

NEWPORT CORP
Form 10-Q
November 06, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 27, 2014

OR

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

For the transition period from _____ to _____

Commission File Number: 000-01649

NEWPORT CORPORATION

(Exact name of registrant as specified in its charter)

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Nevada
*(State or other jurisdiction of
incorporation or organization)*

94-0849175
(IRS Employer Identification No.)

1791 Deere Avenue, Irvine, California 92606

(Address of principal executive offices) (Zip Code)

(949) 863-3144

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes " No ý

As of October 31, 2014, 39,847,342 shares of the registrant s sole class of common stock were outstanding.



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FORM 10-Q

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Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****NEWPORT CORPORATION****Consolidated Statements of Income and Comprehensive Income****(In thousands, except per share data)****(Unaudited)**

| | Three Months Ended | | Nine Months Ended | |
|-----------------------------------------------------------------------|-------------------------------|-------------------------------|-------------------------------|-------------------------------|
| | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| Net sales | \$ 146,299 | \$ 139,037 | \$ 446,421 | \$ 405,878 |
| Cost of sales | 80,334 | 79,306 | 245,109 | 233,778 |
| Gross profit | 65,965 | 59,731 | 201,312 | 172,100 |
| Selling, general and administrative expenses | 39,122 | 35,649 | 120,413 | 111,324 |
| Research and development expense | 14,082 | 13,129 | 42,538 | 39,807 |
| Loss (gain) on sale of assets | - | 4,517 | (411) | 4,517 |
| Operating income | 12,761 | 6,436 | 38,772 | 16,452 |
| Loss on extinguishment of debt | - | (3,355) | - | (3,355) |
| Interest and other expense, net | (958) | (1,293) | (2,592) | (5,472) |
| Income before income taxes | 11,803 | 1,788 | 36,180 | 7,625 |
| Income tax provision | 2,330 | 1,199 | 9,769 | 1,697 |
| Net income | 9,473 | 589 | 26,411 | 5,928 |
| Net income attributable to non-controlling interests | 3 | 152 | 103 | 83 |
| Net income attributable to Newport Corporation | \$ 9,470 | \$ 437 | \$ 26,308 | \$ 5,845 |
| Net income | \$ 9,473 | \$ 589 | \$ 26,411 | \$ 5,928 |
| Other comprehensive income: | | | | |
| Foreign currency translation gains (losses) | (7,203) | 2,995 | (7,567) | 1,320 |
| Unrecognized net pension gains (losses), net of tax | 204 | (67) | 306 | 161 |
| Unrealized gains (losses) on marketable securities, net of tax | (155) | 22 | (177) | (126) |
| Comprehensive income | \$ 2,319 | \$ 3,539 | \$ 18,973 | \$ 7,283 |
| Comprehensive income (loss) attributable to non-controlling interests | \$ (5) | \$ 154 | \$ 110 | \$ 8 |
| Comprehensive income attributable to Newport Corporation | 2,324 | 3,385 | 18,863 | 7,275 |
| Comprehensive income | \$ 2,319 | \$ 3,539 | \$ 18,973 | \$ 7,283 |

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Net income per share attributable to Newport Corporation:

| | | | | | | | | |
|---------|----|------|----|------|----|------|----|------|
| Basic | \$ | 0.24 | \$ | 0.01 | \$ | 0.66 | \$ | 0.15 |
| Diluted | \$ | 0.23 | \$ | 0.01 | \$ | 0.65 | \$ | 0.15 |

Shares used in per share calculations:

| | | | | |
|---------|--------|--------|--------|--------|
| Basic | 39,921 | 39,121 | 39,776 | 38,935 |
| Diluted | 40,612 | 39,657 | 40,546 | 39,426 |

See accompanying notes.

Table of Contents**NEWPORT CORPORATION****Consolidated Balance Sheets****(In thousands, except share and per share data)****(Unaudited)**

| | September 27, 2014 | December 28, 2013 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 68,980 | \$ 53,710 |
| Restricted cash | 1,622 | 2,305 |
| Marketable securities | 300 | 8,219 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,602 and \$1,441 as of September 27, 2014 and December 28, 2013, respectively | 98,722 | 96,388 |
| Inventories | 112,653 | 103,383 |
| Deferred income taxes | 22,381 | 22,437 |
| Prepaid expenses and other current assets | 16,228 | 14,769 |
| Total current assets | 320,886 | 301,211 |
| Property and equipment, net | 82,836 | 80,516 |
| Goodwill | 78,303 | 78,801 |
| Deferred income taxes | 4,236 | 4,474 |
| Intangible assets, net | 60,077 | 67,342 |
| Investments and other assets | 29,664 | 32,885 |
| | \$ 576,002 | \$ 565,229 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Short-term borrowings | \$ 2,180 | \$ 4,861 |
| Accounts payable | 33,957 | 31,714 |
| Accrued payroll and related expenses | 33,371 | 31,015 |
| Accrued expenses and other current liabilities | 34,038 | 35,341 |
| Total current liabilities | 103,546 | 102,931 |
| Long-term debt | 71,148 | 83,646 |
| Pension liabilities | 26,509 | 27,093 |
| Deferred income taxes and other liabilities | 20,366 | 23,182 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock, par value \$0.1167 per share, 200,000,000 shares authorized; 39,819,550 and 39,394,196 shares issued and outstanding as of September 27, 2014 and December 28, 2013, respectively | 4,650 | 4,598 |
| Capital in excess of par value | 467,891 | 459,562 |
| Accumulated other comprehensive loss | (11,064) | (3,619) |
| Accumulated deficit | (107,265) | (133,573) |
| Total stockholders' equity of Newport Corporation | 354,212 | 326,968 |
| Non-controlling interests | 221 | 1,409 |
| Total stockholders' equity | 354,433 | 328,377 |

\$ 576,002 \$ 565,229

See accompanying notes.

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NEWPORT CORPORATION

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

| | Nine Months Ended | |
|-----------------------------------------------------------------------------------|-----------------------|-----------------------|
| | September 27, 2014 | September 28, 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 26,411 | \$ 5,928 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 22,271 | 23,079 |
| Loss (gain) on sale of assets | (411) | 4,517 |
| Provision for losses on inventories | 4,429 | 5,610 |
| Stock-based compensation expense | 8,588 | 6,590 |
| Provision for doubtful accounts | 585 | 198 |
| Loss on disposal of property and equipment | 370 | 516 |
| Loss on extinguishment of debt | - | 3,355 |
| Deferred income taxes | (929) | 16 |
| Excess tax benefits from stock-based compensation | (4,403) | - |
| Increase (decrease) in cash, net of divestiture, due to changes in: | | |
| Accounts receivable | (7,576) | (6,987) |
| Inventories | (20,183) | (3,897) |
| Prepaid expenses and other assets | 27 | (3,938) |
| Accounts payable | 3,763 | 329 |
| Accrued payroll and related expenses | 2,569 | (1,123) |
| Accrued expenses and other liabilities | 4,447 | 5,760 |
| Other long-term liabilities | (977) | 119 |
| Net cash provided by operating activities | 38,981 | 40,072 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchase of property and equipment | (17,993) | (10,972) |
| Restricted cash | 600 | (278) |
| Proceeds from divestiture of business | 5,030 | - |
| Purchase of marketable securities | (1,414) | (2,485) |
| Proceeds from the sale or maturity of marketable securities | 8,509 | 5,784 |
| Net cash used in investing activities | (5,268) | (7,951) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from long-term debt | 4,000 | 120,000 |
| Debt issuance costs | - | (1,484) |
| Repayment of long-term debt and obligations under capital leases | (20,200) | (191,936) |
| Proceeds from short-term borrowings | 5,766 | 4,510 |
| Repayment of short-term borrowings | (5,635) | (7,642) |
| Purchases of non-controlling interests | (1,863) | - |
| Proceeds from the issuance of common stock under employee plans | 4,156 | 4,482 |
| Tax withholding payments related to net share settlement of equity awards | (2,940) | (1,994) |
| Purchases of the Company's common stock | (4,480) | - |
| Excess tax benefits from stock-based compensation | 4,403 | - |
| Net cash used in financing activities | (16,793) | (74,064) |

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| | | | | |
|----------------------------------------------------------|----|---------|----|----------|
| Impact of foreign exchange rate changes on cash balances | | (1,650) | | 504 |
| Net increase in cash and cash equivalents | | 15,270 | | (41,439) |
| Cash and cash equivalents at beginning of period | | 53,710 | | 88,767 |
| Cash and cash equivalents at end of period | \$ | 68,980 | \$ | 47,328 |
| Supplemental disclosures of cash flow information: | | | | |
| Cash paid during the period for interest | \$ | 1,490 | \$ | 4,171 |
| Cash paid during the period for income taxes, net | \$ | 4,065 | \$ | 2,637 |
| Property and equipment accrued in accounts payable | \$ | 123 | \$ | 173 |

See accompanying notes.

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Notes to Consolidated Financial Statements

September 27, 2014

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements include the accounts of Newport Corporation and its subsidiaries (collectively referred to as the Company) and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions of Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal and recurring accruals) considered necessary for a fair presentation have been included. All intercompany transactions and balances have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements do not include certain footnotes and financial presentations normally required under generally accepted accounting principles (GAAP) and, therefore, should be read in conjunction with the consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K for the year ended December 28, 2013. The results for the interim periods are not necessarily indicative of the results the Company will have for the full year ending January 3, 2015. The December 28, 2013 balances reported herein are derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 28, 2013.

Non-Controlling Interests

During the first quarter of 2014, the Company purchased all shares owned by the holders of the non-controlling interests in its Optical Metrology Ltd. subsidiary for \$0.9 million.

During the second quarter of 2014, the Company purchased all shares owned by the holder of the non-controlling interest in its Ophir Japan Ltd. subsidiary for \$0.9 million.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, *Presentation of Financial Statements and Property, Plant and Equipment: Reporting Discontinued Operations and Disclosures of Disposal of Components of an Entity*, which updates the guidance in Topics 205 and 360. ASU No. 2014-08 requires that the disposal of a component of an entity or a group of components of an entity be reported in discontinued operations if the disposal represents a strategic shift that has or will have a major effect on the entity's operations and financial results. ASU No. 2014-08 also requires additional disclosures regarding discontinued operations. ASU

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No. 2014-08 is required to be applied prospectively for fiscal years and interim periods beginning after December 15, 2014. The adoption of ASU No. 2014-08 is not expected to have a material impact on the Company's financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which created Topic 606. ASU No. 2014-09 establishes a core principle that a company should recognize revenue to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In order to achieve that core principle, companies are required to apply the following steps: (1) identify the contract with the customer; (2) identify performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the company satisfies a performance obligation. ASU No. 2014-09 will become effective for interim and annual periods beginning after December 15, 2016 and can be applied either (i) retrospectively to each prior reporting period, or (ii) retrospectively with the cumulative effect of initial application recognized on the date of adoption. Early adoption is not permitted. The Company is currently evaluating the expected impact of ASU No. 2014-09 on its financial position and results of operations.

In August 2014, the FASB issued ASU No. 2014-15, *Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern*, which provides guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and to provide related footnote disclosures. ASU No. 2014-15 will become effective for annual periods beginning after December 15, 2016 and early adoption is permitted. The adoption of ASU No. 2014-15 will not have an impact on the Company's financial position or results of operations.

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Notes to Consolidated Financial Statements

September 27, 2014

NOTE 3 ACQUISITION AND DIVESTITURE

During the third quarter of 2013, the Company developed a plan to sell its advanced packaging systems business and, based on negotiations for the sale of this business that occurred during the second half of 2013, the Company considered the assets and liabilities of this business as held for sale as of December 28, 2013. The Company completed the sale of this business in January 2014 for \$5.7 million, consisting of an initial purchase price of \$6.0 million, less an adjustment of \$0.3 million based on the net assets of the business at closing. The initial purchase price consisted of \$5.35 million in cash and an unsecured note receivable of \$0.65 million, and the net asset adjustment was repaid to the purchaser in cash. The Company incurred \$0.4 million in transaction costs. The net book value of this business was \$9.5 million as of December 28, 2013; however, because these assets were held for sale at such time, the Company wrote them down to their net realizable value as of December 28, 2013 based on the terms that had been negotiated with the purchaser and expected transaction costs, resulting in a loss of \$4.7 million during 2013. During the first quarter of 2014, the Company recognized a gain of \$0.4 million to reduce the loss on the sale to \$4.3 million, based on the final terms of the transaction and the net assets of the business on the closing date. The net sales, operating income and cash flows of this business were not significant to the operations of the Company.

In July 2014, the Company entered into an agreement to acquire all of the capital stock of V-Gen Ltd. (V-Gen), and the transaction subsequently closed in the Company's fourth quarter, on September 29, 2014. The final purchase price of \$36.6 million was paid in cash and consisted of an initial purchase price of \$34.0 million, plus an adjustment of \$2.6 million based on a calculation of V-Gen's net working capital and cash balances at the closing date. The Company incurred \$0.3 million in transaction costs, which have been expensed as incurred and are included in *selling, general and administrative expenses* in the accompanying statements of operations and comprehensive income. V-Gen enhances the Company's fiber laser products and technology and is included in the Company's Lasers Group as of September 29, 2014. The Company has not disclosed the fair value of assets and liabilities acquired or supplemental pro forma financial information for this acquisition, as the initial accounting for this transaction has not been completed.

NOTE 4 MARKETABLE SECURITIES

All marketable securities of the Company were classified as available for sale and were recorded at market value using the specific identification method, and unrealized gains and losses are reflected in *accumulated other comprehensive loss* in the accompanying consolidated balance sheets. The aggregate fair value of available for sale securities and the aggregate amount of unrealized gains and losses in available for sale securities at September 27, 2014 were as follows:

| (In thousands) | Aggregate Fair Value | Aggregate Amount of Unrealized | |
|-------------------------|-------------------------|-----------------------------------|--------|
| | | Gains | Losses |
| Money market funds | \$ 7 | \$ - | \$ - |
| Certificates of deposit | 293 | - | - |

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\$ 300 \$ - \$ -

The aggregate fair value of available for sale securities and the aggregate amount of unrealized gains and losses in available for sale securities at December 28, 2013 were as follows:

| (In thousands) | Aggregate Fair Value | | Aggregate Amount of Unrealized | | |
|-------------------------|---------------------------------|----|-------------------------------------------|----|---------------|
| | | | Gains | | Losses |
| Money market funds | \$ 8,052 | \$ | 85 | \$ | - |
| Certificates of deposit | 167 | | - | | - |
| | \$ 8,219 | \$ | 85 | \$ | - |

The Company's certificates of deposit mature within one year. Money market funds do not have a maturity date.

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Notes to Consolidated Financial Statements

September 27, 2014

The gross realized gains and losses were as follows:

| (In thousands) | Three Months Ended | | Nine Months Ended | |
|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | September 27, 2014 | September 28, 2013 | September 27, 2014 | September 28, 2013 |
| Gross realized gains | \$ 134 | \$ - | \$ 134 | \$ - |
| Gross realized losses | \$ - | \$ - | \$ - | \$ - |
| | \$ 134 | \$ - | \$ 134 | \$ - |

NOTE 5 FAIR VALUE MEASUREMENTS

Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements and Disclosures*, requires that for any assets and liabilities stated at fair value on a recurring basis in the Company's financial statements, the fair value of such assets and liabilities be measured based on the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Level 1 asset and liability values are derived from quoted prices in active markets for identical assets and liabilities and Level 2 asset and liability values are derived from quoted prices in inactive markets or based on other observable inputs.

The Company's assets and liabilities measured at fair value on a recurring basis are categorized in the table below based upon their level within the fair value hierarchy as of September 27, 2014.

| (In thousands) | September 27, 2014 | Fair Value Measurements at Reporting Date Using | | |
|----------------------------------------|--------------------|-------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------|
| | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Description | | | | |
| Assets: | | | | |
| Restricted Cash | \$ 1,622 | \$ 1,622 | \$ - | \$ - |
| Marketable securities: | | | | |
| Money market funds | 7 | 7 | - | - |
| Certificates of deposit | 293 | - | 293 | - |
| | 300 | 7 | 293 | - |
| Derivative assets: | | | | |
| Option contracts | 38 | - | 38 | - |
| Funds in investments and other assets: | | | | |
| Israeli pension funds | 11,430 | - | 11,430 | - |
| Group insurance contracts | 6,509 | - | 6,509 | - |

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| | | | | | | | | |
|-------------------------|----|--------|----|-------|----|--------|----|---|
| | | 17,939 | | - | | 17,939 | | - |
| | \$ | 19,899 | \$ | 1,629 | \$ | 18,270 | \$ | - |
| Liabilities: | | | | | | | | |
| Derivative liabilities: | | | | | | | | |
| Option contracts | | (14) | | - | | (14) | | - |
| Forward contracts | | (298) | | - | | (298) | | - |
| | \$ | (312) | \$ | - | \$ | (312) | \$ | - |

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The Company's assets and liabilities measured at fair value on a recurring basis are categorized in the table below based upon their level within the fair value hierarchy as of December 28, 2013.

| (In thousands) | Description | December 28, 2013 | Fair Value Measurements at Reporting Date Using | | |
|----------------------------------------|---------------------------|-------------------|-------------------------------------------------------------------------|-----------------------------------------------------|----------------------------------------------------|
| | | | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Assets: | | | | | |
| | Restricted Cash | \$ 2,305 | \$ 2,305 | \$ - | \$ - |
| Marketable securities: | | | | | |
| | Money market funds | 8,052 | 8,052 | - | - |
| | Certificates of deposit | 167 | - | 167 | - |
| | | 8,219 | 8,052 | 167 | - |
| Derivative assets: | | | | | |
| | Option contracts | 269 | - | 269 | - |
| Funds in investments and other assets: | | | | | |
| | Israeli pension funds | 11,489 | - | 11,489 | - |
| | Group insurance contracts | 6,895 | - | 6,895 | - |
| | | 18,384 | - | 18,384 | - |
| | | \$ 29,177 | \$ 10,357 | \$ 18,820 | \$ - |
| Liabilities: | | | | | |
| | Derivative liabilities: | | | | |
| | Option contracts | \$ 10 | \$ - | \$ 10 | \$ - |

The Company's other financial instruments include short-term borrowings and long-term debt. The fair value of these financial instruments was estimated based on current rates for similar issues or on the current rates offered to the Company for debt of similar remaining maturities. The estimated fair values of these financial instruments were as follows:

| (In thousands) | September 27, 2014 | | December 28, 2013 | |
|-----------------------|--------------------|------------|--------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Short-term borrowings | \$ 2,180 | \$ 2,176 | \$ 4,861 | \$ 4,851 |
| Long-term debt | \$ 71,148 | \$ 69,536 | \$ 83,646 | \$ 82,658 |

NOTE 6 SUPPLEMENTAL BALANCE SHEET INFORMATION*Inventories*

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Inventories that are expected to be sold within one year are classified as current inventories and are included in *inventories* in the accompanying consolidated balance sheets. Such inventories were as follows:

| (In thousands) | September 27, 2014 | December 28, 2013 |
|-----------------------------------|-------------------------------|------------------------------|
| Raw materials and purchased parts | \$ 66,635 | \$ 61,819 |
| Work in process | 19,176 | 19,577 |
| Finished goods | 26,842 | 21,987 |
| Short-term inventories | \$ 112,653 | \$ 103,383 |

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NEWPORT CORPORATION

Notes to Consolidated Financial Statements

September 27, 2014

Inventories that are not expected to be sold within one year are classified as long-term inventories and are included in *investments and other assets* in the accompanying consolidated balance sheets. Such inventories were as follows:

| (In thousands) | September 27, 2014 | December 28, 2013 |
|-----------------------------------|-----------------------|----------------------|
| Raw materials and purchased parts | \$ 2,057 | \$ 1,850 |
| Finished goods | 3,198 | 4,489 |
| Long-term inventories | \$ 5,255 | \$ 6,339 |

Accrued Warranty Obligations

Unless otherwise stated in the Company's product literature or in its agreements with customers, products sold by the Company's Photonics and Optics Groups generally carry a one-year warranty from the original invoice date on all product materials and workmanship, other than filters and gratings products, which generally carry a 90-day warranty, and laser beam profilers and dental CAD/CAM scanners, which generally carry a two-year warranty. Products sold by the Photonics and Optics Groups to original equipment manufacturer (OEM) customers carry warranties generally ranging from 15 to 19 months. Products sold by the Company's Lasers Group carry warranties that vary by product and product component, but generally range from 90 days to two years. In certain cases, such warranties for Lasers Group products are limited by either a set time period or a maximum amount of hourly usage of the product, whichever occurs first. Defective products will be either repaired or replaced, generally at the Company's option, upon meeting certain criteria. The Company accrues a provision for the estimated costs that may be incurred for warranties relating to a product (based on historical experience) as a component of cost of sales. Short-term accrued warranty obligations, which expire within one year, are included in *accrued expenses and other current liabilities* and long-term warranty obligations are included in *deferred income taxes and other liabilities* in the accompanying consolidated balance sheets.

The activity in accrued warranty obligations was as follows:

| (In thousands) | September 27, 2014 | September 28, 2013 |
|------------------------------------|-----------------------|-----------------------|
| Balance at beginning of year | \$ 3,285 | \$ 3,528 |
| Additions charged to cost of sales | 2,134 | 1,817 |
| Warranty claims | (2,487) | (2,112) |
| Balance at end of period | \$ 2,932 | \$ 3,233 |

Accrued Expenses and Other Current Liabilities

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Accrued expenses and other current liabilities were as follows:

| (In thousands) | September 27, 2014 | December 28, 2013 |
|-----------------------------------------|-------------------------------|------------------------------|
| Deferred revenue | \$ 13,059 | \$ 13,609 |
| Deferred lease liability | 5,165 | 5,448 |
| Accrued and deferred taxes | 4,144 | 3,130 |
| Short-term accrued warranty obligations | 2,760 | 3,093 |
| Other | 8,910 | |