with the enhancement of its existing programs. Development revenues include clinical, technical and operational design or modification of Patient Infosystems' primary disease management programs. Patient Infosystems anticipates that revenue from development fees will remain immaterial.

Revenues from licensing fees decreased 90% from $25,310 for the fiscal year ended December 31, 2002 to $2,520 for the fiscal year ended December 31, 2003. Licensing revenue represents amounts that Patient Infosystems charges its customers, either on a one-time only or continuing basis, for the right to enroll patients in, or the right to license other entities, certain of its programs, primarily Patient Infosystems' Internet-based Case Management Support System. Patient Infosystems anticipates that revenue from licensing will remain immaterial in future periods.

Costs and Expenses

Cost of sales includes salaries and related benefits, services provided by third parties, and other expenses associated with the development of Patient Infosystems' customized disease state management programs, as well as the operation of each of its disease state management programs.

Cost of sales increased 117.4% from $1,914,464 for the fiscal year ended December 31, 2002 to $4,162,759 for the fiscal year ended December 31, 2003. The increase in these costs primarily reflects an $1,187,960 increase in the use of outsourced services and addition of $893,680 in staff costs related to the 141% increase in revenue.

Sales and marketing expenses increased 19.8% from $746,353 for the fiscal year ended December 31, 2002 to $893,833 for the fiscal year ended December 31, 2003. These costs consist primarily of salaries, related benefits and travel costs, sales materials and other marketing related expenses. Increased spending in this area is attributed primarily to an $155,051 increase in staff related expenses. It is anticipated that Patient Infosystems will need to invest heavily in the sales and marketing process in future periods, and intends to do so as funds are available. To the extent that Patient Infosystems has limited funds available for sales and marketing, or cannot leverage its marketing partnerships adequately, it will likely be unable to invest in the necessary marketing activities to generate substantially greater sales.

General and administrative expenses include the costs of corporate operations, finance and accounting, human resources and other general operating expenses of Patient Infosystems. General and administrative expenses decreased 12.2% from $1,282,683 for the fiscal year ended December 31, 2002 to $1,125,926 for the fiscal year ended December 31, 2003. Patient Infosystems expects that general and administrative expenses will increase during 2004 due to the addition of the administrative costs of its new subsidiary, American Caresource Holdings, Inc. and then remain relatively constant in future periods, but may experience fluctuations due to uncertainties related to financing costs.

Research and development expenses consist primarily of salaries and related benefits and administrative costs allocated to Patient Infosystems' research and development personnel for development of certain components of its integrated information capture and delivery system, its Internet-based software products and its standardized disease state management programs. Research and development expenses decreased 24.8% from $105,614 for the fiscal year ended December 31, 2002 to $131,782 for the fiscal year ended December 31, 2003. The addition of American Caresource Holdings, Inc. is expected to increase overall research and development expenses during 2004. Patient Infosystems expects these costs to remain approximately at 15% of its total investment into information technology resources.

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Financing costs were $2,143,120 in 2003. This cost relates to the issuance of equity to, and incurrence of debt from, certain lenders pursuant to the Note and Stock Purchase Agreement dated April 10, 2003 and as amended on September 11, 2003, pursuant to which the lenders agreed to make short term loans to the Company. The total value received by the lenders from the Company under the Note and Stock Purchase Agreement as amended was $8,852,458. In accordance with APB Opinion No. 14, a portion of the cash received totaling $2,143,120 for year ended December 31, 2003 is allocable to equity resulting in a debt discount in that same amount, which was fully amortized as of December 31, 2003.

Other Income/Expense is comprised of interest expense and losses on investments. The totals are as follows for the fiscal years ended December 31:

	2003	2002
Interest expense	$ (753,685)	$ (535,269)
Interest income	145,473	
Other income (expense)	376	4,345
Total Expense	$ (607,836)	$ (530,924)

Interest expense is due to debt. Interest expense increased to $753,685 for the fiscal year ended December 31, 2003 from $535,269 for the fiscal year ended December 31, 2002. The increase in interest expense reflects the increased debt required to fund operations and obtain capital which was loaned to American Caresource Corporation.

Interest income was realized from loans to American Caresource Corporation, which offset substantially all interest expense which Patient Infosystems incurred to obtain these funds.

Patient Infosystems had no tax benefit in 2003 due, in part, to recording a full valuation allowance to reduce its deferred tax assets. Patient Infosystems' deferred tax assets consist primarily of the tax benefit associated with its net operating loss carryforwards.

Management of Patient Infosystems has evaluated the available evidence about future taxable income and other possible sources of realization of deferred tax assets. The valuation allowance reduces deferred tax assets to zero, which represents management's best estimate of the amount of such deferred tax assets that more likely than not will be realized.

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For the fiscal year ended December 31, 2003, Patient Infosystems recorded $7,671,557 in dividends on convertible preferred stock as compared to $90,000 for the year ended December 31, 2002. The increase was due to: (i) $153,257 of dividends on 830,100 shares of Series D 9% Cumulative Convertible Preferred Stock ("Series D Preferred Stock") which was issued at various times between April and December 2003, (ii) a $2,143,120 beneficial conversion feature related to shares of Series D Preferred Stock issued to certain lenders in connection with borrowings and (iii) $5,285,180 beneficial conversion feature for the shares of Series D Preferred Stock issued on December 31, 2003 upon the exercise of the lender's option to convert their debt and accrued interest.

Patient Infosystems had a net loss attributable to common stockholders of $11,049,518 for the fiscal year ended December 31, 2003, compared to $2,314,361 for the fiscal year ended December 31, 2002. This represents a loss of $3.25 per basic and diluted share for 2003 and $2.36 for 2002, after giving effect to the 1 for 12 reverse stock split which was approved by the shareholders on December 31, 2003.

Liquidity and Capital Resources

At December 31, 2003, Patient Infosystems had a working capital deficit of $2,808,649 as compared to a working capital deficit of $6,135,451 at December 31, 2002. At December 31, 2003, Patient Infosystems had a stockholders' equity of $1,936,376. Through December 31, 2003 these amounts reflect the effects of Patient Infosystems' continuing losses that have been funded, in part, by the issuance of equity and long term borrowings of $3,000,000 against its line of credit. Patient Infosystems has never earned profits and, since its inception, Patient Infosystems has primarily funded its operations, working capital needs and capital expenditures from the sale of its equity securities. Patient Infosystems is currently maintaining it operations only through the receipt of proceeds from the sale of equity securities. If these additional funds were not available, Patient Infosystems would likely be required to reduce its operations, reduce or cease the operations of American Caresource Holdings, Inc. or take other measures to curtail its losses.

In December 1999, Patient Infosystems established a credit facility for $1,500,000 guaranteed by Derace Schaffer and John Pappajohn, two directors of Patient Infosystems. In March 2000, the facility was increased by $1,000,000 under substantially the same terms, also guaranteed by the same Board members.

On March 28, 2001, Patient Infosystems entered into an Amended and Restated Credit Agreement with Wells Fargo Bank Iowa, N.A. ("Wells Fargo"), which extended the term of Patient Infosystems' credit facility to March 31, 2002 under substantially the same terms. Dr. Schaffer and Mr. Pappajohn guaranteed this extension.

On March 28, 2002, Wells Fargo extended the term of the credit facility to March 31, 2003 under substantially the same terms. Dr. Schaffer and Mr. Pappajohn also guaranteed this extension.

On June 28, 2002, Patient Infosystems and Wells Fargo agreed on an addendum to the Amended and Restated Credit Agreement which extends the credit facility by an additional $500,000, increasing the total credit facility to $3,000,000. Mr. Pappajohn and Dr. Schaffer also guaranteed this extended credit facility.

On March 28, 2003, Wells Fargo extended the term of the credit facility to January 2, 2004 under substantially the same terms. Dr. Schaffer and Mr. Pappajohn also guaranteed this extension.

On December 31, 2003, Patient Infosystems and Wells Fargo further amended the credit facility and is due and payable on June 30, 2005. Dr. Schaffer and

Mr. Pappajohn also guaranteed this extension. In consideration for their guarantees, in February 2004 the Company granted to Dr. Schaffer and Mr. Pappajohn warrants to purchase an aggregate of 47,500 shares of Series D Convertible Preferred Stock, convertible into 475,000 shares of the Company's common stock for $10.00 per preferred share.

In January 2004, Patient Infosystems borrowed $200,000 from Mr. Pappajohn, a director of the Company, in exchange for an unsecured note that bore no interest if repaid on or before March 31, 2004. The note was repaid on March 29, 2004 and bore no interest as of that date.

On March 30, 2004, Mr. Pappajohn and Mr. Schaffer signed a letter to Patient Infosystems in which they committed to obtain the operating funds that Patient Infosystems believes would be sufficient to fund its operations through December 31, 2004. There can be no assurances given that Mr. Pappajohn or Dr. Schaffer can raise either the required working capital through the sale of Patient Infosystems' securities or that Patient Infosystems can borrow the additional amounts needed.

Patient Infosystems has expended significant amounts to expand its operational capabilities including increasing its administrative and technical costs. While Patient Infosystems has both curtailed its spending levels and increased its revenue, to the extent that American Caresource Holdings, Inc. revenues do not increase substantially, Patient Infosystems' losses will continue and its available capital will diminish further. Patient Infosystems' operations are currently being funded by the sale of equity securities. There can be no assurances given that Patient Infosystems can raise either the required working capital through the sale of its securities or that Patient Infosystems can borrow the additional amounts needed. In such instance, if Patient Infosystems is unable to identify additional sources of capital, it will likely be forced to curtail or cease operations. As a result of the above, the Auditors' Report on Patient Infosystems' consolidated financial statements includes an emphasis paragraph indicating that Patient Infosystems' recurring losses from operations raise substantial doubt about Patient Infosystems' ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Capital expenditures during 2003 were $34,185, as compared to expenditures of $8,867 during 2002 and $9,240 during 2001. The expenditures during these periods represented the purchase of technology platform components of the integrated information capture and delivery systems, as well as purchases required to maintain Patient Infosystems' technology infrastructure. On December 31, 2003, Patient Infosystems acquired substantially all the assets and assumed substantially all the liabilities of American Caresource Corporation. Included among the assets acquired was $152,480 of capital assets, which consisted of computer hardware and software, furnishings, fixtures and leasehold improvements.

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Inflation

Inflation did not have a significant impact on Patient Infosystems' operations during 2003, 2002 or 2001. Patient Infosystems continues to monitor the impact of inflation in order to minimize its effects through pricing strategies, productivity improvements and cost reductions.

Critical Accounting Policies

Critical accounting policies are those that require application of management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods.

Patient Infosystems significant accounting policies are described in Note 1 to the Consolidated Financial Statements. Not all of these significant accounting policies require management to make difficult, subjective or complex judgments or estimates. However, the following accounting policies are deemed to be critical by the Company's management.

Use of Estimates. In preparing the consolidated financial statements Patient Infosystems uses estimates in determining the economic useful lives of its assets, provisions for doubtful accounts, tax valuation allowances and various other recorded or disclosed amounts. Estimates require management to use its judgment. While Patient Infosystems believes that its estimates for these matters are reasonable, if the actual amount is significantly different than the estimated amount, its assets, liabilities or results of operations may be overstated or understated.

Impairment of Long-Lived Assets. Patient Infosystems records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted future cash flows estimated to be generated by those assets are less than the carrying amount of those assets. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the asset to future net cash flows expected to be generated by the asset. If the asset is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the asset exceeds the fair value of the asset. If the actual value is significantly less than the estimated value, Patient Infosystems assets may be overstated.

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MANAGEMENT

Executive Officers and Directors

The names, ages and positions of our current directors and executive officers are as follows:

Name	Age	Position
Roger Louis Chaufournier	46	Director, President and Chief Executive Officer
Kent A. Tapper	47	Vice President Financial Planning, Acting Chief Financial Officer
Christine St. Andre	53	Chief Operating Officer
Derace L. Schaffer, MD	56	Chairman of the Board
John Pappajohn	75	Director

There are no familial relationships among our directors and/or officers. Directors hold office until the next annual meeting of our stockholders or until their respective successors have been elected and qualified.

Roger Louis Chaufournier, 46 (President and Chief Executive Officer since April 1, 2000) Mr. Chaufournier has been the President and Chief Executive Officer of Patient Infosystems since April 1, 2000. Prior to joining Patient Infosystems, Mr. Chaufournier was President of the STAR Advisory Group, a healthcare consulting firm he founded in 1998. From August 1996 to July 1999, Mr. Chaufournier was the Chief Operating Officer of the Managed Care Assistance Company, a company that developed and operated Medicaid health plans. Managed

Care Assistance Company filed for protection under the federal bankruptcy laws in June 2000. From 1993 to 1996, Mr. Chaufournier was Assistant Dean for Strategic Planning for the Johns Hopkins University School of Medicine. In addition, Mr. Chaufournier spent twelve years in progressive leadership positions with the George Washington University Medical Center from 1981 to 1993. Mr. Chaufournier was also Chairman of the Board and acting President of Metastatin Pharmaceuticals, a privately held company developing therapeutics in the area of prostate cancer. Mr. Chaufournier was a three time Examiner with the Malcolm Baldrige National Quality Award and has served as the national facilitator for the federal Bureau of Primary Health Care chronic disease collaboratives.

Kent Tapper, 47 (Vice President, Financial Planning of the Company since April 1999). Mr. Tapper has served as Chief Information Officer and Vice President, Systems Engineering and has been with Patient Infosystems since July 1995. Mr. Tapper became the acting Chief Financial Officer of Patient Infosystems in April 2000. From 1992 to 1995, Mr. Tapper served as Product Manager, Audio Response and Call Center Platforms for Northern Telecom, Inc. From 1983 to 1992, Mr. Tapper held Product Manager, Systems Engineering Manager and various engineering management positions with Northern Telecom.

Christine St. Andre, 53 (Executive Vice President and Chief Operating Officer since June 5, 2000) Ms. St. Andre has been the Executive Vice President and Chief Operating Officer of Patient Infosystems since June 5, 2000. Ms. St. Andre has more than 20 years experience managing complex healthcare organizations. From 1994 to 2000, Ms. St. Andre was Chief Executive Officer for the University of Utah Hospitals and Clinics. Prior to 1994, Ms. St. Andre served as Chief Executive Officer of George Washington University Medical Center. Ms. St. Andre's career in healthcare began in the area of information technology at the Thomas Jefferson University.

Derace L. Schaffer, M.D., 56 (Chairman of the Board of Directors since 1995). Dr. Schaffer has been Chairman of the Board and a Director of Patient Infosystems since its inception in February 1995. Dr. Schaffer is the founder and CEO of the Lan Group, a venture capital firm specializing in healthcare and high technology investments. He serves as a director of Allion Healthcare, Inc., a public company. He is also a director of several private companies, including Source Medical Inc. and Logisticare, Inc. Dr. Schaffer is a board certified radiologist. He received his postgraduate radiology training at Harvard Medical School and Massachusetts General Hospital, where he served as Chief Resident. Dr. Schaffer is a member of Alpha Omega Alpha, the national medical honor society, and is Clinical Professor of Radiology at the University of Rochester School of Medicine.

John Pappajohn, 75 (Director since 1995). Mr. Pappajohn has been a Director of Patient Infosystems since its inception in February 1995, and served as its Secretary and Treasurer from inception through May 1995. Since 1969, Mr. Pappajohn has been the sole owner of Pappajohn Capital Resources, a venture capital firm and President of Equity Dynamics, Inc., a financial consulting firm, both located in Des Moines, Iowa. He serves as a director for the following public companies: Allion Healthcare, Inc., MC Informatics, Inc. and Pace Health Management Systems, Inc.

Board Composition

We currently have three directors, each serving a term until the next annual meeting of stockholders.

Compensation of Directors

Our directors do not receive compensation pursuant to any standard arrangement for their services as directors. All directors are reimbursed for expenses incurred in connection with attending meetings, including travel expenses to such meetings.

Our directors are eligible to participate in the Company's Stock Option Plan. Pursuant to the Stock Option Plan, non-employee directors of the Company receive a one-time grant of a non-qualified stock option to purchase 36,000 shares of the Company's Common Stock at an exercise price equal to fair market value per share on the date of their initial election to the Company's Board of Directors. Such non-qualified stock option vests as to 20% of the option grant on the first anniversary of the grant, and 20% on each subsequent anniversary, is exercisable only during the non-employee director's term and automatically expires on the date such director's service terminates. Upon the occurrence of a change of control, as defined in the Stock Option Plan, all outstanding unvested options immediately vest.

Indemnification Matters

Our Certificate of Incorporation eliminates the personal liability of directors to the fullest extent permitted by the provisions of paragraph (7) of subsection (b) of Section 102 of the General Corporation Law of Delaware. In addition, our Certificate of Incorporation includes provisions to indemnify our officers and directors and other persons against expenses, judgments, fines and amounts paid in settlement in connection with threatened, pending or completed suits or proceedings against those persons by reason of serving or having served as officers, directors or in other capacities to the fullest extent permitted by Section 145 of the General Corporation Law of Delaware.

Our bylaws provide the power to indemnify our officers, directors, employees and agents or any person serving at our request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise to the fullest extent permitted by Delaware law.

EXECUTIVE COMPENSATION

The following table sets forth certain information regarding compensation paid by us and our predecessors during each of the last three fiscal years to our Chief Executive Officer and any other executive officer who received compensation greater than $100,000 during any of the last three fiscal years.

Summary Compensation Table

	Annual Compensation			Long-Term Compensation Awards
Name and Principal Position	Year	Salary ($)	Bonus	Securities Underlying Options
Roger L. Chaufournier, President and Chief Executive Officer	2003	219,611	25,385	-

	2002	180,841	-	-
	2001	196,502	-	16,666
Christine St. Andre, Vice President, Chief Operating Officer	2003	184,050	22,212	-
	2002	157,512	-	-
	2001	171,893	-	12,500
Kent A. Tapper,	2003	124,154	14,913	-
Vice President, Financial Planning	2002	107,942	-	-
	2001	116,628	-	8,333

* No stock options were granted to the Chief Executive Officer and the named executive officers of the Company during 2003

No stock options were exercised by the Chief Executive Officer or the named executive officers of the Company during 2003. The following table sets forth certain information regarding unexercised options held by the Chief Executive Officer and the named executive officers of the Company at December 31, 2003. The table does not give effect to grants of options that occurred after December 31, 2003. For additional information with respect to these grants, see "Stock Option Plan".

Aggregated Option Exercises during 2003
and Option Values on December 31, 2003

Name	Number of Securities Underlying Unexercised Options at December 31, 2003(#) Exercisable	Unexercisable	Value of Unexercised In-the-Money Options at December 31, 2003($)(1) Exercisable	Unexercisable
Roger L. Chaufournier	23,415	9,917	$1,500	1,000
Christine St. Andre	17,499	7,501	1,125	750
Kent A. Tapper	9,582	1,751	3,187	263

(1) Calculated based upon $2.40 market value of the underlying securities as of December 31, 2003.

Employment Agreements

There were no employment agreements with any of the Company's executive officers.

Stock Option Plan

The Company's Amended and Restated Stock Option Plan (the "Plan") was adopted by the Board of Directors and stockholders in December 2003. As of April 20, 2004, up to 3,500,000 shares of Common Stock are authorized and reserved for issuance under the Plan. Under the Plan, options may be granted in the form of incentive stock options ("ISOs") or non-qualified stock options ("NQOs") from time to time to salaried employees, officers, directors and consultants of the

Company, as determined by the Compensation Committee of the Board of Directors. The Compensation Committee determines the terms and conditions of options granted under the Plan, including the exercise price. The Plan provides that the Committee must establish an exercise price for ISOs that is not less than the fair market value per share at the date of the grant. However, if ISOs are granted to persons owning more than 10% of the voting stock of the Company, the Plan provides that the exercise price must not be less than 110% of the fair market value per share at the date of the grant. The Plan also provides for a non-employee director to be entitled to receive a one-time grant of a NQO to purchase 36,000 shares at an exercise price equal to fair market value per share on the date of their initial election to the Company's Board of Directors. Such NQO is exercisable only during the non-employee director's term and automatically expires on the date such director's service terminates. Each option, whether an ISO or NQO, must expire within ten years of the date of the grant.

As of June 29, 2004, options to acquire 1,518,827 shares of Common Stock have been granted to employees and directors of the Company. The following table sets forth information regarding the number of options outstanding and the exercise price of these options.

Number of Options Outstanding at June 29, 2004	Exercise Price
499	$1.08
3,000	$1.67
43,748	$2.25
1,426,000	$2.28
12,500	$6.00
6,000	$8.33
6,417	$16.50
2,500	$22.56
16,666	$24.72
789	$29.26
708	$33.00

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Of these options, 92,827 of the options granted before December 31, 2003 were fully vested, 1,426,000 were granted on January 9, 2004, 456,400 of which vested immediately. The remaining options and all other options granted under the Plan vest as to 20% of the option grant on the first anniversary of the grant, and 20% on each subsequent anniversary.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

In December 1999, Patient Infosystems established a credit facility for $1,500,000 guaranteed by Derace Schaffer and John Pappajohn, two directors of Patient Infosystems. In March 2000, the facility was increased by $1,000,000 under substantially the same terms, also guaranteed by the same Board members.

On March 28, 2001, Patient Infosystems entered into an Amended and Restated Credit Agreement with Wells Fargo Bank Iowa, N.A. ("Wells Fargo"), which extended the term of Patient Infosystems' credit facility to March 31, 2002 under substantially the same terms. Dr. Schaffer and Mr. Pappajohn guaranteed
this extension to 100% of the fair market value per share on the date of grant. Each Subsequent O
become exercisable cumulatively to the extent of one-half of the shares subject to such option on
stockholders meetings of the Company following the date such option is granted, provided that the
Company s Board of Directors on such dates.

(2) Assumes: (i) no change in the number of Non-Executive Directors; (ii) that all current Non-Executive Directors, excluding Henry E. Gauthier, remains in office; and (iii) that no new Non-Executive Directors are appointed who would qualify for awards granted under the 1998 Directors Plan that are limited to newly appointed Non-Executive Directors. If the 1998 Directors Plan is amended as proposed, each current Non-Executive Director (a) shall be automatically granted an option to purchase 6,000 Shares (the Subsequent Option) immediately following the Annual Meeting and (b) shall be automatically granted an award of 2,000 shares of Restricted Stock (the Annual Restricted Stock Grant) immediately following the Annual Meeting, and shall receive similar awards in each subsequent year that they continue to serve as a Non-Executive Director. The values reflected herein represent the value of the awards to be granted immediately following the upcoming Annual Meeting and do not include potential benefits for services continued beyond that time.

(3) The dollar value of restricted stock awards granted under the 1998 Directors Plan is dependent upon the future share price of the Company s common stock. Restricted stock awards granted under the 1998 Directors Plan do not require the holder thereof to pay an exercise price; therefore, such grants have an initial value equal to 100% of the fair market value per share on the date of grant. The Annual Restricted Stock Grant shall vest as to 100% of the covered shares on the day prior to the date of the Company s annual stockholder meeting held in the third calendar year following the year in which the Annual Restricted Stock Grant was made, provided that the grantee continues to serve as a member of the Company s Board of Directors on such date. For example, on February 6, 2006 our common stock had a closing price equal to $30.89 and accordingly, assuming a grant date of February 6, 2006, the 14,000 shares of restricted stock that will be granted to Non-Executive Directors immediately following the Annual Meeting would have had a dollar value on the date grant equal to $432,460.

SUMMARY OF 1998 DIRECTORS PLAN

The following is a summary of the material terms and conditions of the 1998 Directors Plan, as proposed to be amended. The full text of the 1998 Directors Plan, as proposed to be amended, is attached as **Appendix B** to this Proxy Statement.

PURPOSE. The purposes of the 1998 Directors Plan are to attract and retain the best available personnel for service as non-employee directors of the Company, to provide additional incentive to the non-employee directors and to encourage their continued service on the Board of Directors

ADMINISTRATION. The 1998 Directors Plan is designed as an automatic grant plan which generally does not require administration. However, if necessary, it will be administered by the Board of Directors.

PROCEDURE FOR GRANTS. The 1998 Directors Plan provides for the grant of nonstatutory options and restricted stock to non-employee directors of the Company. Each such director is granted an option to purchase 24,000 shares of common stock on the date on which such person first becomes a director (the Initial Option), whether through election by the stockholders of the Company or appointment by the Board of Directors to fill a vacancy. Thereafter, immediately following each Annual Meeting of Stockholders at which such non-employee director is re-elected, each non-employee director shall be granted an option to purchase 6,000 shares of common stock (the Annual Option) if, on such date, he shall have served on the Company s Board of Directors for the preceding three (3) months. Each non-employee director is also granted 2,000 shares of restricted stock on the date on which such person first becomes a director (the Initial RSU). In addition each such director, shall be granted 2,000 shares of restricted stock immediately following each annual meeting of stockholders at which each such director is re-elected (the Annual RSU).

STOCK SUBJECT TO 1998 DIRECTORS PLAN. The maximum aggregate number of shares of common stock that may be awarded under the 1998 Directors Plan is 150,000 shares, plus an annual increase to be added on each anniversary date of the adoption of the 1998 Directors Plan equal to (i) the number of shares needed to restore the maximum aggregate number of shares that may be optioned and sold under the 1998 Directors Plan to 150,000 or (ii) a lesser amount determined by the Board of Directors.

TERMS OF OPTIONS. Options granted under the 1998 Directors Plan have a term of ten (10) years. Each option is evidenced by a stock option agreement between the Company and the director to whom such option is granted.

EXERCISE OF OPTION. The Initial Option becomes exercisable cumulatively to the extent of one-third of the shares subject to the option on the day prior to each of the next three annual stockholders meetings of the Company. Annual Options are exercisable cumulatively to the extent of one-half of the shares subject to such option on the day prior to each of the next two annual stockholders meetings of the Company. An option is exercised by giving written notice of exercise to the Company, specifying the number of full shares of common stock to be purchased and tendering payment to the Company of the purchase price. Payment for shares issued upon exercise of an option may consist of cash, check, exchange of Company common stock held by the non-employee director for at least six (6) months or a combination thereof.

OPTION PRICE. The option price is 100% of the fair market value of the Company s common stock on the date of grant. The Board of Directors of the Company determines such fair market value based upon the closing price of the common stock on the Nasdaq Stock Market on the date the option is granted.

TERMINATION OF STATUS AS A DIRECTOR. If a non-employee director ceases to be a director of the Company for any reason other than death or disability, vesting of the option shall cease as of the date of termination. Thereafter, the option may be exercised within two hundred and ten (210) days as to all or part of the shares that the non-employee director was entitled to exercise at the date of termination. If such termination is due to death or disability, within the meaning of Section 22(e)(3) of the Internal Revenue Code of 1986, as amended, the non-employee director (or the non-employee director s legal representative) shall have the right to exercise the option at any time within twelve (12) months of the termination date, but only to the extent that the option would have been exercisable had the non-employee director continued living or not been disabled and

remained a director of the Company for six (6) months after death or disability. If such termination is due to retirement after at least eight years of service as a director, then the option shall vest 100% and shall remain exercisable for two years. In no event may an option be exercised after its original ten (10) year term has expired.

SUSPENSION OR TERMINATION OF OPTIONS. If the Chief Executive Officer or his designee reasonably believes that a non-employee director has committed an act of misconduct, the Chief Executive Officer may suspend the non-employee director s right to exercise any option pending a determination by the Board of Directors (excluding the director accused of such misconduct). If the Board of Directors (excluding the director accused of such misconduct) determines a non-employee director has committed an act of embezzlement, fraud, dishonesty, nonpayment of an obligation owed to the Company, breach of fiduciary duty or deliberate disregard of the Company rules resulting in loss, damage or injury to the Company, or if a non-employee director makes an unauthorized disclosure of any Company trade secret or confidential information, engages in any conduct constituting unfair competition, induces any Company customer to breach a contract with the Company, or induces any principal for whom the Company acts as agent to terminate such agency relationship, neither the non-employee director nor his or her estate shall be entitled to exercise any option whatsoever. In making such determination, the Board of Directors (excluding the director accused of such misconduct) shall act fairly and shall give the non-employee director an opportunity to appear and present evidence on the non-employee director s behalf at a hearing before a committee of the Board of Directors.

RESTRICTED STOCK UNIT GRANTS. Each non-employee director shall be automatically granted an initial restricted stock grant, which shall be in the form of units to acquire Company stock (the Initial RSU) on the date upon which such person first becomes a non-employee director, whether through election by the stockholders of the Company or appointment by the Board of Directors to fill a vacancy. Each non-employee director shall also be automatically granted an annual restricted stock grant, also in the form of units to acquire Company stock (the Annual RSU) immediately following each annual meeting of stockholders at which such non-employee director is re-elected, provided he or she is then a non-employee director and if as of such date, he or she shall have served on the Board of Directors for at least the preceding three (3) months. Each restricted stock unit grant shall vest as to 100% of the covered shares on the day prior to the date of the Company s annual stockholder meeting held in the third calendar year following the year in which the restricted stock grant was made, provided that non-employee director continues to serve as a director on such date. Restricted stock unit grants represent an unfunded obligation of Coherent until they vest, subject to the claims of Coherent s general creditors. Upon vesting, the restricted stock unit grants will be settled in shares of Company common stock.

NONTRANSFERABILITY OF AWARDS. Except for the transfer of awards to estate planning entities permitted under a Securities & Exchange Commission Form S-8 registration statement, an award is nontransferable by the non-employee director, other than by will or the laws of descent and distribution, and is exercisable only by the non-employee director during his or her lifetime or, in the event of death, by a person who acquires the right to exercise the option by bequest or inheritance or by reason of the death of the non-employee director. In no event may an award under the 1998 Directors Plan be transferred for value.

ADJUSTMENT UPON CHANGES IN CAPITALIZATION. The number of shares covered by each outstanding award, and the exercise price thereof, shall be proportionately adjusted in the event of any change, such as a stock split, in the Company s capitalization. In the event of a stock dividend, each non-employee director shall be entitled to receive, upon exercise of the award, the equivalent of any stock dividend which the non-employee director would have received had he or she been, on the record date for such dividend, the holder of record of the shares purchasable upon such exercise.

CHANGE IN CONTROL. The 1998 Directors Plan provides that, in the event of (i) a proposed merger of the Company with or into another corporation where following such merger the stockholders of the Company prior to such merger own less than 50% of the voting securities of the surviving corporation or (ii) the sale of all or substantially all of the assets of the Company, each outstanding award shall be assumed or an equivalent award shall be substituted by such successor corporation. If an option is assumed or substituted for, the option or equivalent option shall continue to be exercisable for its original term and for so long as the non-employee director serves as a director of the Company or a director of the successor corporation. Following such

assumption or substitution, if the non-employee director s status as a director is terminated, other than upon a voluntary resignation by the non-employee director, the award shall become fully exercisable. If the successor corporation refuses to assume the award or to substitute an equivalent award, the Board of Directors shall, in lieu of such assumption or substitution, provide for the non-employee director to have the right to exercise the option as to 100% of the covered stock and any restricted stock award shall vest 100%. If an option becomes fully exercisable in lieu of assumption or substitution in the event of a merger or sale of assets, the Board of Directors shall notify the non-employee director that the option shall be fully exercisable for a period of twenty (20) days from the date of such notice, and the option will terminate upon the expiration of such period.

AMENDMENT AND TERMINATION. The Board of Directors may terminate the 1998 Directors Plan at any time and may amend the 1998 Directors Plan at any time or from time to time; provided, however, that amendments to the 1998 Directors Plan must be approved by the stockholders to the extent required by applicable law. However, no action by the Board of Directors or stockholders may alter or impair any award previously granted under the 1998 Directors Plan without the consent of the non-employee director. The 1998 Directors Plan shall continue in effect for a term of ten (10) years from the date of receiving stockholder approval in 2006, unless sooner terminated under Section 13 of the 1998 Directors Plan.

TAX INFORMATION.

Stock Options. A non-employee director does not recognize any taxable income at the time he or she is granted a nonstatutory stock option. Upon exercise, the non-employee director recognizes taxable income generally measured by the excess of the then fair market value of the shares over the exercise price. The Company is entitled to a deduction in the same amount as the ordinary income recognized by the non-employee director. Upon a disposition of such shares by the non-employee director, any difference between the sale price and the non-employee director s exercise price, to the extent not recognized as taxable income as provided above, is treated as long-term or short-term capital gain or loss, depending on the holding period.

Restricted Stock Units. A non-employee director does not recognize taxable income upon the grant of restricted stock units. Instead, he or she recognizes ordinary income at the time of vesting equal to the fair market value (on the vesting date) of the shares received. The Company is entitled to a deduction in the same amount as the ordinary income recognized by the non-employee director.

THE FOREGOING IS ONLY A SUMMARY OF THE EFFECT OF FEDERAL INCOME TAXATION UPON NON-EMPLOYEE DIRECTORS AND THE COMPANY WITH RESPECT TO THE GRANT AND EXERCISE OF OPTIONS UNDER THE DIRECTOR PLAN. IT DOES NOT PURPORT TO BE COMPLETE, AND DOES NOT DISCUSS THE TAX CONSEQUENCES OF THE DIRECTOR S DEATH OR THE PROVISIONS OF THE INCOME TAX LAWS OF ANY MUNICIPALITY, STATE OR FOREIGN COUNTRY IN WHICH THE DIRECTOR MAY RESIDE.

Required Vote

If a quorum is present, the affirmative vote of a majority of the Votes cast will be required to approve the amendment to the 1998 Directors Plan under this Proposal Two.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE AMENDMENT AND RESTATEMENT OF THE COMPANY S 1998 DIRECTORS PLAN AS SET FORTH IN THIS PROPOSAL TWO

PROPOSAL THREE
RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board of Directors has selected Deloitte & Touche LLP, an independent registered public accounting firm, to audit our financial statements for the fiscal year ending September 30, 2006, and recommends that stockholders vote for ratification of such appointment. Deloitte & Touche LLP has audited our financial statements since the fiscal year ended September 25, 1976. Representatives of Deloitte & Touche LLP are expected to be present at the meeting and will be afforded the opportunity to make a statement if they desire to do so. The representatives of Deloitte & Touche LLP are also expected to be available to respond to appropriate questions.

Audit and Non-Audit Fees

The following table sets forth fees for services Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates (collectively, Deloitte) provided during fiscal years 2005 and 2004:

	2005	2004
Audit fees (1)	$2,497,459	$1,404,000
Audit-related fees (2)	$	$ 179,000
Tax fees (3)	$ 202,492	$ 255,000
All other fees (4)	$ 14,100	$ 232,000
Total	$2,714,051	$2,070,000

(1) Represents fees for professional services provided in connection with the audit of our annual financial statements and review of our quarterly financial statements, advice on accounting matters that arose during the audit and audit services provided in connection with other statutory or regulatory filings. Audit fees for 2005 also included the audit of management s report on the effectiveness of the Company s internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act of 2002.

(2) Represents fees for assurance services related to the audit of the Company s financial statements and for services in connection with audits of the Company s benefit plans.

(3) Represents fees for services provided in connection with the Company s expatriate tax program, domestic and international tax planning, tax due diligence associated with the Company s acquisition activities and international tax compliance.

(4) Represents fees for services provided to the Company not otherwise included in the categories above, including services provided in connection with the Company s expatriate relocation programs, and other miscellaneous items.

The Audit Committee has determined that the provision of non-audit services by Deloitte is compatible with maintaining Deloitte s independence. In accordance with its charter, the Audit Committee approves in advance all audit and non-audit services to be provided by

Deloitte. In other cases, the Chairman of the Audit Committee has the delegated authority from the Committee to pre-approve certain additional services, and such pre-approvals are communicated to the full Committee at its next meeting. During fiscal year 2005, 100% of the services were pre-approved by the Audit Committee in accordance with this policy.

Vote Required

The affirmative vote of a majority of the Votes Cast will be required to ratify the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending September 30, 2006.

THE AUDIT COMMITTEE UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF DELOITTE & TOUCHE LLP AS OUR INDEPENDENT AUDITORS FOR THE FISCAL YEAR ENDING SEPTEMBER 30, 2006.

Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth as of February 15, 2006 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 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 of 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. The Company does not know of any arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change of control of the Company. Unless otherwise indicated, the address of each stockholder in the table below is c/o Coherent, Inc., 5100 Patrick Henry Drive, Santa Clara, California 95054.

Name and Address	Number of Shares	Percent of Total (1)
Franklin Resources, Inc. (2) One Franklin Pkwy. San Mateo, CA 94403	2,581,021	8.37%
Dimensional Fund Advisors (2) 1299 Ocean Ave., 11th Floor Santa Monica, CA 90401	2,173,571	7.05%
PRIMECAP Management Company (2) 225 S. Lake Ave., Suite 400 Pasadena, CA 91101	2,148,950	6.97%
Babson Capital Management LLD (2) 470 Atlantic Ave. Boston, MA 02210	1,575,641	5.11%
John Ambroseo (3)	715,070	2.32%
Helene Simonet (4)	252,375	*
Scott H. Miller (5)	104,486	*
Vittorio Fossati-Bellani (6)	148,469	*
Luis Spinelli (7)	71,703	*
Paul L. Meissner (8)	29,110	*
Bernard Couillaud, PhD (9)	57,185	*
Charles W. Cantoni (10)	41,000	*
Henry E. Gauthier (11)	94,330	*
John H. Hart (12)	51,000	*
Robert J. Quillinan (13)	44,616	*

Name and Address	Number of Shares	Percent of Total (1)
Garry W. Rogerson, PhD (14)	20,000	*

Name and Address	Number of Shares	Percent of Total (1)
Lawrence Tomlinson (15)	12,000	*
Sandeep Vij (16)	23,600	*
All directors and executive officers as a group (15 persons) (17)	1,763,548	5.45%

* Represents less than 1%.

(1) Based upon 30,835,411 shares of Coherent, Inc. common stock outstanding as of February 15, 2006. 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 are currently exercisable or will be exercisable on or before April 16, 2006, 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 the most recently filed Schedule 13f or Schedule 13g filed by such person with the SEC.

(3) Includes 652,500 shares issuable upon exercise of options held by Dr. Ambroseo which are currently exercisable or will become exercisable within 60 days of February 15, 2006.

(4) Includes 239,166 shares issuable upon exercise of options held by Ms. Simonet which are currently exercisable or will become exercisable within 60 days of February 15, 2006.

(5) Includes 61,166 shares issuable upon exercise of options held by Mr. Miller which are currently exercisable or will become exercisable within 60 days of February 15, 2006.

(6) Includes 145,464 shares issuable upon exercise of options held by Mr. Vittorio Fossati-Bellani which are currently exercisable or will become exercisable within 60 days of February 15, 2006.

(7) Includes 67,666 shares issuable upon exercise of options held by Mr. Spinelli which are currently exercisable or will become exercisable within 60 days of February 15, 2006.

(8) Includes 24,000 shares issuable upon exercise of options held by Mr. Meissner which are currently exercisable or will become exercisable within 60 days of February 15, 2006.

(9) Includes 30,000 shares issuable upon exercise of options held by Dr. Couillaud which are currently exercisable or will become exercisable within 60 days of February 15, 2006.

(10) Includes 36,000 shares issuable upon exercise of options held by Mr. Cantoni which are currently exercisable or will become exercisable within 60 days of February 15, 2006.

(11) Includes 36,000 shares issuable upon exercise of options held by Mr. Gauthier which are currently exercisable or will become exercisable within 60 days of February 15, 2006.

(12) Includes 46,500 shares issuable upon exercise of options held by Mr. Hart which are currently exercisable or will become exercisable within 60 days of February 15, 2006.

(13) Includes 20,000 shares issuable upon exercise of options held by Mr. Quillinan which are currently exercisable or will become exercisable within 60 days of February 15, 2006.

(14) Includes 19,000 shares issuable upon exercise of options held by Dr. Rogerson which are currently exercisable or will become exercisable within 60 days of February 15, 2006.

(15) Includes 10,000 shares issuable upon exercise of options held by Mr. Tomlinson which are currently exercisable or will become exercisable within 60 days of February 15, 2006.

(16) Includes 20,000 shares issuable upon exercise of options held by Mr. Vij which are currently exercisable or will become exercisable within 60 days of February 15, 2006.

(17) Includes an aggregate of 1,499,628 options which are currently exercisable or will become exercisable within 60 days of February 15, 2006.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 (the Exchange Act) requires our officers and directors, and persons who own more than ten percent of a registered class of our equity securities to file reports of ownership and changes in ownership with the SEC and the National Association of Securities Dealers. Such officers, directors and ten-percent stockholders are also required by SEC rules to furnish us 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 us, and on written representations from certain reporting persons that no other reports were required for such persons, we believe that, during fiscal 2005, our officers, directors and greater than ten percent stockholders complied with all applicable Section 16(a) filing requirements.

EXECUTIVE COMPENSATION

Executive Officers

The name, age, position and a brief account of the business experience of our Chief Executive Officer and each of our other executive officers as of January 20, 2006 are set forth below.

Name	Age	Office Held
John R. Ambroseo, PhD	44	President and Chief Executive Officer
Helene Simonet	53	Executive Vice President and Chief Financial Officer
Paul Meissner, PhD	42	Executive Vice President, Global Product Business Organization
Luis Spinelli	58	Executive Vice President and Chief Technology Officer
Ron Victor	61	Executive Vice President, Human Resources
Dennis C. Bucek	60	Senior Vice President, Treasurer and Assistant Secretary
Scott H. Miller	51	Senior Vice President and General Counsel

Dr. Ambroseo s biographical information can be found above under Proposal One Election of Directors Nominees.

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 former 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 Leuven, Belgium.

Dr. Meissner joined the Company in July 2004 as our Executive Vice President and General Manager, Laser Systems and since October 2005 has served as our Executive Vice President, Global Product Business Organization. Dr. Meissner has over fifteen years of technology leadership experience with the majority of those years having been spent in the semiconductor capital equipment industry. Prior to joining the Company, Dr. Meissner was Vice President and General Manager for KLA-Tencor Corporation from 2003. Prior to joining KLA-Tencor, he spent nine years (1994-2003) with Applied Materials Inc. in a number of senior management positions leading to his appointment as Vice President and General Manager of their Thermal Systems and Modules Group. His last assignment at Applied Materials was as Vice President of Strategy and New Business Development. Dr. Meissner holds an undergraduate degree from the University of California, Berkeley in materials science and engineering, and he obtained both his masters and doctorate degrees in materials science and engineering from Stanford University.

Mr. Spinelli has served as our Executive Vice President and Chief Technology Officer since March 2004. Mr. Spinelli joined the Company in May 1985 and has since held various engineering and managerial positions, including his most recent position as Vice President for Corporate Research and Chairman of the Company s Technical Advisory Board (since October 2002). Mr. Spinelli led the Company s Advanced Research Unit from its inception in 1998, whose charter is to identify and evaluate new and emerging technologies of interest for the Company across a range of disciplines in the laser field. Mr. Spinelli has been instrumental in the development of a number of the Company s technologies and products and is a named inventor of 19 patents in various areas

of laser technology. Mr. Spinelli holds a degree in Electrical Engineering from the University of Buenos Aires, Argentina with post-graduate work at the Massachusetts Institute of Technology.

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. Bucek has served as our Senior Vice President, Treasurer and Assistant Secretary since August 1985. He received his BA degree from Mankato State University and is a certified public accountant.

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.

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 serving as an executive officer as of September 30, 2005 and one other former executive officer who was not serving as an executive officer as of September 30, 2005, 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 ($)
John R. Ambroseo, PhD	2005	$506,629	$622,477	110,000 (1)	$130,556 (2)
President and Chief	2004	465,437	424,567	150,000	104,689
Executive Officer	2003	431,853	229,429	150,000	24,429
Helene Simonet	2005	$329,000	$287,876	33,000 (3)	$ 22,382 (4)
Executive Vice President and	2004	291,699	166,927	70,000	19,543
Chief Financial Officer	2003	274,237	95,014	75,000	18,015
Scott H. Miller	2005	$227,094	$214,030	11,300 (5)	$ 17,021 (6)
Senior Vice President and	2004	211,162	74,757	10,000	13,723
General Counsel	2003	205,005	23,942	20,000	12,590
Vittorio Fossati-Bellani (7)	2005	$231,549	$190,845		$ 33,615 (8)
Executive Vice President and	2004	280,010	148,554		20,114
Chief Marketing Officer	2003	280,010	46,429	40,000	20,114
Luis Spinelli (9)	2005	$237,554	$151,871	15,000 (10)	$ 35,348 (11)
Executive Vice President and	2004	$218,477	$ 85,630	40,000	14,061
Chief Technology Officer					
Paul L. Meissner (12)	2005	$252,710	$160,931	22,000 (13)	2,936 (14)
Executive Vice President of	2004	$ 43,272	$ 40,000	45,000	$ 104
Global Business Operations					

(1) Includes an aggregate total of 20,000 shares in unvested Restricted Stock holdings, valued at $585,600 as of September 30, 2005.

(2) Includes $30,348 contributed by the Company under defined contribution plans, $1,157 in life insurance benefits, a $84,136 buyout of accrued vacation, $4,915 imputed income, and $10,000 of debt forgiveness.

(3) Includes an aggregate total of 8,000 shares in unvested Restricted Stock holdings, valued at $234,240 as of September 30, 2005.

(4) Includes $20,704 contributed by the Company under defined contribution plans and $1,678 in life insurance benefits.

(5) Includes an aggregate total of 2,300 shares in unvested Restricted Stock holdings, valued at $67,344 as of September 30, 2005.

(6) Includes $13,552 contributed by the Company under defined contribution plans, $1,118 in life insurance benefits, and $2,351 Imputed Income.

(7) Mr. Fossati-Bellani retired as an Executive Officer April 3, 2005.

(8) Includes $18, 016 contributed by the Company under defined contribution plans, $2,137 in life insurance benefits, and $13,462 buyout of accrued vacation.

(9) Mr. Spinelli was elected an executive officer in March 2004.

(10) Includes an aggregate total of 3,000 shares in unvested Restricted Stock holdings, valued at $87,840 as of September 30, 2005.

(11) Includes $14,746 contributed by the Company under defined contribution plans, $2,198 in life insurance benefits, $11,299 buyout of accrued vacation, and $7,105 patent award.

(12) Mr. Meissner was elected an executive officer in July 2004.

(13) Includes an aggregate total of 4,000 shares in unvested Restricted Stock holding, valued at $117,120 as of September 30, 2005.

(14) Includes $2,389 contributed by the Company under defined contribution plans and $548 in life insurance benefits.

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 30, 2005:

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% ($)
John R. Ambroseo, PhD	90,000	17.46	33.71	4/7/11	1,031,816	2,340,839
Helene Simonet	25,000	4.85	33.71	4/7/11	286,616	650,233
Scott H. Miller	9,000	1.75	33.71	4/7/11	103,182	234,084
Vittorio Fossati-Bellani						
Luis Spinelli	12,000	2.33	33.71	4/7/11	137,575	312,112
Paul L. Meissner	18,000	3.49	33.71	4/7/11	206,363	468,168

(1) The Company s 1995 Stock Plan and 2001 Stock Plan (collectively, the Option Plans) provide for the grant of options, stock purchase rights, stock appreciation rights, performance shares, performance units and deferred stock units 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 332,540 shares to all employees other than executive officers and granted options to purchase an aggregate of 183,000 shares to all executive officers as a group (7 persons), during fiscal 2005.

(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 SEC. 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 SEC 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 30, 2005 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 30, 2005 (#)(2)		Value of Unexercised In-the-Money Options at September 30, 2005 ($)(3)	
Name	**Shares Acquired on Exercise (#)**	**Value Realized ($)(1)**	**Exercisable**	**Unexercisable**	**Exercisable**	**Unexercisable**
John R. Ambroseo, PhD	22,000	312,544	465,500	390,000	143,500	1,713,500
Helene Simonet	5,000	26,875	153,333	146,667	91,791	847,184
Scott H. Miller	8,000	162,840	43,333	35,667	9,566	209,334
Vittorio Fossati-Bellani			166,000	40,000		380,400
Luis Spinelli	2,000	29,300	38,333	63,667	38,266	314,284
Paul L. Meissner			15,000	48,000	40,500	81,000

(1) The value realized is calculated based on the closing 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 s 2001 Stock Plan provides for the grant of Stock Appreciation Rights, but no such rights were granted during the fiscal year ended September 30, 2005.

(3) The market value of underlying securities is based on the difference between the closing sale price of the Company s common stock on September 30, 2005 of $29.28 (as reported by Nasdaq National Market) and the exercise price per share.

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of September 30, 2005 about the Company s equity compensation plans under which shares of our common stock may be issued to employees, consultants or members of our Board of Directors:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	4,785,200	$31.6252	4,796,700
Equity compensation plans not approved by security holders			
Total	4,785,200	$31.6252	4,796,700

Other Employee Benefit Plans

Employee Retirement and Investment Plan and Supplemental Retirement Plan

Effective January 1, 1979, the Company adopted the Coherent Employee Retirement and Investment Plan (as amended to date, the Retirement and Investment Plan). Coherent employees that work more than twenty hours per week become eligible for participation on their first day of employment. The Company will match employee contributions to the Retirement and Investment Plan, up to a maximum of 6% of the employee s individual earnings, after completing one year of service. The Retirement and Investment Plan qualifies under

Section 401(k) of the Internal Revenue Code of 1986, as amended, to permit employees to make contributions to the Retirement and Investment Plan from their pre-tax earnings.

Effective January 1, 1990, the Company adopted the Supplementary Retirement Plan for senior management personnel which permits the participants to contribute up to 24% of their before tax earnings to a trust. The Company will match such contributions up to 6% of the participants earnings less any amounts contributed by the Company to the participant under the Employee Retirement and Investment Plan.

2006 Variable Compensation Plan

On November 29, 2005, the registrant adopted the 2006 Variable Compensation Plan (the 2006 VCP). The 2006 VCP is designed to deliver incentives that are competitive with those received by executives at comparable companies in the marketplace. Its primary objectives are to encourage a high level of performance against business objectives on the part of participants. The 2006 VCP provides for quarterly bonus payments to qualifying employees of the registrant, including its executive officers, based in part upon (i) the participant s salary for the quarter, (ii) the participant s bonus rate, and (iii) the registrant s revenues and profits for the quarter. If certain minimum revenue and profit goals are not obtained in any given quarter, then no quarterly bonus payments will be made under the 2006 VCP with respect to the quarter.

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 6,325,000 shares of common stock have been reserved under the Purchase Plan, and as of the end of fiscal year 2005, 499,780 shares of common stock remained available for issuance thereunder. Eligible employees may authorize payroll deductions up to 10% of their regular base salary to purchase shares at the lower of 85% of the fair market value of the common stock on the date of commencement of the offering or on the last day of the six-month offering period.

Change of Control Severance Plan

Under the terms of the Company s Change of Control Severance Plan, in the event of a Change of Control (as defined therein), the Chief Executive Officer would receive 2.99 times the sum of his Base Pay and Bonus Pay, plus a gross up amount for any excise taxes under Section 280G of the Internal Revenue Code. Company Officer Vice Presidents would receive two times the sum of their Base Pay and Bonus Pay, and Non-Officer Vice Presidents would receive one times the sum of their Base Pay and Bonus Pay. In addition, in such circumstances one hundred percent of Participant s outstanding unvested equity compensation awards would fully vest.

CERTAIN TRANSACTIONS

The following table sets forth information with respect to all executive officers and directors 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 2005	Interest Rates	Maturity Date(s)	Largest Amount Outstanding During 2005 (1)	Balance at September 30, 2005
John Ambroseo, PhD		4.75%	1/25/07	$323,625	$323,625
		8.00%	2/15/08	40,000 (2)	30,000
Scott Miller		6.40-6.71%	4/14/05-5/24/05	365,125	

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

(2) This loan was granted to Dr. Ambroseo on February 15, 1998. Ten percent of the original principal balance of this loan is forgiven each year, so long as Mr. Ambroseo is employed with the Company.

All promissory notes are full recourse and, except for the $30,000 of principal outstanding on the loans to Dr. Ambroseo, are secured by the shares of common stock of the Company issued upon exercise of the options.

Interest on stock notes is compounded. Interest on Dr. Ambroseo s note on which $30,000 of principal is outstanding is paid quarterly as a deduction from his Variable Compensation Plan.

Notwithstanding anything to the contrary set forth in any of our previous filings under the Securities Act of 1933, as amended, or the Exchange Act that might incorporate future filings, including this Proxy Statement, in whole or in part, the following reports and the Performance Graph included herein shall not be incorporated by reference into any such filings.

REPORT OF THE COMPENSATION COMMITTEE
OF THE BOARD OF DIRECTORS

Introduction

The Compensation Committee of the Board of Directors is comprised exclusively of independent directors. The Committee has overall responsibility for recommending changes to Coherent s officer and outside director s compensation programs. This includes: overseeing the Company s total rewards programs and policies, reviewing the performance of the corporate officers, and ensuring that our executive compensation programs will enable us to attract and retain key people and motivate them to achieve or exceed our strategic business objectives. Individual compensation is directly dependent upon the achievement of certain short and long-term business goals, such as profitability, revenue growth, and other business objectives by providing rewards for attaining and exceeding those goals.

Compensation Programs

To assist us in our decisions, the Compensation Committee has retained an independent compensation consultant to advise the Committee on matters related to executive and director compensation. The consultant provides the Committee with comprehensive market data on executive compensation and reward programs. In particular, the Committee uses a peer group of companies upon which to compare our pay and total reward practices. These companies have similar profiles to Coherent based upon financial, industry segment, and/or business performance, and their compensation practices are benchmarked against that of Coherent. Other comparative and relevant data related to general industry compensation practices is reviewed. In addition to reviewing executive officers compensation against the comparative group, the Compensation Committee also considers recommendations from the Company s Chief Executive Officer regarding compensation for Coherent s executive officers based upon individual performance and contributions.

Base Salary

Base pay increases vary according to individual contributions to our success and comparisons to positions within Coherent and at other comparable companies. The Committee establishes base salaries for executive officers, normally within ten percent of the targeted amount paid for comparable positions at other similarly sized companies as set forth in national and local compensation surveys.

2006 Variable Compensation Plan

Each executive officer participates in the Variable Compensation Plan which provides for the payment of an incentive as determined by a formula based on pretax profit and revenue goals that exceed pre-set performance threshold levels and are capped. In addition, the executive officers as a group participate in the Company s worldwide profit sharing plan which is capped at 5% of the officers salary.

Equity Plans

The Committee believes that stock-based compensation provide additional incentive to officers to work towards maximizing long-term stockholder value. Option grants are provided through initial grants at or near the date of an executive s hire and through subsequent grants that are based upon the executive s individual performance and anticipated future contribution to the Company. Options granted by us to our executive officers and other employees have exercise prices equal to the fair market value at the time of grant. Options vest and become exercisable at such time as determined by the Board of Directors. The initial option grant as well as the subsequent grants provided to our executive officer group are designed to be competitive with those of comparable companies for the level of the job that the executive holds and is designed to motivate the officer to make the kind of decisions and implement strategies and programs that will contribute to enhancing long-term stockholder value. The total equity grants provided to all executive officers as a group last year represented less than 1% of the Company s shares outstanding.

The Committee began using restricted stock grants during fiscal 2005 as an alternative to consider in Coherent s compensation approach. Restricted stock grants are made following a report and recommendation of our outside compensation consultant based on current practices in the marketplace and after due consideration by the Compensation Committee.

Compensation of Chief Executive Officer

The factors considered by the Compensation Committee in determining the compensation of the Chief Executive Officer include the operating and financial performance of Coherent, his internal and external leadership and representation of Coherent, and the establishment and implementation of our strategic direction. In addition, the Committee takes into account CEO Compensation levels from survey data taken from a set of peer companies.

For fiscal 2005, Dr. Ambroseo received $506,629 in salary, representing an 8.9% increase over his salary for fiscal 2004. He also received bonuses totaling $622,477, representing a 46.6% increase over his total bonuses for fiscal 2004. In addition, the Compensation Committee considers stock options to be an important component of the Chief Executive Officer s compensation as a way to reward performance and motivate leadership for long-term growth and profitability. In fiscal 2005, Dr. Ambroseo was granted options to purchase 90,000 shares of our Common Stock at an exercise price of $33.45 per share and a grant of 20,000 shares of restricted stock.

The Compensation Committee believes that the total compensation granted to Dr. Ambroseo is commensurate with the operating and financial performance of the Company during fiscal 2005 and consistent with the compensation provided to chief executive officers of similar companies.

Director s Compensation

The Committee makes appropriate recommendations to the Board of Directors when considering compensation for our Board of Directors based upon input from its independent compensation consultant. Using similar methodologies, our independent compensation consultant benchmarks retainers, fees, and equity awards for our Board of Directors against comparative company s boards of directors to assist in the process.

Tax Deductibility of Compensation

Under Section 162(m) of the Internal Revenue Code, adopted in August 1993, and regulations adopted thereunder by the Internal Revenue Service, publicly held companies may be precluded from deducting certain compensation paid to an executive officer in excess of $1.0 million in a year. The regulations exclude from this limit performance-based compensation and equity compensation provided certain requirements, such as stockholder approval, are satisfied. The Compensation Committee will consider the potential non-deductibility of compensation payable to executive officers in designing the compensation package of the Company s Chief Executive Officer and other executive officers.

Respectively submitted by the
COMPENSATION COMMITTEE

John H. Hart, Chair
Garry Rogerson
Lawrence Tomlinson

Dated: January 19, 2006

REPORT OF THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS

The Audit Committee is responsible for overseeing our accounting and financial reporting processes and audits of our financial statements. As set forth in its charter, the Audit Committee acts only in an oversight capacity and relies on the work and assurances of both management, which has primary responsibilities for our financial statements and reports, as well as the independent registered public accounting firm that is responsible for expressing an opinion on the conformity of our audited financial statements to generally accepted accounting principles.

The Audit Committee met nine (9) times either in person or by telephone during fiscal year 2005. In the course of these meetings, the Audit Committee met with management, the internal auditors and our independent auditors and reviewed the results of the internal and external audit examinations, evaluations of our internal controls and the overall quality of our financial reporting.

The Audit Committee believes that a candid, substantive and focused dialogue with the internal auditors and the independent registered public accounting firm is fundamental to the Audit Committee s oversight responsibilities. To support this belief, the Audit Committee periodically meets separately with the internal auditors and the independent auditors, without management present. In the course of its discussions in these meetings, the Audit Committee asked a number of questions intended to bring to light any areas of potential concern related to our financial reporting and internal controls. These questions include:

Are there any significant accounting judgments, estimates or adjustments made by management in preparing the financial statements that would have been made differently had the auditors themselves prepared and been responsible for the financial statements?

Based on the auditors experience, and their knowledge of our business, do our financial statements fairly present to investors, with clarity and completeness, our financial position and performance for the reporting period in accordance with generally accepted accounting principles and SEC disclosure requirements?

Based on the auditors experience, and their knowledge of our business, have we implemented internal controls and internal audit procedures that are appropriate for our business?

The Audit Committee approved the engagement of Deloitte & Touche LLP as our independent registered public accounting firm for fiscal year 2005 and reviewed with the internal auditors and independent registered public accounting firm their respective overall audit scope and plans. In approving Deloitte & Touche LLP, the Audit Committee considered the qualifications of Deloitte & Touche LLP and discussed with Deloitte & Touche LLP their independence, including a review of the audit and non-audit services provided by them to us. The Audit Committee also discussed with the independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61, as amended, and by the Sarbanes-Oxley Act of 2002, and it received and discussed with the independent registered public accounting firm the written report required by Independence Standards Board Standard No. 1.

Management has reviewed the audited financial statements for fiscal year 2005 with the Audit Committee, including a discussion of the quality and acceptability of the financial reporting, the reasonableness of significant accounting judgments and estimates and the clarity of disclosures in the financial statements. In connection with this review and discussion, the Audit Committee asked a number of follow-up questions of management and the independent registered public accounting firm to help give the Audit Committee comfort in connection with its review.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors (and the Board of Directors has approved) that the audited financial statements be included in the Annual Report on Form 10-K for the fiscal year ended October 1, 2005, for filing with the SEC.

Respectively submitted by
THE AUDIT COMMITTEE

Lawrence Tomlinson, Chair
Charles W. Cantoni,
Garry Rogerson

Dated: February 16, 2006

COMPANY STOCK PRICE PERFORMANCE

The following graph shows a five-year comparison of cumulative total stockholder return, calculated on a dividend reinvestment basis and based on a $100 investment, from September 30, 2000 through October 1, 2005 comparing the return on our common stock with the Standard & Poors 500 Stock Index and the Standard & Poors Small Cap 600 Stock Index. No dividends have been declared or paid on our common stock during such period. The stock price performance shown on the following graph is not necessarily indicative of future price performance.

COMPARISON OF FIVE-YEAR CUMULATIVE TOTAL RETURN AMONG COHERENT, INC., THE S&P 500 INDEX AND THE S&P SMALL CAP 600 INDEX

Fiscal Year End	Coherent, Inc.	S&P 500 Index	S&P Small Cap 600 Index
9/30/00	100.00	100.00	100.00
9/29/01	41.76	73.38	89.39
9/28/02	27.82	59.22	87.77
9/27/03	35.79	72.65	110.53
10/02/04	38.34	83.92	141.55
10/1/05	43.06	92.79	168.16

The information contained above under the captions Report of the Compensation Committee of the Board of Directors, Report of the Audit Committee of the Board of Directors and Company Stock Price Performance shall not be deemed to be soliciting material or to be filed with the SEC, nor will such information be incorporated by reference into any future SEC filing except to the extent that we specifically incorporate it by reference into such filing.

OTHER MATTERS

We know of no other matters to be submitted to the meeting. If any other matters properly come before the meeting, it is the intention of the persons named in the enclosed form Proxy to vote the shares they represent as the Board of Directors may recommend.

BY ORDER OF THE BOARD OF DIRECTORS

John R. Ambroseo
President and Chief Executive Officer

Dated: February 28, 2006

APPENDIX A

CHARTER FOR THE AUDIT COMMITTEE OF THE BOARD OF DIRECTORS OF COHERENT, INC. (As Amended)

PURPOSE:

The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its oversight responsibilities by reviewing: financial reports and certain other financial information provided by the Corporation to any government body or the public; the Corporation s system of internal controls regarding finance, accounting, legal compliance and ethics that management and the Board have approved; and the Corporation s auditing, accounting and financial reporting processes generally. Consistent with this function, the Audit Committee should encourage continuous improvement of, and should foster adherence to, the Corporation s policies, procedures and practices at all levels. Specifically, the purpose of the Audit Committee of the Board of Directors of Coherent, Inc. (the Company) shall be to:

Appoint and oversee the independent auditors employed by the Company (including resolution of disagreements between management and the auditors regarding financial reporting) for the purpose of preparing or issuing audited financial statements and related work; such independent public accounting firm shall report directly to the Audit Committee;

Oversee the accounting and financial reporting processes of the Company;

Assist 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 internal auditor s performance and (v) the Company s internal accounting and financial controls;

Prepare the report that the rules of the Securities and Exchange Commission (the SEC) require be included in the Company s annual proxy statement;

Provide the Company s Board with the results of its monitoring and recommendations derived therefrom; and

Provide to the Board such additional information and materials as it may deem necessary to make the Board aware of significant financial matters that require the attention of the Board.

In addition, the Audit Committee will undertake those specific duties and responsibilities listed below and such other duties as the Board of Directors may from time to time prescribe.

MEMBERSHIP:

The Audit Committee members will be appointed by, and will serve at the discretion of, the Board of Directors. The Audit Committee will consist of at least three members of the Board of Directors. The members of the Committee shall be elected by the Board until their successors shall be duly elected and qualified. Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership. The Chair shall be responsible for leadership of the committee, including preparing the agenda, presiding over meetings, making committee assignments and reporting to the Board of Directors. The Chairperson will also maintain regular liaison with the CEO, CFO, lead independent audit partner and director of internal audit.

Members of the Audit Committee must meet the following criteria (as well as any criteria required by the SEC):

Each member will be an independent director, as defined in (i) NASDAQ Rule 4200 and (ii) the rules of the SEC;

Each member will be able to read and understand fundamental financial statements, in accordance with the NASDAQ National Market Audit Committee requirements. Committee members may enhance their familiarity with finance and accounting by participating in educational programs conducted by the Corporation and or outside consultants; and

At least one member will have accounting or related financial management competency in order to be an audit committee financial expert as defined by NASDAQ. The board of Directors shall have the discretion to determine members conformity to these qualifications.

RESPONSIBILITIES:

The responsibilities of the Audit Committee shall include:

Reviewing on a continuing basis the adequacy of the Company s system of internal controls, including meeting periodically with the Company s management and the independent auditors to review the adequacy of such controls and to review before release the disclosure regarding such system of internal controls required under SEC rules to be contained in the Company s periodic filings and the attestations or reports by the independent auditors relating to such disclosure;

Appointing, compensating and overseeing the work of the independent auditors (including resolving disagreements between management and the independent auditors regarding financial reporting) for the purpose of preparing or issuing an audit report or related work;

Pre-approving audit and non-audit services provided to the Company by the independent auditors (or subsequently approving non-audit services in those circumstances where a subsequent approval is necessary and permissible); in this regard, the Audit Committee shall have the sole authority to approve: the hiring and firing of the independent auditors, all audit engagement fees and terms and all non-audit engagements, as may be permissible, with the independent auditors; reviewing and providing guidance with respect to the external audit and the Company s relationship with its independent auditors by (i) reviewing the independent auditors proposed audit scope, approach and independence; (ii) obtaining on a periodic basis a statement from the independent auditors regarding relationships and services with the Company which may impact independence and presenting this statement to the Board of Directors, and to the extent there are relationships, monitoring and investigating them; (iii) reviewing the independent auditors PCAOB review; (iv) discussing with the Company s independent auditors the financial statements and audit findings, including any significant adjustments, management judgments and accounting estimates, significant new accounting policies and disagreements with management and any other matters described in SAS No. 61, as may be modified or supplemented; and (v) reviewing reports submitted to the audit committee by the independent auditors in accordance with the applicable SEC requirements;

Reviewing and discussing with management and the independent auditors the annual audited financial statements and quarterly un-audited financial statements, including the Company s disclosures under Management s Discussion and Analysis of Financial Condition and Results of Operations, prior to filing the Company s Annual Report on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, respectively, with the SEC;

Directing the Company s independent auditors to review before filing with the SEC the Company s interim financial statements included in Quarterly Reports on Form 10-Q, using professional standards and procedures for conducting such reviews;

Conducting a post-audit review of the financial statements and audit findings, including any significant suggestions for improvements provided to management by the independent auditors;

Reviewing before release the un-audited quarterly operating results in the Company s quarterly earnings release and reviewing financial guidance to be provided to the public;

Overseeing compliance with the requirements of the SEC for disclosure of auditor s services and audit committee members, member qualifications and activities.

Reviewing the Company s internal audit function quarterly and reviewing the annual internal audit plan;

Reviewing, approving and monitoring the Company s code of ethics for its senior financial officers;

Reviewing management s monitoring of compliance with the Company s standards of business conduct and with the Foreign Corrupt Practices Act;

Reviewing, in conjunction with counsel, any legal matters that could have a significant impact on the Company s financial statements;

Reviewing the Company s qualified benefit plans;

Reviewing the calculation of the Company s Variable Compensation Plan for its executive officers;

If necessary, instituting special investigations with full access to all books, records, facilities and personnel of the Company;

As appropriate, obtaining advice and assistance from outside legal, accounting or other advisors; reviewing and approving in advance any proposed related party transactions;

Review this Charter periodically, as appropriate, and make recommendations to the Board for any proposed changes;

Periodically review and evaluate, as appropriate, the performance of the Governance and Nominating Committee.

Providing a report in the Company s proxy statement in accordance with the rules and regulations of the SEC; and

Establishing procedures for receiving, retaining and treating complaints received by the Company regarding accounting, internal accounting controls or auditing matters and procedures for the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters.

MEETINGS:

The Audit Committee will meet at least four times each year. The Audit Committee may establish its own schedule, which it will provide to the Board of Directors in advance.

The Audit Committee will meet separately with the Chief Executive Officer and separately with the Chief Financial Officer of the Company at such times as are appropriate to review the financial affairs of the Company. The Audit Committee will meet separately with the independent auditors of the Company, at such times as it deems appropriate, but not less than quarterly, to fulfill the responsibilities of the Audit Committee under this charter.

MINUTES:

The Audit Committee will maintain written minutes of its meetings, which minutes will be filed with the minutes of the meetings of the Board of Directors.

REPORTS:

In addition to preparing the report in the Company s proxy statement in accordance with the rules and regulations of the SEC, the Audit Committee will summarize its examinations and recommendations to the Board of Directors as may be appropriate, consistent with the Committee s charter.

COMPENSATION:

Members of the Audit Committee shall receive such fees, if any, for their service as Audit Committee members as may be determined by the Board of Directors in its sole discretion. Fees may be paid in such form of consideration as is determined by the Board of Directors.

Members of the Audit Committee may not receive any compensation from the Company except the fees that they receive for service as a member of the Board of Directors or any committee thereof.

DELEGATION OF AUTHORITY:

The Audit Committee may delegate to one or more designated members of the Audit Committee the authority to pre-approve audit and permissible non-audit services, provided such pre-approval decision is presented to the full Audit Committee at its scheduled meetings.

FUNDING OF THE COMMITTEE S FUNCTIONS:

The Company shall provide funding for the Committee in its capacity as a Committee of the Board in such amounts as determined by the Committee for payment of compensation to any advisors engaged by the Committee in connection with discharging its responsibilities hereunder or as otherwise delegated by the Board.

APPENDIX B

COHERENT, INC.
1998 DIRECTOR STOCK PLAN
Amended and Restated Effective as of the Date of
Obtaining Stockholder Approval on March 30, 2006

1. Purposes of the Plan. The purposes of this 1998 Director Stock Plan are to attract and retain the best available personnel for service as Outside Directors (as defined herein) of the Company, to provide additional incentive to the Outside Directors of the Company to serve as Directors and to encourage their continued service on the Board.

All options granted hereunder shall be nonstatutory stock options. The Plan also permits the grant of Restricted Stock.

2. Definitions. As used herein, the following definitions shall apply:

(a) Award means, individually or collectively, a grant under the Plan of Options or Restricted Stock.

(b) Award Agreement means the written or electronic agreement setting forth the terms and provisions applicable to each Award granted under the Plan. The Award Agreement is subject to the terms and conditions of the Plan.

(c) Awarded Stock means the Common Stock subject to an Award.

(d) Board means the Board of Directors of the Company.

(e) Code means the Internal Revenue Code of 1986, as amended.

(f) Common Stock means the common stock of the Company.

(g) Company means Coherent, Inc.

(h) Director means a member of the Board.

(i) Disability means total and permanent disability as defined in Section 22(e)(3) of the Code.

(j) Employee means any person, including officers and Directors, employed by the Company or any Parent or Subsidiary of the Company. The payment of a Director s fee by the Company shall not be sufficient in and of itself to constitute employment by the Company.

(k) Exchange Act means the Securities Exchange Act of 1934, as amended.

(l) Fair Market Value means, as of any date, the value of Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or a national market system, including without limitation the Nasdaq National Market or The Nasdaq SmallCap Market of The Nasdaq Stock Market, its Fair Market Value shall be the closing sales price for such stock (or the closing bid, if no sales were reported) as quoted on such exchange or system on the day of determination (or if that is not a trading day, as quoted on the most recent trading day) as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;

(ii) If the Common Stock is regularly quoted by a recognized securities dealer but selling prices are not reported, the Fair Market Value of a Share of Common Stock shall be the mean between the high bid and low asked prices for the Common Stock on the day of determination (or if that is not a trading day, as quoted on the most recent trading day), as reported in *The Wall Street Journal* or such other source as the Board deems reliable; or

(iii) In the absence of an established market for the Common Stock, the Fair Market Value thereof shall be determined in good faith by the Board.

(m) Option means a stock option granted pursuant to the Plan.

(n) Outside Director means a Director who is not an Employee.

(o) Parent means a parent corporation, whether now or hereafter existing, as defined in Section 424(e) of the Code.

(p) Participant means the holder of an outstanding Award granted under the Plan.

(q) Plan means this 1998 Director Stock Plan.

(r) Restricted Stock means Shares granted pursuant to Section 7 of the Plan.

(s) Retirement means a termination of status as a Director of an individual who has completed at least eight (8) years of service as a Director.

(t) Share means a share of the Common Stock, as adjusted in accordance with Section 11 of the Plan.

(u) Subsidiary means a subsidiary corporation, whether now or hereafter existing, as defined in Section 424(f) of the Internal Revenue Code of 1986.

3. Stock Subject to the Plan. Subject to the provisions of Section 11 of the Plan, the maximum aggregate number of Shares that may be awarded and sold under the Plan is 150,000 Shares (the Pool) (the Shares may be authorized, but unissued, or reacquired Common Stock), plus an annual increase to be added on each anniversary date of the adoption of the Plan equal to (i) the number of Shares needed to restore the maximum aggregate number of Shares that may be optioned and sold under the Plan to 150,000 or (ii) a lesser amount determined by the Board of Directors.

If an Award expires or becomes unexercisable without having been exercised in full, or, with respect to Restricted Stock, is forfeited to or repurchased by the Company, the unpurchased Shares (or for Restricted Stock, the forfeited or repurchased shares) which were subject thereto shall become available for future grant or sale under the Plan (unless the Plan has terminated). Shares that have actually been issued under the Plan shall not be returned to the Plan and shall not become available for future distribution under the Plan; provided, however, that if Shares of Restricted Stock are repurchased by the Company at their original purchase price or are forfeited to the Company by virtue of not vesting, such Shares shall become available for future grant under the Plan.

4. Administration of the Plan.

(a) Automatic Grants. All grants of Awards to Outside Directors under this Plan shall be automatic and nondiscretionary and shall be made strictly in accordance with the following provisions:

(i) No person shall have any discretion to select which Outside Directors shall be granted Awards or to determine the number of Shares to be covered by Awards.

(ii) Notwithstanding the provisions of Section 7 hereof, any grant of Restricted Stock granted before the Company has obtained stockholder approval of the Plan shall be conditioned upon obtaining such stockholder approval of the Plan.

(b) In the event that any Award granted under the Plan would cause the number of Shares subject to outstanding Awards plus the number of Shares previously purchased under Awards to exceed the Pool, then the remaining Shares available for Award grant shall be granted under Awards to the Outside Directors on a pro rata basis. No further grants shall be made until such time, if any, as additional Shares become available for grant under the Plan through action of the Board or the stockholders to increase the number of Shares that may be issued under the Plan or through cancellation or expiration of Awards previously granted hereunder.

(c) Suspension or Termination of Award. If the Chief Executive Officer or his designee reasonably believes that a Participant has committed an act of misconduct, the Chief Executive Officer may suspend the Participant s right to exercise or vest in any Award pending a determination by the Board of Directors (excluding the Outside Director accused of such misconduct). If the Board of Directors (excluding the Outside Director

accused of such misconduct) determines a Participant has committed an act of embezzlement, fraud, dishonesty, nonpayment of an obligation owed to the Company, breach of fiduciary duty or deliberate disregard of the Company rules resulting in loss, damage or injury to the Company, or if a Participant makes an unauthorized disclosure of any Company trade secret or confidential information, engages in any conduct constituting unfair competition, induces any Company customer to breach a contract with the Company or induces any principal for whom the Company acts as agent to terminate such agency relationship, neither the Participant nor his estate shall be entitled to exercise or vest in any Award whatsoever. In making such determination, the Board of Directors (excluding the Outside Director accused of such misconduct) shall act fairly and shall give the Participant an opportunity to appear and present evidence on Participant s behalf at a hearing before the Board or a committee of the Board.

5. Automatic Option Grants.

(a) Each Outside Director shall be automatically granted an Option to purchase 24,000 Shares (the First Option) on the date on which such person first becomes an Outside Director, whether through election by the stockholders of the Company or appointment by the Board to fill a vacancy.

(b) Each Outside Director shall be automatically granted an Option to purchase 6,000 Shares (a Subsequent Option) immediately following each annual meeting of stockholders at which such Outside Director is re-elected (beginning with the 2006 annual meeting of stockholders) provided he or she is then an Outside Director and if as of such date, he or she shall have served on the Board for at least the preceding three (3) months.

(c) The terms of an Option granted hereunder shall be as follows:

(i) The term of the Option shall be ten (10) years.

(ii) The Option shall be exercisable only while the Outside Director remains a Director of the Company, except as set forth in Sections 6 and 12 hereof.

(iii) The exercise price per Share shall be 100% of the Fair Market Value per Share on the date of grant.

(iv) Subject to Sections 6(e) and 12 hereof, the First Option shall become exercisable cumulatively to the extent of one-third of the Shares subject to such Option on the day prior to each of the next three annual stockholders meetings of the Company, provided that the Participant continues to serve as a Director on such dates.

(v) Subject to Sections 6(e) and 12 hereof, each Subsequent Option shall become exercisable cumulatively to the extent of one-half of the Shares subject to such Option on the day prior to each of the next two annual stockholders meetings of the Company, provided that the Participant continues to serve as a Director on such dates.

(vi) The exercise price for an Option may not be reduced without the consent of the Company s stockholders. This shall include, without limitation, a repricing of the Option as well as an Option exchange program whereby the Participant agrees to cancel an existing Option in exchange for an Option or other Award.

6. Option Exercise.

(a) Procedure for Exercise; Rights as a Stockholder. Any Option granted hereunder shall be exercisable at such times as are set forth in Section 5 and 12 hereof.

An Option may not be exercised for a fraction of a Share.

An Option shall be deemed to be exercised when written notice of such exercise has been given to the Company in accordance with the terms of the Option by the person entitled to exercise the Option and full payment for the Shares with respect to which the Option is exercised has been received by the Company. Full payment may consist of any consideration and method of payment allowable under Section 6(f) of the Plan. Until the issuance (as evidenced by the appropriate entry on the books of the Company or of a duly authorized transfer

agent of the Company) of the stock certificate evidencing such Shares, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the Optioned Stock, notwithstanding the exercise of the Option. A share certificate for the number of Shares so acquired shall be issued to the Participant or the appropriate number of Shares shall be credited electronically to the Participant s brokerage account as soon as practicable after exercise of the Option. No adjustment shall be made for a dividend or other right for which the record date is prior to the date the stock certificate is issued, except as provided in Section 11 of the Plan.

Exercise of an Option in any manner shall result in a decrease in the number of Shares which thereafter may be available, both for purposes of the Plan and for sale under the Option, by the number of Shares as to which the Option is exercised.

(b) Termination of Continuous Status as a Director. Subject to Section 11 hereof, in the event a Participant s status as a Director terminates (other than upon the Participant s death, Disability or Retirement), the Participant may exercise his or her Option, but only within 210 days following the date of such termination, and only to the extent that the Participant was entitled to exercise it on the date of such termination (but in no event later than the expiration of its ten (10) year term). To the extent that the Participant was not entitled to exercise an Option on the date of such termination, and to the extent that the Participant does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option shall terminate.

(c) Disability of Participant. In the event Participant s status as a Director terminates as a result of Disability, the Participant may exercise his or her Option, but only within twelve (12) months following the date of such termination, and only to the extent that the Participant would have been entitled to exercise the Option had the Participant not been disabled and remained an Outside Director for six (6) months after such termination (but in no event later than the expiration of its ten (10) year term). To the extent that the Participant would not have been entitled to exercise an Option had the Participant not been disabled and remained an Outside Director for six (6) months after such termination, or if he or she does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option shall terminate.

(d) Death of Participant. In the event of a Participant s death, the Participant s estate or a person who acquired the right to exercise the Option by bequest or inheritance may exercise the Option, but only within twelve (12) months following the date of death, and only to the extent that the Participant would have been entitled to exercise the Option had the Participant continued living and remained an Outside Director for six (6) months after the date of death (but in no event later than the expiration of its ten (10) year term). To the extent that the Participant would not have been entitled to exercise an Option had the Participant continued living and remained an Outside Director for six (6) months after the date of death, and to the extent that the Participant s estate or a person who acquired the right to exercise such Option does not exercise such Option (to the extent otherwise so entitled) within the time specified herein, the Option shall terminate.

(e) Retirement of Participant. With respect to any Options with an exercise price equal to or greater than the Fair Market Value of the underlying Shares on the date of obtaining stockholder approval of the amended and restated Plan in 2003, and with respect to any Options granted hereunder thereafter, in the event of a Participant s Retirement, the Participant shall fully vest in and have the right to exercise his or her Option as to all of the Awarded Stock, including Shares as to which it would not otherwise be vested or exercisable. Thereafter, the Option shall remain exercisable for the lesser of (i) two (2) years following the date of the Participant s Retirement or (ii) the expiration of the Option s original term.

(f) Form of Consideration. The consideration to be paid for the Shares to be issued upon exercise of an Option, including the method of payment, shall consist of (i) cash, (ii) check, (iii) other shares which (x) in the case of Shares acquired upon exercise of an option, have been owned by the Participant for more than six (6) months on the date of surrender, and (y) have a Fair Market Value on the date of surrender equal to the aggregate exercise price of the Shares as to which said Award shall be exercised, (iv) consideration received by the Company under a cashless exercise program (if any) implemented by the Company in connection with the Plan, or (v) any combination of the foregoing methods of payment.

7. Restricted Stock Automatic Grants.

(a) Each Outside Director shall be automatically granted an Award of 2,000 shares of Restricted Stock (the First Restricted Stock Grant) on the date on which such person first becomes an Outside Director, whether through election by the stockholders of the Company or appointment by the Board to fill a vacancy.

(b) Each Outside Director shall be automatically granted an Award of 2,000 shares of Restricted Stock (the Annual Restricted Stock Grant) immediately following each annual meeting of stockholders at which such Outside Director is re-elected (beginning with the 2006 annual meeting of stockholders) provided he or she is then an Outside Director and if as of such date, he or she shall have served on the Board for at least the preceding three (3) months.

(c) The terms of the Restricted Stock granted hereunder shall be as follows:

(i) The First Restricted Stock Grant shall vest as to 100% of the covered Shares on the day prior to the date of the Company s annual stockholder meeting held in the third calendar year following the year in which the First Restricted Stock Grant was made, provided that the Participant continues to serve as a Director on such date.

(ii) The Annual Restricted Stock Grant shall vest as to 100% of the covered Shares on the day prior to the date of the Company s annual stockholder meeting held in the third calendar year following the year in which the Annual Restricted Stock Grant was made, provided that the Participant continues to serve as a Director on such date.

(iii) The First Restricted Stock Grant and the Annual Restricted Stock Grant shall be granted in the form of units/rights to acquire Shares. Each such unit/right shall be the equivalent of one Share of Common Stock for purposes of determining the number of Shares subject to an Award. Until the Shares are issued upon the vesting date, no right to vote or receive dividends or any other rights as a stockholder shall exist with respect to the units/rights to acquire Shares.

8. Eligibility. Awards may be granted only to Outside Directors.

The Plan shall not confer upon any Participant any right with respect to continuation of service as a Director or nomination to serve as a Director, nor shall it interfere in any way with any rights which the Director or the Company may have to terminate the Director s relationship with the Company at any time.

9. Term of Plan. The Plan shall become effective upon the earlier to occur of its adoption by the Board. It shall continue in effect for a term of ten (10) years from the date of receiving stockholder approval in 2006 unless sooner terminated under Section 13 of the Plan.

10. Limited Transferability of Awards. Except for the transfer of Awards to estate planning entities permitted under Form S-8 and subject to such conditions as the Board may impose, the Award may not be sold, pledged, assigned, hypothecated, transferred, or disposed of in any manner other than by will or by the laws of descent or distribution and may be exercised, during the lifetime of the Participant, only by the Participant. In no event may an Award hereunder be transferred in exchange for consideration.

11. Adjustments Upon Changes in Capitalization, Dissolution, Merger or Asset Sale.

(a) Changes in Capitalization. Subject to any required action by the stockholders of the Company, the number of Shares covered by each outstanding Award, the number of Shares which have been authorized for issuance under the Plan but as to which no Awards have yet been granted or which have been returned to the Plan upon cancellation or expiration of an Award, as well as the price per Share covered by each outstanding Option, and the number of Shares issuable pursuant to the automatic grant provisions of Sections 5 and 7 herein shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock, or any other increase or decrease in the number of issued Shares effected without receipt of consideration by the Company; *provided*, *however*, that conversion of any convertible securities of the Company shall not be deemed to have been effected without receipt of consideration. Except as expressly provided herein, no issuance by the Company of

shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to an Award.

(b) Dissolution or Liquidation. In the event of the proposed dissolution or liquidation of the Company, to the extent that an Option has not been previously exercised or a Restricted Stock Award vested, it shall be canceled immediately prior to the consummation of such proposed action.

(c) Merger or Asset Sale. In the event of a proposed merger of the Company with or into another corporation where following such merger the stockholders of the Company prior to such merger own less than 50% of the voting securities of the surviving corporation (a change of control), or the sale of all or substantially all of the assets of the Company, each outstanding Award shall be assumed or an equivalent award shall be substituted by such successor corporation or a parent or subsidiary of such successor corporation. If an Award is assumed or substituted for, the Award or equivalent award shall continue to be exercisable as provided in the Plan herein for so long as the Participant serves as a Director or a director of the successor corporation. Following such assumption or substitution, if the Participant s status as a Director or director of the successor corporation, as applicable, is terminated other than upon a voluntary resignation by the Participant, the Award or award shall become fully vested, including as to Shares for which it would not otherwise be vested. Thereafter, any Option shall remain exercisable in accordance with Section 6 above. In the event that such successor corporation refuses to assume the Award or to substitute an equivalent award, the Board shall, in lieu of such assumption or substitution, provide for the Participant to have the right to exercise the Award as to all of the Awarded Stock, or in the case of Restricted Stock, it shall vest 100%. If an Option becomes fully vested in lieu of assumption or substitution in the event of a merger or sale of assets, the Board shall notify the Participant that any Option shall be fully exercisable for a period of twenty (20) days from the date of such notice, and the Option will terminate upon the expiration of such period.

For the purposes of this Section 11(c), an Award shall be considered assumed if, following the merger or sale of assets, the Award confers the right to purchase or receive, for each Share of Awarded Stock subject to the Award immediately prior to the merger or sale of assets, the consideration (whether stock, cash, or other securities or property) received in the merger or sale of assets by holders of Common Stock for each Share held on the effective date of the transaction (and if holders were offered a choice of consideration, the type of consideration chosen by the holders of a majority of the outstanding Shares). If such consideration received in the merger or sale of assets is not solely common stock of the successor corporation or its Parent, the Board may, with the consent of the successor corporation, provide for the consideration to be received upon the exercise of the Award, for each Share of Awarded Stock subject to the Award, to be solely common stock of the successor corporation or its Parent equal in fair market value to the per share consideration received by holders of Common Stock in the merger or sale of assets.

12. Amendment and Termination of the Plan. The Board may at any time amend, alter, suspend, or discontinue the Plan, but no amendment, alteration, suspension, or discontinuation shall be made that would impair the rights of any Participant under any grant theretofore made, without his or her consent. In addition, to the extent necessary and desirable to comply with any applicable law, regulation or stock exchange rule, the Company shall obtain stockholder approval of any Plan amendment in such a manner and to such a degree as required.

13. Time of Granting Awards. The date of grant of an Award shall, for all purposes, be the date determined in accordance with Sections 5 and 7 herein.

14. Conditions Upon Issuance of Shares. Shares shall not be issued pursuant to the exercise of an Award unless the exercise of such Award and the issuance and delivery of such Shares pursuant thereto shall comply with all relevant provisions of law, including, without limitation, the Securities Act of 1933, as amended, the Exchange Act, the rules and regulations promulgated thereunder, state securities laws, and the requirements of any stock exchange upon which the Shares may then be listed, and shall be further subject to the approval of counsel for the Company with respect to such compliance.

As a condition to the exercise of an Award, the Company may require the person exercising such Award to represent and warrant at the time of any such exercise that the Shares are being purchased only for investment and without any present intention to sell or distribute such Shares, if, in the opinion of counsel for the Company, such a representation is required by any of the aforementioned relevant provisions of law.

Inability of the Company to obtain authority from any regulatory body having jurisdiction, which authority is deemed by the Company s counsel to be necessary to the lawful issuance and sale of any Shares hereunder, shall relieve the Company of any liability in respect of the failure to issue or sell such Shares as to which such requisite authority shall not have been obtained.

15. Reservation of Shares. The Company, during the term of this Plan, will at all times reserve and keep available such number of Shares as shall be sufficient to satisfy the requirements of the Plan.

16. Award Agreement. Awards shall be evidenced by written option agreements in such form as the Board or its duly authorized committee shall approve.

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C/O EQUISERVE
P.O. BOX 9398
BOSTON, MA 02205-9398

VOTE BY INTERNET - www.proxyvote.com
Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you access the web site and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF FUTURE SHAREHOLDER COMMUNICATIONS
If you would like to reduce the costs incurred by COHERENT, INC., in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.

VOTE BY PHONE - 1-800-690-6903
Use any touch-tone telephone to transmit your voting instructions up until 11:59 P.M. Eastern Time the day before the cut-off date or meeting date. Have your proxy card in hand when you call and then follow the instructions.

VOTE BY MAIL
Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to COHERENT, INC., c/o ADP, 51 Mercedes Way, Edgewood, NY 11717.

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: CHERE1 KEEP THIS PORTION FOR YOUR RECORDS
DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

COHERENT INC.

Vote On Directors

	For All	Withhold All	For All Except	
1. To elect eight directors to serve for the ensuing year and until their successors are duly elected; **Nominees:** (01) Bernard J. Couillaud; (02) John R. Ambroseo; (03) Charles W. Cantoni; (04) John H. Hart; (05) Lawrence Tomlinson; (06) Robert J. Quillinan; (07) Garry W. Rogerson; and (08) Sandeep Vij (Proposal One);	o	o	o	To withhold authority to vote, mark "For All Except" and write the nominee's number on the line below.

Vote On Proposals	**FOR**	**AGAINST**	**ABSTAIN**
2. To approve the amendment and restatement of the Company's 1998 Director Stock Plan (Proposal Two);	o	o	o
3. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending September 30, 2006 (Proposal Three); and	o	o	o

4. To transact such other business as may properly be brought before the meeting and any adjournment(s) thereof.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Proxy Card.

Stockholders of record at the close of business on February 15, 2006 are entitled to notice of and to vote at the meeting.

(This Proxy should be marked, dated, signed by the stockholder(s) exactly as his or her name appears hereon, and returned promptly in the enclosed envelope. Persons signing in a fiduciary capacity should so indicate. If shares are held by joint tenants or as community property, both should sign.)

	YES	**NO**
HOUSEHOLDING ELECTION - Please indicate if you consent to receive certain future investor communications in a single package per household	o	o

Signature [PLEASE SIGN WITHIN BOX] Date Signature (Joint Owners) Date

PROXY
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS OF

COHERENT, INC.

ANNUAL MEETING OF STOCKHOLDERS
March 30, 2006

The undersigned stockholder of COHERENT, INC., a Delaware corporation, hereby acknowledges receipt of the Notice of Annual Meeting of Stockholders and Proxy Statement, each dated February 28, 2006, and hereby appoints John R. Ambroseo and Helene Simonet, and each of them, proxies and attorneys-in-fact, with full power to each of substitution, on behalf and in the name of the undersigned, to represent the undersigned at the Annual Meeting of Stockholders of COHERENT, INC. to be held on March 30, 2006 at 5:30 p.m., local time, at our principal offices located at 5100 Patrick Henry Drive, Santa Clara, California 95054 and at any adjournment(s) thereof and to vote all shares of common stock which the undersigned would be entitled to vote if then and there personally present, on all the matters set forth on the reverse side.

THIS PROXY WILL BE VOTED AS DIRECTED OR, IF NO CONTRARY DIRECTION IS INDICATED, WILL BE VOTED (1) TO ENSURE AS MANY OF THE NOMINEES FOR THE ELECTION OF DIRECTORS SET FORTH IN PROPOSAL ONE ARE ELECTED AS DIRECTORS, (2) FOR THE AMENDMENT AND RESTATEMENT OF THE 1998 DIRECTOR STOCK PLAN AS SET FORTH IN PROPOSAL TWO, AND (3) FOR THE RATIFICATION OF THE APPOINTMENT OF OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM AS SET FORTH IN PROPOSAL THREE, AND AS SAID PROXIES DEEM ADVISABLE ON SUCH OTHER MATTERS AS MAY COME BEFORE THE MEETING AND ANY ADJOURNMENT(S) THEREOF.

SEE REVERSE SIDE **CONTINUED AND TO BE SIGNED ON REVERSE SIDE** **SEE REVERSE SIDE**