

NEWPORT CORP  
Form 10-K  
March 07, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-K**

(Mark One)

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

**For the fiscal year ended January 1, 2011**

**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)

Edgar Filing: NEWPORT CORP - Form 10-K

Nevada  
(State or other jurisdiction of

94-0849175  
(IRS Employer

incorporation or organization)

Identification No.)

1791 Deere Avenue, Irvine, California 92606

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (949) 863-3144

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value \$0.1167 per share	The NASDAQ Stock Market LLC
Securities registered pursuant to Section 12(g) of the Act: None	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

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 Act). Yes  No

As of July 3, 2010, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$305.7 million, calculated based upon the closing price of the registrant's common stock as reported by the NASDAQ Global Select Market on such date.

As of February 28, 2011, 36,968,251 shares of the registrant's sole class of common stock were outstanding.

Edgar Filing: NEWPORT CORP - Form 10-K

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Proxy Statement for its 2011 Annual Meeting of Stockholders, which is expected to be held on May 17, 2011, are incorporated by reference into Part III of this Annual Report on Form 10-K.

**Table of Contents**

**TABLE OF CONTENTS**

	<u><b>PART I</b></u>	
ITEM 1.	<u>BUSINESS</u>	1
ITEM 1A.	<u>RISK FACTORS</u>	16
ITEM 1B.	<u>UNRESOLVED STAFF COMMENTS</u>	28
ITEM 2.	<u>PROPERTIES</u>	28
ITEM 3.	<u>LEGAL PROCEEDINGS</u>	29
ITEM 4.	<u>RESERVED</u>	29
	<u><b>PART II</b></u>	
ITEM 5.	<u>MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	29
ITEM 6.	<u>SELECTED FINANCIAL DATA</u>	32
ITEM 7.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	35
ITEM 7A.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	51
ITEM 8.	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	52
ITEM 9.	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	52
ITEM 9A.	<u>CONTROLS AND PROCEDURES</u>	52
ITEM 9B.	<u>OTHER INFORMATION</u>	54
	<u><b>PART III</b></u>	
ITEM 10.	<u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	54
ITEM 11.	<u>EXECUTIVE COMPENSATION</u>	54
ITEM 12.	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	54
ITEM 13.	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	54
ITEM 14.	<u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	54
	<u><b>PART IV</b></u>	
ITEM 15.	<u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u>	55
	<u>SIGNATURES</u>	58
	<u>INDEX TO FINANCIAL STATEMENTS AND SCHEDULE</u>	F-1

---

## **Table of Contents**

*This Annual Report on Form 10-K contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and we intend that such forward-looking statements be subject to the safe harbors created thereby. For this purpose, any statements contained in this Annual Report on Form 10-K except for historical information may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as anticipate, believe, can, continue, could, estimate, expect, intend, may, plan, potential, predict, should, will, would, or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. In addition, any statements that refer to projections of our future financial performance, trends in our businesses, or other characterizations of future events or circumstances are forward-looking statements.*

*The forward-looking statements included herein are based on current expectations of our management based on available information and involve a number of risks and uncertainties, all of which are difficult or impossible to predict accurately and many of which are beyond our control. As such, our actual results may differ significantly from those expressed in any forward-looking statements. Factors that may cause or contribute to such differences include, but are not limited to, those discussed in more detail in Item 1 (Business) and Item 1A (Risk Factors) of Part I and Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of Part II of this Annual Report on Form 10-K. Readers should carefully review these risks, as well as the additional risks described in other documents we file from time to time with the Securities and Exchange Commission. In light of the significant risks and uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by us or any other person that such results will be achieved, and readers are cautioned not to place undue reliance on such forward-looking information. We undertake no obligation to revise the forward-looking statements contained herein to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.*

## **PART I**

### **ITEM 1. BUSINESS**

#### **General Description of Business**

We are a global supplier of advanced technology products and systems to a wide range of industries, including scientific research, microelectronics, aerospace and defense/security, life and health sciences, and industrial manufacturing. We provide a broad portfolio of products to customers in these end markets, allowing us to offer them an end-to-end resource for photonics solutions.

The demands of scientific and commercial applications for higher precision and miniaturization have caused photonics, the science and technology of generating and harnessing light in productive ways, to become an increasingly important enabling technology, permitting researchers and commercial users to perform tasks that cannot be accomplished by existing electrical, mechanical or chemical processes. In addition, in markets such as microelectronics and life and health sciences, photonics technology is replacing these current processes in a number of applications that it can accomplish faster, better or more economically.

We provide a wide range of photonics technology and products designed to enhance the capabilities and productivity of our customers' precision applications, including:

lasers and laser technology, including solid-state, gas and dye lasers, tunable lasers and ultrafast laser systems;

optical components and subassemblies, including precision optics and opto-mechanical subassemblies, thin-film optical filters, and ruled and holographic diffraction gratings;

photonics instruments and components, including optical meters, light sources, high-speed detectors and modulators, monochromators and spectroscopy instrumentation;

high-precision positioning and vibration isolation products and systems; and

---

## **Table of Contents**

advanced automated manufacturing systems used in the manufacture of solar panels and communications and electronics devices. In addition to our individual product offerings, we have significant expertise in integrating our products into systems and subsystems that are engineered to meet our customers' specific application requirements. We believe that our ability to develop and manufacture integrated solutions, together with our broad portfolio of products and technologies, gives us a significant competitive advantage.

For over four decades, we have serviced the needs of research laboratories for precision equipment. We have acquired a number of companies, which has led to the expansion of our product offerings, technology base and geographic presence and has allowed us to evolve from a provider of discrete components and instruments primarily for research applications to a company that manufactures both components and integrated solutions for both research and commercial applications. Through our acquisitions and our own product development, we have built a family of industry-leading product brands including our Corion®, New Focus®, Newport®, Oriol Instruments, Richardson Gratings and Spectra-Physics® brands.

### *Acquisitions*

In February 2002, we acquired Micro Robotics Systems, Inc. (MRSI), a manufacturer of high-precision, fully-automated assembly and dispensing systems for back-end packaging applications in the semiconductor, microwave communications and fiber optic communications industries. MRSI became part of what is now our Photonics and Precision Technologies (PPT) Division, and contributed significant expertise to us in the design and manufacture of automated high-precision manufacturing systems. During the past four years, we have focused this expertise on developing automated laser-based manufacturing systems, particularly for solar panel manufacturing applications.

In July 2004, we acquired Spectra-Physics, Inc. and certain related photonics entities (collectively, Spectra-Physics). This acquisition significantly increased the scope of our expertise and product offerings in our target customer end markets, adding to our product portfolio solid-state, gas and dye lasers, high-power diode lasers, and ultrafast laser systems, as well as photonics instruments and components, including light sources, monochromators, spectroscopy instrumentation, optical filters, ruled and holographic diffraction gratings and crystals. This acquisition approximately doubled our size with respect to revenue, number of employees and facilities. At the time of the acquisition, we established Spectra-Physics' laser and laser-related technology business as our Lasers Division, and we combined Spectra-Physics' Corion filters, Hilger Crystals, Oriol Instruments and Richardson Gratings businesses with the existing businesses that comprised our former Industrial and Scientific Technologies Division to create our PPT Division.

In July 2009, we acquired the New Focus business of Oclaro, Inc. (Oclaro). The New Focus business expanded our product offerings to include a number of new high-performance products, including opto-electronics, high-resolution actuators, high-speed detectors and modulators, opto-mechanics, tunable lasers, and custom-engineered solutions designed for original equipment manufacturer (OEM) customers.

### *Divestitures*

In 2009, in evaluating the performance and needs of our Lasers Division, we concluded that our high-power diode laser manufacturing operations in Tucson, Arizona were not well aligned with the focus and business model of our Lasers Division. Therefore, in July 2009, we sold these diode laser operations to Oclaro in conjunction with our acquisition of the New Focus business from Oclaro. In connection with the sale, we secured a supply arrangement with Oclaro to ensure the continued availability of diode lasers needed in the manufacture of certain of our laser products at competitive price levels.

In 2010, we concluded that our Hilger Crystals Limited subsidiary, which manufactured infrared, x-ray and gamma ray synthetic crystals, primarily for security applications, was not a strategic fit with our overall business. As a consequence, we sold all of the outstanding capital stock of Hilger Crystals Limited in July 2010.

We will continue to pursue acquisitions of companies, technologies and complementary product lines that we believe will further our strategic objectives. Conversely, from time to time, we review our different businesses to

---

## **Table of Contents**

ensure that they are key to our strategic plans, and close or divest businesses that we determine are no longer of strategic importance. See Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview) beginning on page 35, and Note 2 of the Notes to Consolidated Financial Statements beginning on page F-14, of this Annual Report on Form 10-K for additional information.

### **Our Markets**

We sell our products, subsystems and systems to OEM and end-user customers in markets and for applications that are enabled or enhanced by the use of photonics technology, including primarily:

*Scientific Research.* We are one of the world's leading suppliers of lasers and other photonics products to scientific researchers. For fifty years, we have worked closely with the research community to pioneer new applications and technologies. Today, we continue to help researchers extend the frontiers of science in a variety of research areas, including spectroscopy, ultrafast phenomena, terahertz imaging, laser-induced fluorescence, chemical analysis, materials science, light detection and ranging (LIDAR) and nonlinear optics.

*Microelectronics.* Photonics technology addresses a number of vital applications in the microelectronics market. It is a key enabler of the semiconductor industry roadmap driving smaller chip feature sizes with the increased functionalities needed for next-generation consumer technology products, including cellular phones, personal digital assistants and digital cameras. It is also a key technology enabling the manufacture of solar panels with higher efficiency and at a lower cost per watt as that industry strives to make solar power more cost competitive. Our products are used in several key applications in the microelectronics market, including semiconductor lithography, wafer inspection and metrology, reticle inspection, memory yield enhancement, wafer dicing and scribing, wafer and component marking, resistor trimming, thin-film solar panel scribing and edge deletion, solar cell testing and characterization, solar cell efficiency enhancement and LED scribing, as well as in printed circuit board and flat panel display manufacturing applications.

*Life and Health Sciences.* Photonics is increasingly becoming an enabling technology in the life and health sciences market. We provide products for diagnostic and analytical instrumentation and bioimaging. Our products are used in applications such as optical coherence tomography, multiphoton and confocal microscopy, flow cytometry, matrix-assisted laser desorption/ionization time-of-flight mass spectrometry, laser microdissection, DNA microarrays and blood analysis to enable advancements in the fields of molecular biology, proteomics and drug discovery.

*Aerospace and Defense/Security.* The drive for more technologically advanced weapons and sensors is producing increased investment in photonics-based technologies that can remotely, rapidly and non-invasively detect threats, improve intelligence gathering, provide secure communications systems and improve the performance of weapons and countermeasures. In addition, innovative optical sensors are augmenting human vision on the battlefield, providing remote sensing, ranging and observation capabilities that offer high-resolution imaging and night vision. Our high-precision products are used by aerospace and defense engineers to develop, assemble, test and calibrate equipment and are incorporated into weapon or sensor systems for applications including target recognition and acquisition, LIDAR, range finding, missile guidance and advanced weapons development.

*Industrial Manufacturing.* Our lasers and other photonics products are used in a wide range of precision industrial manufacturing applications, including rapid prototyping, micromachining, heat-treating, welding and soldering, cutting, illumination, drilling and high-precision marking and engraving. We also offer laser solutions for image recording applications.



**Table of Contents**

**Our Operating Divisions**

We operate our business in two divisions, our PPT Division and our Lasers Division, which are organized to support our primary product categories.

***Photonics and Precision Technologies Division***

Our PPT Division's products and systems are sold to end users in all of our target end markets. We also sell products and subassemblies to OEM customers that integrate them into their systems, particularly for microelectronics and life and health sciences applications. The products sold by this division include photonics instruments and systems, precision positioning systems and subsystems, vibration isolation systems and subsystems, optics, optical hardware, and opto-mechanical subassemblies. The PPT Division also offers automated systems for advanced applications in the manufacturing of solar panels and communications and electronic devices, including microwave, optical, radio frequency (RF) and multi-chip modules.

Our PPT Division also designs, develops and manufactures systems and subsystems that integrate our broad portfolio of products and technologies into solutions that meet the specific application requirements of our OEM and select end-user customers. With our expertise in the design, development and manufacture of these integrated solutions, we help our customers accelerate the time to market and enhance the performance of their equipment or products. We have established a business team comprised of technical and operations specialists, which collaborates across our divisions to develop and provide these integrated solutions to our customers. We have used our capabilities in this area for customers in a number of industries and applications, most notably in microelectronics applications such as semiconductor manufacturing and solar cell manufacturing, and in life and health sciences applications such as flow cytometry, DNA sequencing and optical coherence tomography.

*Products*

The following table summarizes our PPT Division's primary product offerings by product category, and includes representative applications for each category:

<b>Category</b>	<b>Products</b>	<b>Representative Applications</b>
Photonics Instruments and Systems	Electro-optic modulators	Atom trapping and cooling, including Bose-Einstein Condensates
	Laser diode controllers	Characterization of cosmetic and pharmaceutical products
	Light sources	Characterization of light emitted by lasers, light emitting diodes and broadband light sources
	Monochromators and spectrographs	Chemical composition analysis
	Optical power/energy detectors	Colorimetry
	Optical power/energy meters	

## Edgar Filing: NEWPORT CORP - Form 10-K

Optical power and energy measurement for free space  
and fiber-directed laser light

Photonics test systems

Solar cell characterization and measurements

Solar simulators

Spectroscopy

Solar cell test instruments

Testing and characterization of optical fibers and  
passive fiber optical components

Spectrometers

Tunable external cavity diode lasers

Ultrafast laser pulse measurement systems

**Table of Contents**

<b>Category</b>	<b>Products</b>	<b>Representative Applications</b>
Precision Positioning Devices, Systems and Subsystems	Custom multi-axis positioning systems	High-precision positioning for manufacturing and in-process inspection, metrology and final test applications
	Fast steering mirrors	High-precision positioning for thin-film solar cell manufacturing
	Fiber alignment stages and accessories	High-precision positioning of semiconductor wafers for metrology and fabrication
	Manual linear and rotation stages	Laser beam stabilization and pointing
	Micromanipulators	Laser system alignment and beam steering for inspection, laser processing and communications
	Micrometers and adjustment screws	Precision alignment in fiber optic, telecommunication and laser device assembly
	Motion controllers and drivers	Sample or sensor manipulation for imaging and microscopy
	Motorized linear and rotation stages	Sample sorting and sequencing for DNA research
	Motorized actuators and optical mounts	Solar cell test and characterization
	Nano-positioning and nano-focusing stages	Tracking and targeting test systems for aerospace and defense/security applications
Piezo motor actuators and stages		
Precision air-bearing motion systems		
Vibration Isolation Systems and Subsystems	Active and passive isolation systems	Foundation platforms for laser systems

## Edgar Filing: NEWPORT CORP - Form 10-K

Active vibration damping systems

Isolated platforms for semiconductor lithography equipment

Elastomeric mounts

Reduction of impact of external vibration sources on high-precision research, manufacturing test and assembly systems

Honeycomb and granite structures

Scanning electron microscope, atomic force microscope, and optical microscope base isolation

Optical tables, support systems and accessories

Workstations

Workstation platforms for fiber optic device fabrication

Workstation platforms for microscopy and other advanced imaging applications

**Table of Contents**

<b>Category</b>	<b>Products</b>	<b>Representative Applications</b>
Optics and Optical Hardware	Beam routing and enclosing systems	Analytical instrumentation for life and health sciences applications
	Beamsplitters and polarization optics	Development and manufacturing of laser systems
	Collimators	Electro-optic sensors and imaging systems for defense/security applications
	Filters and attenuators	High-precision alignment of optical instruments
	Laser-to-fiber couplers	Optical measurement and communications systems
	Lenses	Research in physical and biological sciences
	Mirrors	Semiconductor lithography, wafer and reticle inspection and wafer processing
	Optical hardware including bases, brackets, posts and rod systems	Spectroscopy
	Optical mounts	Ultrafast laser, terahertz imaging and laser fusion research
	Prisms and windows	
	Ruled and holographic diffraction gratings	
	Thin-film filters and coatings	

## Edgar Filing: NEWPORT CORP - Form 10-K

Ultrafast laser optics		
Opto-Mechanical Subassemblies and Subsystems	Integrated electro-optic-mechanical subsystems	Analytical instrumentation for life and health sciences applications
	Laser beam attenuators	High-speed cell sorting for genomic research
	Laser beam delivery and imaging assemblies	Laser beam delivery systems for solar panel manufacturing
	Objective lens systems	Laser beam stabilization for industrial metrology
	Refractive beam shaper assemblies	Light detection and ranging
		Optical coherence tomography for non-invasive diagnostics
		Optical data storage
		Semiconductor mask patterning
		Semiconductor lithography, wafer and reticle inspection and wafer processing
		Thin-film measurement of semiconductor wafers

**Table of Contents**

<b>Category</b>	<b>Products</b>	<b>Representative Applications</b>
Advanced Manufacturing Systems	Automated electronic device packaging systems	Automated manufacturing and assembly of microelectronic and optoelectronic devices
	Automated die bonding and dispensing systems	Crystalline silicon solar cell module manufacturing
	Automated, laser-based crystalline silicon solar cell efficiency enhancement systems	High-speed, high-accuracy automated dispensing applications for microwave modules, optical modules, hybrid circuits, multi-chip modules and semiconductor packaging
	Automated, laser-based solar panel scribing and edge deletion systems	Thin-film solar panel manufacturing

**Lasers Division**

Our Lasers Division, which was formed in July 2004 in connection with our acquisition of Spectra-Physics, offers a broad portfolio of laser technology products and services to OEM and end-user customers across a wide range of markets and applications. Our lasers and laser-based systems include ultrafast lasers and amplifiers, diode-pumped solid-state lasers, high-energy pulsed lasers, tunable lasers and gas lasers. In addition to providing a wide range of standard and configured laser products and accessories to our end-user customers, we also work closely with our OEM customers to develop laser and laser system designs optimized for their product and technology roadmaps.

*Products*

The following table summarizes our primary laser and laser-based system product offerings by product category, and includes representative applications for each category:

<b>Category</b>	<b>Products</b>	<b>Representative Applications</b>
Ultrafast Lasers and Systems	Mai Tai femtosecond lasers	Femtosecond spectroscopy
	Tsunami ultrafast lasers	Micro-machining and other high-precision materials processing applications
	Spitfire Pro XP ultrafast amplifiers	Multiphoton microscopy
	Solstice one-box ultrafast amplifiers	Supercontinuum and high harmonic generation
		Terahertz imaging

## Edgar Filing: NEWPORT CORP - Form 10-K

Inspire femtosecond optical parametric oscillators  
(OPOs)

Time-resolved photoluminescence

TOPAS automated ultrafast optical parametric  
amplifiers (OPAs)

Two-photon polymerization

7



**Table of Contents**

<b>Category</b>	<b>Products</b>	<b>Representative Applications</b>	
Diode-Pumped Solid State Q-Switched Lasers	Tristar high repetition rate UV lasers	Diamond processing	
	Navigator lasers	Disk texturing	
	HIPPO mid-power lasers	Electronics and semiconductor packaging manufacturing	
	Pulse® high power lasers	Flat panel display manufacturing	
	Explore® compact lasers	Laser microdissection	
	Empower® high pulse energy lasers		LED wafer scribing
			Matrix-assisted laser desorption/ionization
			Memory yield enhancement systems
			Printed circuit board (PCB) manufacturing
			Pump source for ultrafast lasers
	Rapid prototyping		
	Resistor trimming		

## Edgar Filing: NEWPORT CORP - Form 10-K

		Semiconductor wafer and flat panel display marking
		Silicon micromachining
		Solar cell manufacturing
		Stereolithography
Diode-Pumped Solid State Continuous Wave (CW) and Quasi-CW Lasers	Millennia <sup>®</sup> Prime CW green lasers	Confocal microscopy
	MG series CW green lasers	DNA sequencing
	Excelsior low power CW lasers	Flow cytometry
	Vanguard quasi-CW lasers	Image recording
	3900S and Matisse <sup>®</sup> CW tunable lasers	Laser cooling
	Cyan compact low power CW lasers	Materials processing
		Optical trapping
		Raman imaging
		Semiconductor wafer inspection and metrology
		Solar cell manufacturing



**Table of Contents**

<b>Category</b>	<b>Products</b>	<b>Representative Applications</b>
High Energy Pulsed Nd:YAG and Tunable Lasers	Quanta-Ray® pulsed Nd:YAG lasers	Flat-panel display manufacturing
	Scan Series High Energy optical parametric oscillators (OPOs)	Laser ablation
	Cobra tunable dye lasers	Laser cleaning
	Credo high-repetition rate dye lasers	LIDAR
		Mass spectrometry
		Particle imaging velocimetry combustion diagnostics
		Plastic and ceramic component marking
Gas Lasers	Air-cooled argon ion lasers	Remote sensing
	Water-cooled ion laser systems	Spectroscopy
	Nitrogen lasers	Confocal microscopy
		DNA sequencing
		Flow cytometry
		Fluorescence immunoassay

Holography

Laser doppler anemometry

Laser doppler velocimetry

Lithography

Matrix-assisted laser desorption/ionization

Raman spectroscopy

Semiconductor wafer inspection

Spectroscopy

Financial information regarding our business segments and our operations by geographic area is included in Note 15 of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K beginning on page F-36. A discussion of our net sales by end market and geographic area is included in Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) beginning on page 42. We discuss certain risks associated with doing business internationally in Risk Factors. We face significant risks from doing business in foreign countries on page 20.

## **Table of Contents**

### **Sales and Marketing**

We market and sell our products and services through our domestic and international direct sales organizations, an international network of independent distributors and sales representatives, our product catalogs and our web site. Our domestic and international direct sales organizations are comprised of teams of field sales persons, key account managers and business development managers, who work closely with product and applications specialists and other internal sales support personnel based primarily at our domestic locations in California, Connecticut, Massachusetts and New York, and at our international locations in China, France, Germany, Japan and Taiwan. We sell our products and services to three major categories of customers: end-users of standard or option-configured products, OEM customers and capital equipment customers. These categories of customers require very different selling approaches and support requirements, and we have organized our sales teams to address these different requirements. To serve the needs of end users of standard or option-configured products, we have organized our field sales personnel, together with internal sales support personnel, into teams based on their specialized knowledge and expertise relating to specific product groups. These sales teams are closely aligned with their respective product management and operations organizations. Our OEM and capital equipment customers often have unique technical requirements and manufacturing processes, and may request specific system, subsystem or component designs. Sales of our subsystem and capital equipment products often involve complex program management and long sales cycles, and require close cooperation between sales, operations and engineering personnel as well as collaboration across all of our product lines and areas of knowledge and expertise. As such, we have developed teams of key account managers and business development managers to serve the unique requirements of these OEM and capital equipment customers.

We also actively market and sell our products in certain markets outside of North America through independent sales representatives and distributors. We have written agreements with substantially all of our representatives and distributors. In some cases we have granted representatives and distributors exclusive authorization to sell certain of our products in a specific geographic area. These agreements generally have terms of one year which automatically renew on an annual basis, and are generally terminable by either party for convenience following a specified notice period. Most distributor agreements are structured to provide distributors with sales discounts below the list price. Representatives are generally paid commissions for sales of products. No single independent representative or distributor accounted for more than 5% of our net sales in 2010.

We also market our standard products through our comprehensive web site and our product catalog, The Newport Resource<sup>®</sup>, particularly for the scientific research market. Our web site features an online catalog, providing customers with access to the latest information regarding our products, technical/tutorial and application related materials, sales information, a literature and information request form, and the ability to purchase a majority of our standard products. Our web site is widely used by our customers to review information about our technologies, products and services. Our product catalog provides detailed product information as well as extensive technical and applications data. We mail this catalog to approximately 40,000 existing and potential customers. The Newport Resource is published in English, French, German, Japanese and Mandarin. New product supplements for each catalog are also distributed between publications. We also publish and distribute a variety of sales literature and product brochures which focus on specific products and end markets.

We operate a Technology and Applications Center (TAC) at our Irvine, California headquarters. The TAC is staffed with experienced photonics researchers who develop innovative ways to utilize our lasers and other photonics products together in leading-edge research applications such as solar cell testing and characterization, multiphoton microscopy, ultrafast spectroscopy and laser micro-fabrication. The TAC produces application notes and kits for these applications, publishes technical papers in scientific and technical journals, and provides our research and development teams with ideas for new products and product enhancements. We also operate an Applications Laboratory at the Santa Clara, California facility of our Lasers Division, which provides support to our global sales and marketing team by conducting feasibility studies with prospective customers material processing applications using our lasers and photonics products. This laboratory is staffed with experienced laser material processing engineers, and demonstrates the performance of our products and integrated solutions in a wide range of advanced laser applications. We believe that the TAC and the Applications Laboratory reinforce our position as a technology leader in the photonics industry, and that they serve as important sales tools by performing actual experiments to demonstrate how our products will perform in our customers applications.

## **Table of Contents**

### **Research and Product Development**

We continually seek to improve our technological leadership position through internal research, product development and licensing, and acquisitions of complementary technologies. As of February 28, 2011, we had approximately 200 employees engaged in research and development. We continually work to enhance our existing products and to develop and introduce innovative new products to satisfy the needs of our customers. In addition, we regularly investigate new ways to combine components manufactured by our various operations to produce innovative technological solutions for the markets we serve. Total research and development expenses were \$39.3 million, or 8.2% of net sales, in 2010, \$36.9 million, or 10.1% of net sales, in 2009, and \$46.1 million, or 10.4% of net sales, in 2008. Research and development expenses attributable to our Lasers Division were \$15.4 million, or 8.5% of net sales by that division, in 2010, \$16.0 million, or 10.9% of net sales by that division, in 2009, and \$22.2 million, or 11.9% of net sales by that division, in 2008. Research and development expenses attributable to our PPT Division were \$23.9 million, or 8.0% of net sales by that division, in 2010, \$20.9 million, or 9.5% of net sales by that division, in 2009, and \$23.9 million, or 9.2% of net sales by that division, in 2008.

We are committed to product development and expect to continue our investment in this area in the future. We believe that the continual development or acquisition of innovative new products will be critical to our future success. Failure to develop, or introduce on a timely basis, new products or product enhancements that achieve market acceptance could have a material effect on our business, operating results or financial condition.

### **Customers**

We sell our products to thousands of customers worldwide, in a wide range of end markets, primarily scientific research, microelectronics (which is comprised primarily of semiconductor capital equipment customers), aerospace and defense/security, life and health sciences and industrial manufacturing. We believe that our customer diversification minimizes our dependence on any single industry or group of customers. In 2010, no single customer represented 10% or more of our consolidated net sales. In certain of our end markets, including the microelectronics market, a limited number of customers account for a significant portion of our sales to those markets. In 2010, sales by our PPT Division to one customer in the microelectronics market represented slightly more than 10% of that division's total net sales. We believe that our relationships with this customer and our other key customers are good. However, if our key customers discontinue or reduce their business with us, or suffer downturns in their businesses, it could have a significant negative impact on our financial results on a short-term basis. For example, from mid-year 2007 to mid-year 2009, several of our key customers in the semiconductor equipment industry suffered significant downturns in their businesses as a result of the cyclical downturn in that industry, which had a significant impact on our financial results in those years. If we lose business from key customers and we are unable to sufficiently expand our customer base to replace the lost business or to reduce our cost structure accordingly, our business and results of operations would be harmed.

**Table of Contents****Competition**

The markets we serve are intensely competitive and characterized by rapidly changing technology. A small number of competitors are dominant in certain of these markets. The products and systems developed and manufactured by both our PPT Division and our Lasers Division serve all of our targeted end markets. The following table summarizes our primary competitors for our principal product categories:

<b>Product Category</b>	<b>Primary Competitors</b>	
Automated Manufacturing Systems	Asymtek	Manz Automation AG
	Datacon Technology GmbH	Palomar Technologies
	Jenoptik Laser Optik Systeme GmbH	Rofin-Sinar Technologies, Inc.
Diffraction Gratings	Headwall Photonics, Inc.	Optometrics Corporation
	Horiba Jobin Yvon	Spectrogon
Lasers	Coherent, Inc.	Jenoptik Laser Optik Systeme GmbH
	CVI Melles Griot	Rofin-Sinar Technologies, Inc.
	GSI Group/Excel Technology, Inc.	Toptica Photonics AG
	IPG Photonics, Inc.	Trumpf Group
	JDS Uniphase Corporation	
	Andor Technology	Princeton Instruments
Light Sources and Spectroscopy Instrumentation	Acton Research Corporation	Sciencetech, Inc.
	Horiba Jobin Yvon	Spectral Products
	Ocean Optics, Inc.	Thorlabs, Inc.
	Photon Technology International	
Optics, Optical Hardware and Opto-Mechanical Subassemblies and Subsystems	CVI Melles Griot	Qioptiq (formerly LINOS)
	Corning Tropol Corporation	Sigma Koki Co., Ltd.
	Edmund Optics, Inc.	Thorlabs, Inc.
	Jenoptik Laser Optik Systeme GmbH	Zygo Corporation
Optical Filters	Oclaro, Inc.	JDS Uniphase Corporation
	Barr Associates, Inc.	Omega Optical, Inc.
	Chroma Technology Corp.	IDEX Corporation (Semrock)
Photonics Instruments	Ferroperm Optics A/S	
	Agilent Technologies, Inc.	Labsphere, Inc.



## Edgar Filing: NEWPORT CORP - Form 10-K

	Coherent, Inc.	Ophir Optronics Ltd.
	CVI Melles Griot	Picomatrix, LLC
	ILX Lightwave Corporation	Thorlabs, Inc.
Precision Positioning Devices, Systems and Subsystems	Aerotech Inc.	Rockwell Automation, Inc. (Anorad)
	Danaher Corporation (Dover)	Sigma Koki Co., Ltd.
	Micos GmbH	Thorlabs, Inc.
	Parker Hannifin Corporation	
	Physik Instrumente	
Vibration Isolation Systems and Subsystems	Herzan, LLC	Technical Manufacturing Corp.
	Kinetic Systems, Inc.	Thorlabs, Inc.

In certain of our product lines, particularly our precision motion systems and opto-mechanical subassembly product lines, we also face competition from certain of our existing and potential customers who have developed or may develop their own systems, subsystems and components.

## **Table of Contents**

We believe that the primary competitive factors in our markets are:

product features and performance;

quality and reliability of products;

pricing and availability;

customer service and support;

breadth of product portfolio;

customer relationships;

ability to manufacture and deliver products on a timely basis;

ability to customize products to customer requirements; and

ability to offer complete integrated solutions to OEM customers.

We believe that we currently compete favorably with respect to each of these factors. However, we may not be able to compete successfully in the future against existing or new competitors.

We compete in various markets against a number of companies, some of which have longer operating histories, greater name recognition and significantly greater technical, financial, manufacturing and marketing resources than we do. In addition, some of these companies have long established relationships with our customers and potential customers in our markets. In addition to current competitors, we believe that new competitors, some of whom may have substantially greater financial, technical and marketing resources than us, will seek to provide products to one or more of our markets in the future. Such future competition could harm our business.

### **Intellectual Property and Proprietary Rights**

Our success and competitiveness depends to an extent on our ability to protect our proprietary technology. We protect our technology by controlling access to our proprietary information and by maintaining confidentiality agreements with our employees, consultants, customers and suppliers, and, in some cases, through the use of patents, trademark registrations and licenses. We currently maintain approximately 240 patents in the U.S. and foreign jurisdictions, and we have approximately 75 additional patent applications pending. These patents and patent applications cover various aspects of products in many of our key product categories, particularly our laser products. We also have trademarks registered in the U.S. and foreign jurisdictions. We will continue to actively pursue applications for new patents and trademarks as we deem appropriate.

It is possible that, despite our efforts, other parties may use, obtain or try to copy our products and technology. Policing unauthorized use of our products and technology is difficult and time consuming. The steps we take to protect our rights may not prevent misappropriation of our products or technology. This is particularly the case in foreign jurisdictions, where the intellectual property laws may not afford our intellectual property rights the same protection as the laws of the United States. We have in the past and may in the future initiate claims or litigation against third parties for infringement of our proprietary rights, which claims could result in costly litigation and the diversion of our technical and management personnel.

## Edgar Filing: NEWPORT CORP - Form 10-K

In addition, infringement, invalidity, right to use or ownership claims by third parties have been asserted against us in the past and may be asserted against us in the future. We expect that the number and significance of these matters will increase as our business expands. In particular, the laser industry is characterized by a very large number of patents, many of which are of questionable validity and some of which appear to overlap with other issued patents. As a result, there is a significant amount of uncertainty in the industry regarding patent protection and infringement. Any claims of infringement brought by third parties could result in protracted and costly litigation, and we could become subject to damages for infringement, or to an injunction preventing us from selling one or more of our products or using one or more of our trademarks. Such claims could also result in the necessity of obtaining a license relating to one or more of our products or current or future technologies, which may not be available on commercially reasonable terms or at all. Any intellectual property litigation and the failure to obtain necessary

---

## **Table of Contents**

licenses or other rights or develop substitute technology could have a material adverse effect on our business, financial condition and results of operations.

### **Manufacturing**

We manufacture instruments, components, subassemblies and systems at domestic facilities located in Irvine, California; Stratford, Connecticut; Franklin, Massachusetts; North Billerica, Massachusetts; and Rochester, New York, and at international facilities in Beaune-la Rolande, France; Brigueuil, France; and Wuxi, China. We manufacture lasers and laser systems at our facilities in Santa Clara, California and Stahnsdorf, Germany. In addition, we subcontract all or a portion of the manufacture of various products and components, such as laser power supplies, optics, optical meters and certain low power lasers, to a number of domestic and foreign third-party subcontractors and contract manufacturers.

Our manufacturing processes are diverse and consist of: purchasing raw materials, principally stainless steel, aluminum and glass; processing the raw materials into components, subassemblies and finished products; purchasing components, assembling and testing components and subassemblies; and, for selected products, assembling the subassemblies and components into integrated subsystems and systems. We primarily design and manufacture our products internally, although on a limited basis, we purchase completed products from certain third-party suppliers and resell those products through our distribution channels. Most of these completed products are produced to our specifications and carry one of our product brands.

We currently procure various components and materials, such as the sheet steel used in some of our vibration isolation tables, and the laser diodes and laser crystals used in certain of our laser products, from single or limited sources, due to unique component designs or materials characteristics as well as certain quality and performance requirements needed to manufacture our products. In some of such cases, the number of available suppliers is limited by the existence of patents covering the components or materials. In addition, we manufacture certain components internally, and there are no readily available third-party suppliers of these components. If single-sourced components were to become unavailable in adequate amounts at acceptable quality levels or were to become unavailable on terms satisfactory to us, we would be required to purchase comparable components from other sources. While we believe that we would be able to obtain comparable replacement components from other sources in a timely manner, if we were unable to do so, our business, results of operations or financial condition could be adversely affected.

In addition, we obtain some of the critical capital equipment we use to manufacture certain of our products from sole or limited sources due to the unique nature of the equipment. In some cases, such equipment can only be serviced by the manufacturer or a very limited number of service providers due to the complex and specialized nature of the equipment. If service and/or spare parts for such equipment become unavailable, such equipment could be rendered inoperable, which could cause delays in the production of our products, and could require us to procure alternate equipment, if available, which would likely involve long lead times and significant additional cost.

### **Backlog**

Our consolidated backlog of orders totaled \$142.0 million at January 1, 2011 and \$113.5 million at January 2, 2010. As of January 1, 2011, \$129.6 million of our consolidated backlog was scheduled to be shipped on or before December 31, 2011. Orders for many of the products we sell to OEM customers, which comprise a significant portion of our sales, are often subject to rescheduling without penalty or cancellation without penalty other than reimbursement of certain material costs. In addition, because we manufacture a significant portion of our standard catalog products for inventory, we often make shipments of these products upon or within a short time period following receipt of an order. As a result, our backlog of orders at any particular date may not be an accurate indicator of our sales for succeeding periods.

### **Employees**

As of February 28, 2011, we had approximately 1,745 employees worldwide. We believe that our relationships with our employees are good.

---

## **Table of Contents**

### **Government Regulation**

#### ***Regulatory Compliance***

Our lasers and laser-based systems are subject to the laser radiation safety regulations of the Radiation Control for Health and Safety Act administered by the Center for Devices and Radiological Health of the United States Food and Drug Administration. Among other things, these regulations require a laser manufacturer to file new product and annual reports, to maintain quality control and sales records, to perform product testing, to distribute appropriate operating manuals, to incorporate certain design and operating features in lasers sold to end-users and to certify and label each laser sold to end-users as one of four classes (based on the level of radiation from the laser that is accessible to users). Various warning labels must be affixed and certain protective devices installed depending on the class of product. The Center for Devices and Radiological Health is empowered to seek fines and other remedies for violations of the regulatory requirements. We are also subject to comparable laser safety regulations with regard to laser products sold in Europe. We believe that we are currently in compliance with these regulations.

#### ***Environmental Regulation***

Our operations are subject to various federal, state and local regulations relating to the protection of the environment, including those governing discharges of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. In the United States, we are subject to the federal regulation and control of the Environmental Protection Agency (EPA). Comparable authorities exist in other countries. Some of our operations require environmental permits and controls to prevent and reduce air and water pollution, and these permits are subject to modification, renewal and revocation by issuing authorities. Future developments, administrative actions or liabilities relating to environmental matters could have a material adverse effect on our business, results of operations or financial condition.

Although we believe that our safety procedures for using, handling, storing and disposing of such materials comply with the standards required by state and federal laws and regulations, we cannot completely eliminate the risk of accidental contamination or injury from these materials. In such event, we could be subject to claims by employees or third parties, and could be liable for damages, which liability could exceed the amount of our liability insurance coverage (if any) and the resources of our business.

Our former facility located in Mountain View, California is an EPA-designated Superfund site and is subject to a cleanup and abatement order from the California Regional Water Quality Control Board. Spectra-Physics, along with several other entities with facilities located near the Mountain View, California facility, have been identified as Responsible Parties with respect to this Superfund site, due to releases of hazardous substances during the 1960s and 1970s. The site is mature, and investigations and remediation efforts have been ongoing for approximately 25 years. Spectra-Physics and the other Responsible Parties have entered into a cost-sharing agreement covering the costs of remediating the off-site groundwater impact. In addition to our remediation obligations, we may be liable for property damage or personal injury claims relating to this site. While we are not aware of any claims at this time, such claims could be made against us in the future. Thermo Fisher Scientific, Inc., formerly known as Thermo Electron Corporation (Thermo), has agreed, in connection with our purchase of Spectra-Physics, to indemnify us, subject to certain conditions, for costs of remediation that are incurred and third party claims that are made prior to July 16, 2014, which arise from the releases of hazardous substances at or from the Mountain View facility and are subject to remediation under the cost-sharing agreement. However, our ultimate costs of remediation and other potential liability are difficult to predict, and this indemnity may not cover all liabilities relating to this site. If significant costs or other liability relating to this site arise in the future and are either not covered by this indemnity or arise after this indemnity expires, our business, financial condition and results of operations could be adversely affected.

In addition, the European Union has enacted the Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Directive (RoHS) and the Waste Electrical and Electronic Equipment Directive (WEEE) for implementation in each European Union member country. RoHS regulates the use of certain hazardous substances in certain products, and WEEE requires the collection, reuse and recycling of waste from certain products. The European Union member states continue to define the scope of the implementation of RoHS and WEEE. While many of our products are not subject to RoHS and WEEE requirements, based on information we

---

## Table of Contents

have received to date, certain of our products sold in these countries are or will likely be subject to these requirements. We will continue to monitor RoHS and WEEE guidance as it is announced by individual jurisdictions to determine our responsibilities. The guidance available to us to date suggests that in some instances we are not directly responsible for compliance with RoHS and WEEE because some of our products may be outside the scope of the directives. However, because the scope of the directives continues to expand in the course of implementation by the European Union member states, we will likely be directly or contractually subject to such regulations in the case of many of our products. In addition, certain of our customers, particularly OEM customers whose end products may be subject to these directives, may require that the products we supply to them comply with these directives. Further, final legislation from individual jurisdictions that have not yet implemented the directives may impose different or additional responsibilities upon us. We are also aware of similar legislation that is currently in force or being considered in the United States, as well as other countries, such as Japan and China. Our failure to comply with any such regulatory requirements or contractual obligations could result in our being directly or indirectly liable for costs, fines or penalties and third-party claims, and could jeopardize our ability to conduct business in countries in these regions.

### **Availability of Reports**

We make available free of charge on our web site at [www.newport.com](http://www.newport.com) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to such reports, as soon as reasonably practicable after such reports are electronically filed with, or furnished to, the Securities and Exchange Commission (SEC). We will also provide electronic or paper copies of such reports free of charge, upon request made to our Corporate Secretary at 1791 Deere Avenue, Irvine, California 92606. All such reports are also available free of charge via EDGAR through the SEC website at [www.sec.gov](http://www.sec.gov). In addition, the public may read and copy materials filed by us with the SEC at the SEC's public reference room located at 100 F Street, NE, Washington, DC 20549. Information regarding operation of the SEC's public reference room can be obtained by calling the SEC at 1-800-SEC-0330.

### **ITEM 1A. RISK FACTORS**

*The following is a summary of certain risks we face in our business. They are not the only risks we face. Additional risks that we do not yet know of or that we currently believe are immaterial may also impair our business operations. If any of the events or circumstances described in the following risks actually occur, our business, financial condition or results of operations could suffer, and the trading price of our common stock could decline. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in our other filings with the Securities and Exchange Commission.*

**Our financial results are difficult to predict, and if we fail to meet our financial guidance or the expectations of investors, potential investors and/or securities analysts, the market price of our common stock will likely decline significantly.**

Our financial results in any given quarter have fluctuated and will likely continue to fluctuate. These fluctuations are typically unpredictable and can result from numerous factors including:

fluctuations in our customers' capital spending, industry cyclicality (particularly in the semiconductor equipment industry), market seasonality (particularly in the scientific research market), levels of government funding available to our customers and other economic conditions within the markets we serve;

demand for our products and the products sold by our customers;

the level of orders within a given quarter and preceding quarters;

the timing and level of cancellations and delays of orders in backlog for our products;

the timing of product shipments within a given quarter;

variations in the mix of products we sell;

changes in our pricing practices or in the pricing practices of our competitors or suppliers;

**Table of Contents**

our timing in introducing new products;

market acceptance of any new or enhanced versions of our products;

timing of new product introductions by our competitors;

timing and level of scrap and warranty expenses;

the availability, quality and cost of components and raw materials we use to manufacture our products;

our ability to manufacture a sufficient quantity of our products to meet customer demand;

changes in our effective tax rates;

changes in our capital structure, including cash and marketable securities balances, and changes in interest rates;

changes in bad debt expense based on the collectability of our accounts receivable;

timing, type, and size of acquisitions and divestitures;

fluctuations in foreign currency exchange rates; and

our expense levels.

We may in the future choose to change prices, increase spending, or add or eliminate products in response to actions by competitors or in an effort to pursue new market opportunities. These actions may also adversely affect our business and operating results and may cause our results in a given period to be lower than our results in previous periods.

In addition, we often recognize a substantial portion of our sales in the last month of the quarter. Thus, variations in timing of sales, particularly for our higher-priced, higher-margin products, can cause significant fluctuations in our quarterly sales, gross margin and profitability. Orders expected to ship in one period could shift to another period due to changes in the anticipated timing of customers' purchase decisions, rescheduled delivery dates requested by our customers, or manufacturing or logistics delays. Our operating results for a particular quarter or year may be adversely affected if our customers, particularly our largest customers, cancel or reschedule orders, or if we cannot fill orders in time due to unexpected delays in manufacturing, testing, shipping and product acceptance. Also, we base our manufacturing plans on our forecasted product mix for the quarter. If the actual product mix varies significantly from our forecast, we may not be able to fill some orders during that quarter, which would result in delays in the shipment of our products and could shift sales to a subsequent period. In addition, our expenses for any given quarter are typically based on expected sales, and if sales are below expectations in any given quarter, the adverse impact of the shortfall on our operating results may be magnified by our limited ability to adjust spending quickly to compensate for the shortfall.

Due to these and other factors, we believe that quarter-to-quarter comparisons of results from operations, or any other similar period-to-period comparisons, are not reliable indicators of our future performance. In any period, our results may be below the expectations of market analysts and investors, which would likely cause the trading price of our common stock to drop.



**We are dependent in part on the semiconductor capital equipment market, which is volatile and unpredictable.**

A significant portion of our current and expected future business comes from sales of components, subsystems and laser products to manufacturers of semiconductor fabrication, inspection and metrology equipment and sales of capital equipment to integrated semiconductor device manufacturers. The semiconductor capital equipment market has historically been characterized by sudden and severe cyclical variations in product supply and demand. The timing, severity and duration of these market cycles are difficult to predict, and we may not be able to respond effectively to these cycles. For example, this market experienced a severe down-cycle from mid-year 2007 to mid-

---

## **Table of Contents**

year 2009, which had a significant negative impact on our operating results. The continued cyclicality of this market limits our ability to predict our business prospects or financial results in this market.

During industry downturns, our revenues from this market may decline suddenly and significantly. Our ability to rapidly and effectively reduce our cost structure in response to such downturns is limited by the fixed nature of many of our expenses in the near term and by our need to continue our investment in next-generation product technology and to support and service our products. In addition, due to the relatively long manufacturing lead times for some of the systems and subsystems we sell to this market, we may incur expenditures or purchase raw materials or components for products we cannot sell. Accordingly, downturns in the semiconductor capital equipment market may materially harm our operating results. Conversely, when upturns in this market occur, we may have difficulty rapidly and effectively increasing our manufacturing capacity to meet sudden increases in customer demand. If we fail to do so we may lose business to our competitors and our relationships with our customers may be harmed.

### **Our operating results may be adversely affected by unfavorable economic and market conditions.**

Decreased consumer confidence, volatile corporate operating results, reduced capital spending, lower research budgets, and the effects of reduced availability of credit, have in the recent past led to reduced demand and increased price competition for our products, increased risk of excess and obsolete inventory and higher overhead costs as a percentage of revenue, and could do so in the future. Weakness in our end markets could negatively impact our revenue, gross margin and operating expenses, and consequently have a material adverse effect on our business, financial condition and results of operations.

Ongoing concerns regarding the availability of credit may make it more difficult for our customers to raise capital, whether debt or equity, to finance their projects and purchases of capital equipment. Delays in our customers' ability to obtain such financing, or the unavailability of such financing, could adversely affect sales of our products and systems, particularly high-value lasers and systems, and therefore harm our business and operating results.

Further, future disruption of global financial markets could adversely impact the market values or liquidity of our investments. Our investment portfolio includes U.S. government and agency debt securities, corporate debt securities and certificates of deposit. Although we believe our portfolio continues to be comprised of sound investments due to the credit quality and government guarantees of certain of the underlying investments, a further decline in the capital and financial markets would adversely impact the market values of our investments and their liquidity. Such a decline in market value that is other-than-temporary, or any sale of our investments under illiquid market conditions, could result in our recognition of an impairment charge on such investments or a loss on such sales, either of which could have an adverse effect on our financial condition and operating results.

### **A limited number of customers account for a significant portion of our sales to the microelectronics market, and if we lose any of these customers or they significantly curtail their purchases of our products, our results of operations would be harmed.**

Our sales to the microelectronics market (which is comprised primarily of semiconductor capital equipment customers) constituted 31.7%, 23.1% and 29.4% of our consolidated net sales for the years 2010, 2009 and 2008, respectively. We rely on a limited number of customers for a significant portion of our sales to this market. Our top five customers in this market comprised approximately 55.6%, 45.6% and 47.2% of our sales to this market for the years 2010, 2009 and 2008, respectively, with one customer making up a substantial portion of such percentage in each of such years. No single customer in this market comprised 10% or more of our consolidated net sales in 2010, 2009 or 2008. If any of our principal customers discontinues its relationship with us, replaces us as a vendor for certain products or suffers downturns in its business, our business and results of operations could be harmed significantly. In addition, because a relatively small number of companies dominate the semiconductor equipment portion of this market, and because those companies rarely change vendors in the middle of a product's life cycle, it may be particularly difficult for us to replace these customers if we lose their business.

The microelectronics market is characterized by rapid technological change, frequent product introductions, changing customer requirements and evolving industry standards. Because our customers face uncertainties with regard to the growth and requirements of these markets, their products and components may not achieve, or continue

## **Table of Contents**

to achieve, anticipated levels of market acceptance. If our customers are unable to deliver products that gain market acceptance, it is likely that these customers will not purchase our products or will purchase smaller quantities of our products. We often invest substantial resources in developing our products, systems and subsystems in advance of significant sales of these products, systems and/or subsystems to such customers. A failure on the part of our customers' products to gain market acceptance, or a failure of the microelectronics market to grow would have a significant negative effect on our business and results of operations.

### **Difficulties in finding suitable acquisition targets and in successfully completing and executing our acquisitions could adversely impact our business.**

We have and will continue to acquire businesses, and our ability to successfully identify suitable acquisition targets, complete acquisitions on acceptable terms, and efficiently and effectively integrate our acquired businesses into our organization is critical to our growth. We may not be able to identify target companies that meet our strategic objectives or successfully negotiate and complete acquisitions with companies we have identified on acceptable terms. Further, the process of integrating acquired companies into our operations requires significant resources and is time consuming, expensive and disruptive to our business. Further, we may not realize the benefits we anticipate from these acquisitions because of the following significant challenges:

potentially incompatible cultural differences between the two companies;

incorporating the acquired company's technology and products into our current and future product lines, and successfully generating market demand for these expanded product lines;

potential additional geographic dispersion of operations;

the diversion of our management's attention from other business concerns;

the difficulty in achieving anticipated synergies and efficiencies;

the difficulty in integrating disparate operational and information systems;

unanticipated liabilities associated with the acquired company;

the difficulty in leveraging the acquired company's and our combined technologies and capabilities across our product lines and customer base; and

our ability to retain key customers, suppliers and employees of an acquired company.

Our failure to successfully identify suitable target companies, negotiate and complete acquisitions, or achieve the anticipated benefits of any past or future acquisition or to successfully integrate and/or manage the operations of the companies we acquire could harm our business, results of operations and cash flows. Additionally, we may incur significant charges in future quarters to reflect additional costs associated with past acquisitions, including asset impairment charges and other costs related to divestiture of acquired assets or businesses. Such charges could also include impairment of goodwill associated with past acquisitions. For example, our market capitalization decreased significantly during the fourth quarter of 2008, which caused us to reevaluate the fair values of our divisions. This ultimately led us to determine that goodwill and certain intangible assets associated with our Lasers Division were impaired, and we recorded an impairment charge of \$119.9 million to write off the total goodwill balance and certain other intangible assets associated with that division. While we believe that our assumptions currently used in evaluating the goodwill associated with our business are reasonable, we may be required to recognize a goodwill impairment charge in

the future.

## Table of Contents

### **We face significant risks from doing business in foreign countries.**

Our business is subject to risks inherent in conducting business internationally. For the years ended January 1, 2011, January 2, 2010 and January 3, 2009, our international revenues accounted for approximately 51.3%, 53.7% and 53.1%, respectively, of total net sales, with a substantial portion of international sales originating in Europe and Japan. We expect that international revenues will continue to account for a significant percentage of total net sales for the foreseeable future, and that in particular, the proportion of our sales to Asian customers will continue to increase. Our international operations expose us to various risks, which include:

adverse changes or instability in the political or economic conditions in countries or regions where we manufacture or sell our products;

challenges of administering our business globally;

the actions of U.S. and foreign regulatory authorities, including embargoes, export restrictions, tariffs, trade restrictions and trade barriers, license requirements, regulatory requirements, currency controls and other rules and regulations applicable to the importing and exporting of our products, as well as laws prohibiting certain payments or other business practices in foreign countries, all of which are complicated and potentially conflicting and may impose strict and severe penalties for noncompliance;

longer accounts receivable collection periods;

overlapping, differing or more burdensome tax structures;

adverse currency exchange rate fluctuations;

differing protection of intellectual property;

more complex and burdensome labor laws and practices in countries where we have employees;

difficulties in staffing and managing each of our individual foreign operations; and

increased risk of exposure to terrorist activities.

In addition, fluctuations in foreign exchange rates could affect the sales price in local currencies of our products in foreign markets, potentially making our products less price competitive. Such exchange rate fluctuations could also increase the costs and expenses of our foreign operations when translated into U.S. dollars or require us to modify our current business practices. If we experience any of the risks associated with international business, our business and results of operations could be significantly harmed.

**Many of the markets and industries that we serve are subject to rapid technological change, and if we do not introduce new and innovative products or improve our existing products, our business and results of operations will be negatively affected.**

Many of our markets are characterized by rapid technological advances, evolving industry standards, shifting customer needs, new product introductions and enhancements, and the periodic introduction of disruptive technology that displaces current technology due to a combination of price, performance and reliability. As a result, many of the products in our markets can become outdated quickly and without warning. We

## Edgar Filing: NEWPORT CORP - Form 10-K

depend, to a significant extent, upon our ability to enhance our existing products, to anticipate and address the demands of the marketplace for new and improved and disruptive technologies, either through internal development or by acquisitions, and to be price competitive. If we or our competitors introduce new or enhanced products, it may cause our customers to defer or cancel orders for our existing products. If we or our competitors introduce disruptive technology that displaces current technology, existing product platforms or lines of business from which we generate significant revenue may be rendered obsolete. In addition, because certain of our markets experience severe cyclicalities in capital spending, if we fail to introduce new products in a timely manner we may miss market upturns, or may fail to have our products or subsystems designed into our customers' products. We may not be successful in acquiring, developing, manufacturing or marketing new products and technologies on a timely or cost-effective basis. If we fail to adequately introduce new, competitive products and technologies on a timely basis, our business and results of operations would be harmed.

---

**Table of Contents**

**We offer products for multiple industries and must face the challenges of supporting the distinct needs of each of the markets we serve.**

We offer products for a number of markets. Because we operate in multiple markets, we must work constantly to understand the needs, standards and technical requirements of many different applications within these industries, and must devote significant resources to developing different products for these industries. Product development is costly and time consuming. We must anticipate trends in our customers' industries and develop products before our customers' products are commercialized. If we do not accurately predict our customers' needs and future activities, we may invest substantial resources in developing products that do not achieve broad market acceptance. Our decision to continue to offer products to a given market or to penetrate new markets is based in part on our judgment of the size, growth rate and other factors that contribute to the attractiveness of a particular market. If our product offerings in any particular market are not competitive or our analyses of a market are incorrect, our business and results of operations would be harmed.

**Because the sales cycle for some of our products is long and difficult to predict, and certain of our orders are subject to rescheduling or cancellation, we may experience fluctuations in our operating results.**

Many of our capital equipment, system and subsystem products are complex, and customers for these products require substantial time to make purchase decisions. These customers often perform, or require us to perform, extensive configuration, testing and evaluation of our products before committing to purchasing them, which can require a significant upfront investment by us. The sales cycle for our capital equipment, system and subsystem products from initial contact through shipment varies significantly, is difficult to predict and can last more than one year. If we fail to anticipate the likelihood, costs, or timing associated with sales of capital equipment, system and subsystem products, our business and results of operations would be harmed.

The orders comprising our backlog are generally subject to rescheduling without penalty or cancellation without penalty other than reimbursement for certain material costs. We have from time to time experienced order rescheduling and cancellations that have caused our revenues in a given period to be materially less than would have been expected based on our backlog at the beginning of the period. If we experience such rescheduling and/or cancellations in the future, our operating results will fluctuate from period to period. These fluctuations could harm our results of operations.

**If we are delayed in introducing our new products into the marketplace, our operating results will suffer.**

Because many of our products are sophisticated and complex, we may experience delays in introducing new products or enhancements to our existing products. If we do not introduce our new products or enhancements into the marketplace in a timely fashion, our customers may choose to use competitors' products. In addition, because certain of our markets, such as the semiconductor equipment market, are highly cyclical in nature, if we fail to timely introduce new products in advance of an upturn in the market's cycle, we may be foreclosed from selling products to certain customers until the next cycle. As such, our inability to introduce new or enhanced products in a timely manner could cause our business and results of operations to suffer.

**Uncertainty in the development of the solar energy market could reduce the revenue we expect to generate from product sales to this market.**

The solar energy market is evolving and the extent to which solar energy technology will be widely adopted is uncertain. Many factors may affect the viability of widespread adoption of solar energy technology and demand for solar panels, including the cost-effectiveness of solar energy and the performance and reliability of solar panels, compared with conventional and other non-solar renewable energy sources and products, and fluctuations in economic and market conditions that affect the price of, and demand for, conventional and non-solar renewable energy sources, such as increases or decreases in the price of coal, oil, natural gas and other fossil fuels. If solar panel technology is not widely adopted or if demand for solar panels fails to develop sufficiently, we may be unable to generate the revenue we currently anticipate from sales of our products for solar panel manufacturing applications.

---

**Table of Contents**

**We face substantial competition, and if we fail to compete effectively, our operating results will suffer.**

The markets for our products are intensely competitive, and we believe that competition from both new and existing competitors will increase in the future. We compete in several specialized markets, against a limited number of companies in each market. We also face competition in some of our markets from our existing and potential customers who have developed or may develop products that are competitive to ours, or who engage subcontract manufacturers or system integrators to manufacture products or systems on their behalf. Some of our existing and potential competitors are more established, enjoy greater name recognition and possess greater financial, technological and marketing resources than we do. Other competitors are small and highly specialized firms that are able to focus on only one aspect of a market. We compete on the basis of product performance, features, quality, reliability, the breadth of our product portfolio and price and on our ability to manufacture and deliver our products on a timely basis. We may not be able to compete successfully in the future against existing or new competitors. In addition, competitive pressures may force us to reduce our prices, which would negatively affect our operating results. If we do not respond adequately to competitive challenges, our business and results of operations would be harmed.

**Our international sales and operations may be adversely impacted by export controls.**

Exports of our products and technology are subject to export controls imposed by the U.S. Government and administered by the U.S. Departments of Commerce and State. In certain instances, these regulations may require obtaining licenses from the administering agency prior to exporting products or technology to international locations or foreign nationals. For products and technology subject to the Export Administration Regulations administered by the Department of Commerce's Bureau of Industry and Security, the requirement for a license is dependent on the type and end use of the product and technology, the final destination and the identity and nationality of the end user. Virtually all exports of defense articles subject to the International Traffic in Arms Regulations administered by the Department of State's Directorate of Defense Trade Controls require a license. Obtaining export licenses can be difficult and time-consuming, and we may not be successful in obtaining them. Failure to obtain export licenses to enable product and technology exports could reduce our revenue and could adversely affect our business, financial condition and results of operations. Compliance with U.S. Government regulations may also subject us to additional fees and costs. The absence of comparable export restrictions on competitors in other countries may adversely affect our competitive position. In addition, failure to comply with any of these export regulations could result in civil and criminal, monetary and non-monetary penalties, disruptions to our business, limitations on our ability to export products and technology and damage to our reputation.

**If we fail to protect our intellectual property and proprietary technology, we may lose our competitive advantage.**

Our success and ability to compete depend in large part upon protecting our proprietary technology. We rely on a combination of patent, trademark and trade secret protection and nondisclosure agreements to protect our proprietary rights. The steps we have taken may not be sufficient to prevent the misappropriation of our intellectual property, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. Patent and trademark laws and trade secret protection may not be adequate to deter third party infringement or misappropriation of our patents, trademarks and similar proprietary rights. In addition, patents issued to us may be challenged, invalidated or circumvented. Our rights granted under those patents may not provide competitive advantages to us, and the claims under our patent applications may not be allowed. We have in the past and may in the future be subject to or may initiate interference proceedings in the United States Patent and Trademark Office, which can demand significant financial and management resources. The process of seeking patent protection can be time consuming and expensive and patents may not be issued from currently pending or future applications. Moreover, our existing patents or any new patents that may be issued may not be sufficient in scope or strength to provide meaningful protection or any commercial advantage to us. We have in the past and may in the future initiate claims or litigation against third parties for infringement of our proprietary rights in order to determine the scope and validity of our proprietary rights or the proprietary rights of our competitors, which claims could result in costly litigation, the diversion of our technical and management personnel and the assertion of counterclaims by the defendants, including counterclaims asserting invalidity of our patents. We will take such actions where we believe that they are of sufficient strategic or economic importance to us to justify the cost. If we



---

**Table of Contents**

are unsuccessful at effectively protecting our intellectual property, our business, financial condition and results of operations could be harmed.

**We have experienced, and may in the future experience, intellectual property infringement claims, which could be costly and time consuming to defend.**

We have from time to time received communications from third parties alleging that we are infringing certain trademarks, patents or other intellectual property rights held by them. Whenever such claims arise, we evaluate their merits. Any claims of infringement brought by third parties could result in protracted and costly litigation, and we could become subject to damages for infringement, or to an injunction preventing us from selling one or more of our products or using one or more of our trademarks. Such claims could also result in the necessity of obtaining a license relating to one or more of our products or current or future technologies, which may not be available on commercially reasonable terms or at all. Any intellectual property litigation and the failure to obtain necessary licenses or other rights or develop substitute technology may divert management's attention from other matters and could have a material adverse effect on our business, financial condition and results of operations. In addition, the terms of our customer contracts typically require us to indemnify the customer in the event of any claim of infringement brought by a third party based on our products. Any claims of this kind may have a material adverse effect on our business, financial condition or results of operations.

**If we are unable to attract new employees and retain and motivate existing employees, our business and results of operations will suffer.**

Our ability to maintain and grow our business is directly related to the service of our employees in each area of our business. Our future performance will be directly tied to our ability to hire, train, motivate and retain qualified personnel. Competition for personnel in the technology marketplace is intense. We have from time to time in the past experienced attrition in certain key positions, and we expect to continue to experience this attrition in the future. The absence in prior periods of incentive plan bonuses and equity award vesting as a result of not meeting certain financial performance targets could adversely affect our ability to attract new employees and to retain and motivate our existing employees. If we are unable to hire sufficient numbers of employees with the experience and skills we need or to retain and motivate our existing employees, our business and results of operations would be harmed.

**Our reliance on sole source and limited source suppliers and service providers could result in delays in production and distribution of our products.**

We obtain some of the materials and components used to build our products, systems and subsystems, such as the sheet steel used in some of our vibration isolation tables, and the crystals and semiconductor laser diodes used in certain of our laser products, from single or limited sources due to unique component designs as well as specialized quality and performance requirements needed to manufacture our products. If our components or raw materials are unavailable in adequate amounts at acceptable quality levels or are unavailable on satisfactory terms, we may be required to purchase them from alternative sources, if available, which could increase our costs and cause delays in the production and distribution of our products. If we do not obtain comparable replacement components from other sources in a timely manner, our business and results of operations will be harmed. Many of our suppliers require long lead times to deliver the quantities of components that we need. If we fail to accurately forecast our needs, or if we fail to obtain sufficient quantities of components that we use to manufacture our products, then delays or reductions in production and shipment of our products could occur, which would harm our business and results of operations.

In addition, we obtain some of the critical capital equipment we use to manufacture certain of our products from sole or limited sources due to the unique nature of the equipment. In some cases, such equipment can only be serviced by the manufacturer or a very limited number of service providers due to the complex and specialized nature of the equipment. If service and/or spare parts for such equipment become unavailable, such equipment could be rendered inoperable, which could cause delays in the production of our products, and could require us to procure alternate equipment, if available, which would likely involve long lead times and significant additional cost.

---

**Table of Contents**

**Our failure to successfully manage the transition of certain of our manufacturing operations to international locations and to contract manufacturers could harm our business.**

As part of our ongoing cost-reduction efforts, we continue to transition the manufacture of certain of our product lines and subassemblies from higher-cost manufacturing locations to our facility in Wuxi, China, and to selected contract manufacturers in Asia. If we are unable to successfully manage the transition of the manufacture of these products, our results of operations could be harmed.

In particular, transferring product lines to our facility in Wuxi, China and our contract manufacturers' facilities in Asia requires us to transplant complex manufacturing equipment and processes across a large geographical distance and to train a completely new workforce concerning the use of this equipment and these processes. If we are unable to manage this transfer and training smoothly and comprehensively, we could suffer manufacturing and supply chain delays, excessive product defects, harm to our results of operations and our reputation with our customers, and loss of customers. We also may not realize the cost and tax advantages that we currently anticipate from locating operations in China, due to rising material, labor and shipping costs and rapidly changing Chinese regulations.

Additionally, qualifying contract manufacturers and commencing volume production are expensive and time-consuming activities, and there is no guarantee we will continue to do so successfully. Further, our reliance on contract manufacturers reduces our control over the assembly process, quality assurance, production costs and material and component supply for our products. If we fail to manage our relationship with our contract manufacturers, or if any of the contract manufacturers experience financial difficulty, or delays, disruptions, capacity constraints or quality control problems in their operations, our ability to ship products to our customers could be impaired and our competitive position and reputation could be harmed. Further, if we or our contract manufacturers are unable to negotiate with suppliers for reduced component costs, our operating results could be harmed.

In addition, our contract manufacturers may terminate our agreements with them upon prior notice to us or for reasons such as if we become insolvent, or if we fail to perform a material obligation under the agreement. If we are required to change contract manufacturers or assume internal manufacturing operations for any reason, including the termination of one of our contracts, we will likely suffer manufacturing and shipping delays, lost revenue, increased costs and damage to our customer relationships, any of which could harm our business.

**Our products could contain defects, which would increase our costs and harm our business.**

Many of our products, especially our laser and automation products, are inherently complex in design and require ongoing regular maintenance. Further, the manufacture of these products often involves a highly complex and precise process. As a result of the technical complexity of these products, design defects, changes in our or our suppliers' manufacturing processes or the inadvertent use of defective materials by us or our suppliers could adversely affect our manufacturing yields and product reliability. This could in turn harm our business, operating results, financial condition and customer relationships.

We provide warranties for our products, and we accrue allowances for estimated warranty costs at the time we recognize revenue for the sale of the products. The determination of such allowances requires us to make estimates of product return rates and expected costs to repair or replace the products under warranty. We establish warranty reserves based on historical warranty costs for our products. If actual return rates or repair and replacement costs differ significantly from our estimates, our results of operations could be negatively impacted.

Our customers may discover defects in our products after the products have been fully deployed and operated under peak stress conditions. In addition, some of our products are combined with products from other suppliers, which may contain defects. As a result, should problems occur, it may be difficult to identify the source of the problem. If we are unable to identify and fix defects or other problems, we could experience, among other things:

loss of customers;

increased costs of product returns and warranty expenses;

---

**Table of Contents**

increased costs required to analyze and mitigate the defects or problems;

damage to our reputation;

failure to attract new customers or achieve market acceptance;

diversion of development and engineering resources; or

legal action by our customers.

The occurrence of any one or more of the foregoing factors could seriously harm our business, financial condition and results of operations.

**Our products are subject to potential product liability claims which, if successful, could adversely affect our results of operations.**

Many of our products may be hazardous if not operated properly or if defective. We are exposed to significant risks for product liability claims if property damage, personal injury or death results from the use of our products. We may experience material product liability losses in the future. We currently maintain insurance against product liability claims. However, our insurance coverage may not continue to be available on terms that we accept, if at all. This insurance coverage also may not adequately cover liabilities that we incur. Further, if our products are defective, we may be required to recall or redesign these products. A successful claim against us that exceeds our insurance coverage level, or any claim or product recall, could have a material adverse effect on our business, financial condition and results of operations.

**Our convertible debt imposes significant financial obligations upon us, and certain provisions of our convertible notes could discourage a change in control.**

In February 2007, we issued \$175 million of convertible subordinated notes, of which \$126.8 million was outstanding as of January 1, 2011. The notes are subordinated to all of our existing and future senior indebtedness. The notes mature on February 15, 2012 and bear interest at a rate of 2.5% per year, payable in cash semiannually in arrears on February 15 and August 15 of each year. Holders of the notes may convert their notes under certain specified circumstances which may occur prior to maturity, and upon conversion, a holder will receive cash in lieu of shares of our common stock for the value of the notes, as determined in the manner set forth in the indenture governing the notes. We may also be required to deliver additional cash or common stock or a combination of cash and common stock upon conversion.

Our ability to meet our semiannual interest payment obligations under the notes and our cash payment obligations upon maturity or conversion of the notes will depend upon our future cash balances. The amount of cash available for repayment of the notes will depend on our usage of our existing cash balances and our operating performance and ability to generate cash flow from operations in future periods, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control.

In addition, the notes may become immediately due and payable upon an event of default, which generally consists of (i) a default in the payment of any principal amount or fundamental change purchase price due with respect to the notes, when the same becomes due and payable, regardless of whether such payment is permitted pursuant to the subordination provisions of the indenture pursuant to which the notes were issued; (ii) a default in payment of any interest (including additional interest) under the notes, which default continues for 30 days, regardless of whether such payment is permitted pursuant to the subordination provisions of the indenture; (iii) a default in the delivery when due of all cash and any shares of common stock payable upon conversion with respect to the notes, which default continues for 15 days, regardless of whether such delivery is permitted pursuant to the subordination provisions of the indenture; (iv) our failure to comply with any of its other agreements in the notes or the indenture upon our receipt of notice of such default from the trustee or from holders of not less than 25% in aggregate principal amount of the notes, and the failure to cure (or obtain a waiver of) such default within 60 days after receipt of such notice; (v) a default in the payment of principal by the end of any applicable grace period or resulting in acceleration of other of our indebtedness for borrowed money where the aggregate principal amount with respect to which the default or acceleration has occurred exceeds \$10 million and such acceleration has not been

## **Table of Contents**

rescinded or annulled or such indebtedness repaid within a period of 30 days after written notice to us by the trustee or us and the trustee by the holders of at least 25% in aggregate principal amount of the notes, provided that if any such default is cured, waived, rescinded or annulled, then the event of default by reason thereof would not be deemed to have occurred; and/or (vi) certain events of bankruptcy, insolvency or reorganization affecting us or any of our significant subsidiaries.

Upon maturity, or prior to maturity if the notes become immediately due and payable upon an event of default, we would need to obtain additional financing or significantly deplete our available cash, or both, in order to repay the notes. Any additional financing may not be available on reasonable terms or at all, and significant depletion of our available cash could harm our ability to fund our operations or execute our broader corporate objectives, such as potential acquisitions.

In addition, certain provisions of our convertible notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, which include a change in control, holders of the notes will have the right, at their option, to require us to repurchase all of their notes or any portion of the principal amount of such notes. The magnitude of the amount of any repurchase could discourage a third party from acquiring us.

**While we believe we currently have adequate internal control over financial reporting, we are required to evaluate our internal control over financial reporting each year, and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.**

Pursuant to rules and regulations promulgated by the Securities and Exchange Commission under Section 404 of the Sarbanes-Oxley Act of 2002, we are required to furnish a report by our management each year on our internal control over financial reporting. This report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. This report must also contain a statement that our auditors have issued an attestation report on such internal controls. Management's assessment of internal controls over financial reporting requires management to make subjective judgments, some of which will be in areas that may be open to interpretation. As such, our auditors may not agree with our assessments.

If we are unable to assert each year that our internal control over financial reporting is effective (or if our auditors are unable to attest that our internal control over financial reporting is effective), we could lose investor confidence in the accuracy and completeness of our financial reports, and we may be unable to file such reports in a timely manner, which would have an adverse effect on our stock price. In addition, if any unidentified material weaknesses were to result in fraudulent activity and/or a material misstatement or omission in our financial statements, we could suffer losses and be subject to civil and criminal penalties, all of which could have a material adverse effect on our business, financial condition and results of operations.

**Difficulties with our global information technology system could harm our business.**

Any failure or malfunctioning of our global information technology system, errors or misuse by system users, or inadequacy of the system in addressing the needs of our operations, could disrupt our ability to timely and accurately manufacture and ship products, which could have a material adverse effect on our business, financial condition and results of operations. Any such failure, errors, misuse or inadequacy could also disrupt our ability to timely and accurately process, report and evaluate key operations metrics and key components of our results of operations, financial position and cash flows. Any such disruptions would likely divert our management and key employees' attention away from other business matters. Any disruptions or difficulties that may occur in connection with our global information technology system could also adversely affect our ability to complete important business processes such as the evaluation of our internal control over financial reporting and attestation activities pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.

---

**Table of Contents**

**Compliance with environmental regulations and potential environmental liabilities could adversely affect our financial results.**

Our operations are subject to various federal, state, local and international regulations relating to the protection of the environment, including those governing discharges of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. In the United States, we are subject to the federal regulation and control of the Environmental Protection Agency (EPA). Comparable authorities are involved in other countries. Some of our operations require environmental permits and controls to prevent and reduce air and water pollution, and these permits are subject to modification, renewal and revocation by issuing authorities. Future developments, administrative actions or liabilities relating to environmental matters could have a material adverse effect on our business, results of operations or financial condition.

Although we believe that our safety procedures for using, handling, storing and disposing of such materials comply with the standards required by state and federal laws and regulations, we cannot completely eliminate the risk of accidental contamination or injury from these materials. In such event, we could be subject to claims by employees or third parties, and could be liable for damages, which liability could exceed the amount of our liability insurance coverage (if any) and the resources of our business.

Our former facility located in Mountain View, California is an EPA-designated Superfund site and is subject to a cleanup and abatement order from the California Regional Water Quality Control Board. Spectra-Physics, along with several other entities with facilities located near the Mountain View, California facility, have been identified as Responsible Parties with respect to this Superfund site, due to releases of hazardous substances during the 1960s and 1970s. The site is mature, and investigations and remediation efforts have been ongoing for approximately 25 years. Spectra-Physics and the other Responsible Parties have entered into a cost-sharing agreement covering the costs of remediating the off-site groundwater impact. In addition to our remediation obligations, we may be liable for property damage or personal injury claims relating to this site. While we are not aware of any claims at this time, such claims could be made against us in the future. Thermo Fisher Scientific, Inc., formerly known as Thermo Electron Corporation (Thermo), has agreed, in connection with our purchase of Spectra-Physics, to indemnify us, subject to certain conditions, for costs of remediation that are incurred and third party claims that are made prior to July 16, 2014, which arise from the releases of hazardous substances at or from the Mountain View facility and are subject to remediation under the cost-sharing agreement. However, our ultimate costs of remediation and other potential liability are difficult to predict, and this indemnity may not cover all liabilities relating to this site. If significant costs or other liability relating to this site arise in the future and are either not covered by this indemnity or arise after this indemnity expires, our business, financial condition and results of operations could be adversely affected.

The environmental regulations to which we are subject, include a variety of federal, state, local and international environmental regulations restricting the use and disposal of materials used in the manufacture of our products, or requiring design changes or recycling of our products. If we fail to comply with any present or future regulations, we could be subject to future liabilities, the suspension of manufacturing or a prohibition on the sale of products we manufacture. In addition, such regulations could restrict our ability to equip our facilities or could require us to acquire costly equipment, or to incur other significant expenses to comply with environmental regulations, including expenses associated with the recall of any non-compliant product and the management of historical waste.

From time to time new regulations are enacted, and it is difficult to anticipate how such regulations will be implemented and enforced. We continue to evaluate the necessary steps for compliance with regulations as they are enacted. For example, the European Union has enacted the Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Directive (RoHS) and the Waste Electrical and Electronic Equipment Directive (WEEE) for implementation in each European Union member country. RoHS regulates the use of certain hazardous substances in certain products, and WEEE requires the collection, reuse and recycling of waste from certain products. The European Union member states continue to define the scope of the implementation of RoHS and WEEE. Based on information we have received to date, certain of our products sold in these countries are or will likely be subject to RoHS and WEEE requirements. We will continue to monitor RoHS and WEEE guidance as it is announced by individual jurisdictions to determine our responsibilities. The guidance available to us to date suggests that in some instances we are not directly responsible for compliance with RoHS and WEEE because some of our products may be outside the scope of the directives. However, because the scope of the directives continues

**Table of Contents**

to expand in the course of implementation by the European Union member states, we will likely be directly or contractually subject to such regulations in the case of many of our products. In addition, certain of our customers, particularly OEM customers whose end products may be subject to these directives, may require that the products we supply to them comply with these directives. Further, final legislation from individual jurisdictions that have not yet implemented the directives may impose different or additional responsibilities upon us. We are also aware of similar legislation that is currently in force or being considered in the United States, as well as other countries, such as Japan and China. Our failure to comply with any of such regulatory requirements or contractual obligations could result in our being directly or indirectly liable for costs, fines or penalties and third-party claims, and could jeopardize our ability to conduct business in countries in these regions.

**Natural disasters or power outages could disrupt or shut down our operations or those of our contract manufacturers, which would negatively impact our operations.**

We are headquartered, and have significant operations, in the State of California and other areas where our operations are susceptible to damages from earthquakes, floods, fire, loss of power or water supplies, or other similar contingencies. Our contract manufacturers' operations are also subject to these occurrences. We currently have comprehensive business continuation plans for our global information technology systems and for most of our operations and facilities, as well as disaster recovery procedures for our remaining operations and facilities. Despite these contingency plans and procedures, if any of our facilities or those of our contract manufacturers were to experience a catastrophic loss or significant power outages, it could disrupt our operations, delay production, shipments and revenue, and result in large expenses to repair or replace the facility, any of which would harm our business. We are predominantly uninsured for losses and interruptions caused by earthquakes.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

**ITEM 2. PROPERTIES**

Our corporate headquarters is located at 1791 Deere Avenue, Irvine, California 92606. We lease this facility under a lease expiring in February 2022. Our primary manufacturing operations for each of our divisions are located in the following facilities:

Division	Primary Facility Locations	Approximate Facility Size
Lasers	Santa Clara, California	139,000 square feet
	Stahnsdorf, Germany	12,000 square feet
Photonics and Precision	Irvine, California	272,000 square feet
Technologies	Rochester, New York	58,000 square feet
	Franklin, Massachusetts	56,000 square feet
	North Billerica, Massachusetts	41,000 square feet
	Stratford, Connecticut	32,000 square feet
	Beaune-la Rolande, France	86,000 square feet
	Wuxi, China	64,000 square feet
	Brigueuil, France	44,000 square feet

We own portions of our Rochester, New York and Beaune-la Rolande, France facilities, and we own our Brigueuil, France facility. We lease all other facilities under leases with expiration dates ranging from 2011 to 2022. In addition to these primary facilities, we lease a number of other facilities worldwide for administration, sales and/or service. We believe that our facilities are adequate for our current needs and that, if required,

## Edgar Filing: NEWPORT CORP - Form 10-K

we will be able to extend or renew our leases, or locate suitable substitute space, on commercially reasonable terms as our leases expire. We also believe that suitable additional space will be available on commercially reasonable terms in the future to accommodate expansion of our operations.

**Table of Contents****ITEM 3. LEGAL PROCEEDINGS**

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. We currently are not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on our results of operations, financial position or cash flows.

**ITEM 4. RESERVED****PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTER AND ISSUER PURCHASES OF EQUITY SECURITIES**  
**Price Range of Common Stock**

Our common stock is traded on the NASDAQ Global Select Market under the symbol NEWP. As of February 28, 2011, we had 842 common stockholders of record based upon the records of our transfer agent, which do not include beneficial owners of common stock whose shares are held in the names of various securities brokers, dealers and registered clearing agencies. The following table reflects the high and low sales prices of our common stock for each quarterly period during the last two fiscal years:

<b>Quarter Ended</b>	<b>High</b>	<b>Low</b>
January 1, 2011	\$ 18.15	\$ 10.85
October 2, 2010	13.57	8.43
July 3, 2010	14.48	8.30
April 3, 2010	12.63	7.74
January 2, 2010	9.66	7.08
October 3, 2009	9.46	5.19
July 4, 2009	6.88	4.56
April 4, 2009	6.60	2.93

**Dividends**

We declared no dividends on our common stock during 2010 or 2009. We do not intend to pay cash dividends in the foreseeable future, however, we will periodically review this issue in the future based on changes in our financial position and investment opportunities, as well as any changes in the tax treatment of dividends.

**Purchases of Equity Securities**

We made no purchases of our equity securities during the fourth quarter of the year ended January 1, 2011.



**Table of Contents****Information Regarding Equity Compensation Plans**

The following table sets forth information with respect to securities authorized for issuance under our equity compensation plans as of January 1, 2011:

**Equity Compensation Plan Information**

<b>Plan Category</b>	<b>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights</b> (a)	<b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights</b> (b)	<b>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in column (a))</b> (c)
Equity Compensation Plans Approved by Security Holders <sup>(1)</sup>	4,462,739	\$ 11.11	2,295,386
Equity Compensation Plans Not Approved by Security Holders <sup>(2)</sup>	10,250	\$ 49.68	
<b>Total</b>	<b>4,472,989</b>		<b>2,295,386</b>

(1) The number of shares reflected in column (a) for equity compensation plans approved by security holders includes (i) outstanding options to purchase an aggregate of 1,729,814 shares of our common stock, which were issued under our 1992 Stock Incentive Plan and our 2001 Stock Incentive Plan, (ii) outstanding stock-settled stock appreciation rights with respect to an aggregate of 1,149,835 shares of our common stock, which were issued under our 2006 Performance-Based Stock Incentive Plan, and (iii) outstanding restricted stock units representing the right to receive upon vesting an aggregate of 1,583,090 shares of our common stock, which were issued under our 2006 Performance-Based Stock Incentive Plan. The weighted-average exercise price reflected in column (b) for equity compensation plans approved by security holders represents the combined weighted-average exercise price (or base value) of all outstanding options (having a weighted-average exercise price of \$14.11 per share) and all outstanding stock-settled stock appreciation rights (having a weighted-average base value of \$6.60 per share). All outstanding restricted stock units were awarded without payment of any purchase price.

(2) The number of shares reflected in column (a) for equity compensation plans not approved by security holders consists of outstanding options to purchase shares of our common stock issued under our 1999 Stock Incentive Plan (1999 Plan).

**Equity Compensation Plans Not Approved by Security Holders**

In November 1999, our Board adopted our 1999 Plan, pursuant to which nonqualified options to purchase shares of our common stock were granted to employees (excluding officers and members of our Board) from November 1999 until May 2001. In May 2001, upon the approval by our stockholders of our 2001 Stock Incentive Plan, the 1999 Plan was terminated for the purposes of future grants. As of January 1, 2011, options to purchase a total of 10,250 shares of our common stock were outstanding under the 1999 Plan. All options granted under the 1999 Plan were granted at an exercise price equal to the fair market value of the common stock on the grant date, and generally vested in 25% increments on each of the first four anniversaries of the grant date. No option is exercisable more than ten years following the grant date.

**Table of Contents**

**Stock Performance Graph**

The following graph compares the cumulative total stockholder return on \$100 invested in our common stock for the five years ended January 1, 2011, with the cumulative total return on \$100 invested in each of (i) the Nasdaq Market Index, (ii) our current peer group, and (iii) our prior peer group. The graph assumes all investments were made at market value on December 31, 2005 and the reinvestment of all dividends.

The current peer group reflected in the graph represents a combination of all companies comprising the Morningstar Semiconductor Equipment & Materials Industry Group Index and the Morningstar Scientific & Technical Instruments Industry Group Index, published by Morningstar, Inc., with these indices weighted one-third (1/3) and two-thirds (2/3), respectively. A listing of the companies comprising each index is available from us by written request to our Corporate Secretary.

In 2009, our peer group consisted of a combination of all companies comprising the Hemscott Semiconductor Equipment & Materials Industry Group Index and the Hemscott Scientific & Technical Instruments Industry Group Index, which are also published by Morningstar, Inc., with the same weightings as the corresponding Morningstar indices noted above. This prior peer group is also reflected in the graph below. As a result of Morningstar's acquisition of Hemscott, Inc., Morningstar is replacing the former series of Hemscott Industry Groups with their Morningstar equivalents. As such, we have updated our peer group to reflect the Morningstar Industry Groups.

**COMPARES 5-YEAR CUMULATIVE RETURN AMONG  
NEWPORT CORPORATION, NASDAQ MARKET INDEX,  
CURRENT PEER GROUP AND PRIOR PEER GROUP**

*The material in this performance graph is not soliciting material and is not deemed filed with the SEC and is not to be incorporated by reference in any filing of Newport under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.*

**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA**

The selected consolidated financial data set forth below should be read in conjunction with our consolidated financial statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report on Form 10-K and in our annual reports that have been filed for the prior years presented.

	January 1, 2011	January 2, 2010 (2)	For the Year Ended (1)		
			January 3, 2009	December 29, 2007	December 30, 2006
<i>(In thousands, except percentages)</i>					
<b>CONSOLIDATED STATEMENTS OF OPERATIONS:</b>					
Net sales	\$ 479,787	\$ 366,989	\$ 445,336	\$ 445,197	\$ 454,724
Cost of sales	274,491	224,387	274,542	259,636	256,756
Gross profit	205,296	142,602	170,794	185,561	197,968
Selling, general and administrative expenses	112,754	112,177	118,518	116,476	114,533
Research and development expense	39,278	36,948	46,068	42,570	41,981
Loss (gain) on sale of assets and related costs (3)	542	4,355	(2,504)		
Impairment charges (4)		360	119,944		
Operating income (loss)	52,722	(11,238)	(111,232)	26,515	41,454
Recovery (write-down) of note receivable and other amounts related to previously discontinued operations, net (5)		101	(7,040)		
Write-down of minority interest investment (6)			(2,890)		
Gain on extinguishment of debt (7)		328	7,734		
Interest and other expense, net	(8,481)	(8,564)	(6,751)	(4,053)	(759)
Income (loss) from continuing operations before income taxes	44,241	(19,373)	(120,179)	22,462	40,695
Income tax provision (benefit) (8)	3,128	(1,967)	28,545	(17,229)	2,193
Income (loss) from continuing operations before discontinued operations	41,113	(17,406)	(148,724)	39,691	38,502
Loss from discontinued operations, net of income tax benefits (9)					(1,075)
Net income (loss)	\$ 41,113	\$ (17,406)	\$ (148,724)	\$ 39,691	\$ 37,427
<b>Percentage of net sales:</b>					
Gross profit	42.8%	38.9%	38.4%	41.7%	43.5%
Selling, general and administrative expenses	23.5%	30.6%	26.6%	26.2%	25.2%
Research and development expense	8.2%	10.1%	10.4%	9.6%	9.2%
Operating income (loss)	11.0%	(3.1)%	(24.9)%	5.9%	9.1%
Income (loss) from continuing operations before discontinued operations	8.5%	(4.8)%	(33.4)%	8.9%	8.5%
Net income (loss)	8.5%	(4.8)%	(33.4)%	8.9%	8.2%

**Table of Contents**

	As of or for the Year Ended				
	January 1, 2011	January 2, 2010	January 3, 2009	December 29, 2007	December 30, 2006
<i>(In thousands, except per share and worldwide employment figures)</i>					
<b>PER SHARE INFORMATION:</b>					
<i>Basic net income (loss) per share:</i>					
Income (loss) from continuing operations before discontinued operations	\$ 1.12	\$ (0.48)	\$ (4.11)	\$ 1.03	\$ 0.95
Loss from discontinued operations, net of income tax benefits					(0.03)
<b>Net income (loss)</b>	<b>\$ 1.12</b>	<b>\$ (0.48)</b>	<b>\$ (4.11)</b>	<b>\$ 1.03</b>	<b>\$ 0.92</b>
<i>Diluted net income (loss) per share:</i>					
Income (loss) from continuing operations before discontinued operations	\$ 1.09	\$ (0.48)	\$ (4.11)	\$ 1.02	\$ 0.91
Loss from discontinued operations, net of income tax benefits					(0.02)
<b>Net income (loss)</b>	<b>\$ 1.09</b>	<b>\$ (0.48)</b>	<b>\$ (4.11)</b>	<b>\$ 1.02</b>	<b>\$ 0.89</b>
<i>Shares used in computation of income (loss) per share:</i>					
Basic	36,647	36,175	36,155	38,479	40,698
Diluted	37,726	36,175	36,155	39,058	42,167
<b>Total stockholders equity per diluted share</b>	<b>\$ 7.83</b>	<b>\$ 7.04</b>	<b>\$ 7.34</b>	<b>\$ 10.93</b>	<b>\$ 10.32</b>
<b>BALANCE SHEET INFORMATION:</b>					
Cash and marketable securities	\$ 200,184	\$ 141,923	\$ 148,420	\$ 143,864	\$ 85,413
Working capital	\$ 288,650	\$ 236,510	\$ 263,507	\$ 284,676	\$ 200,808
<b>Total assets</b>	<b>\$ 556,390</b>	<b>\$ 493,407</b>	<b>\$ 524,903</b>	<b>\$ 698,323</b>	<b>\$ 593,015</b>
Short-term borrowings	\$ 12,468	\$ 11,056	\$ 14,089	\$ 12,402	\$ 9,481
Long-term borrowings (includes borrowings under capital leases)	\$ 123,198	\$ 122,636	\$ 136,807	\$ 153,489	\$ 52,125
<b>Stockholders equity</b>	<b>\$ 295,459</b>	<b>\$ 254,636</b>	<b>\$ 265,197</b>	<b>\$ 426,838</b>	<b>\$ 434,953</b>
<b>MISCELLANEOUS STATISTICS:</b>					
Common shares outstanding at year end	36,909	36,316	36,049	36,918	41,458
Average worldwide employment	1,687	1,683	1,900	1,943	1,940
Sales per employee	\$ 284	\$ 218	\$ 234	\$ 229	\$ 234

- (1) We use a 52/53-week accounting fiscal year. Our fiscal year ends on the Saturday closest to December 31, and our fiscal quarters end on the Saturday closest to the end of each corresponding calendar quarter. Fiscal year 2010 (referred to herein as 2010) ended on January 1, 2011, fiscal year 2009 (referred to herein as 2009) ended on January 2, 2010, fiscal year 2008 (referred to herein as 2008) ended on January 3, 2009, fiscal year 2007 (referred to herein as 2007) ended on December 29, 2007 and fiscal year 2006 (referred to herein as 2006) ended on December 30, 2006. Fiscal years 2010 and 2009 each consisted of 52 weeks, and fiscal year 2008 consisted of 53 weeks.
- (2) In July 2009, we entered into an asset exchange transaction in which we acquired substantially all of the assets of the New Focus business. Our results of operations for 2009 included the results of operations of the New Focus business from July 4, 2009, the closing date of the acquisition.
- (3) In 2010, we sold our Hilger Crystals Limited subsidiary for \$4.0 million in cash. We recognized a loss of \$0.5 million after considering the net asset carrying value of \$2.5 million, charges of \$1.4 million related to the pension plan associated with this business, a charge of \$0.4 million to write off an inter-company receivable, and transaction expenses of \$0.2 million. In 2009, we entered into an asset exchange transaction in which we sold substantially all of the assets of our diode laser business, which had a book value of \$14.9 million, which resulted in a loss of \$4.4 million after considering the fair value of these assets of \$11.1 million and selling costs of \$0.6 million. In 2008, we sold a building under a sale-leaseback agreement for \$7.0 million, net of \$0.3 million in selling costs. We recorded a gain on the sale of the building of \$2.5 million after considering the net book value of the building and the present value of the leaseback agreement.
- (4) In 2009, we determined that we would not continue to pursue technology related to purchased in-process research and development and recorded an impairment charge of \$0.4 million associated with such technology. In 2008, we determined that goodwill and other intangible assets related to our Lasers



**Table of Contents**

- Division were impaired and recorded impairment charges of \$104.6 million related to goodwill and \$15.4 million related to other acquired intangible assets.
- (5) In 2005, we sold our robotic systems operations to Kensington Laboratories LLC (Kensington) for \$0.5 million in cash and a note receivable of \$5.7 million, after adjustments provided for in the purchase agreement, and subleased the facility relating to such operations to Kensington. In 2008, due to uncertainty regarding collectability of such note receivable and amounts owed under the sublease, we wrote off such note receivable and other amounts owed in full, resulting in charges totaling \$7.0 million, net of amounts recovered relating to the sublease. In 2009, we entered into a settlement agreement with Kensington pursuant to which Kensington paid us \$0.2 million and transferred to us certain assets included in the collateral securing the note. In 2009, we recognized \$0.1 million as a recovery on the note, net of certain costs. See further discussion in Note 16 of the Notes to Consolidated Financial Statements.
  - (6) In 2008, we determined that a minority interest investment had an other-than-temporary decline in value and wrote off \$2.9 million, representing the full carrying value of such investment.
  - (7) In 2009, we extinguished \$20.2 million of our convertible subordinated notes for \$18.7 million. After allocating \$0.3 million of the extinguished amount to the equity component of the notes, we recorded a gain of \$0.3 million on extinguishment of the debt, net of unamortized fees and debt discount. In 2008, we extinguished \$28.0 million of our convertible subordinated notes for \$16.8 million, and we recorded a gain of \$7.7 million on extinguishment of the debt, net of unamortized fees and debt discount.
  - (8) We have previously established a valuation allowance against our deferred tax assets due to uncertainty as to the timing and ultimate realization of those assets. In 2007, we reduced the valuation allowance against our deferred tax assets by \$19.8 million, and in 2008, we reestablished such valuation allowance and recorded an additional valuation allowance of \$4.6 million. In 2010, we reduced such valuation allowance by \$18.2 million, primarily due to income generated during the year. See further discussion in Note 11 of the Notes to Consolidated Financial Statements regarding our valuation allowance.
  - (9) In 2005, our Board of Directors approved a plan to sell our robotic systems operations. This divestiture has been accounted for as discontinued operations for all periods presented.

**Table of Contents****ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions that we consider reasonable. When used in this report, the words anticipate, believe, can, continue, could, estimate, expect, intend, may, plan, potential, predict, should, will, would, and similar expressions or the negative of such expressions are intended to identify these forward-looking statements. In addition, any statements that refer to projections of our future financial performance, trends in our businesses, or other characterizations of future events or circumstances are forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those discussed in Item 1 (Business) and Item 1A (Risk Factors) of Part I of this Annual Report on Form 10-K.

**Overview**

We are a global supplier of advanced-technology products and systems, including lasers, photonics instrumentation, precision positioning and vibration isolation products and systems, optical components and subsystems and advanced automated manufacturing systems. Our products are used worldwide in industries including scientific research, microelectronics, aerospace and defense/security, life and health sciences and industrial manufacturing. We operate within two distinct business segments, our Lasers Division and our Photonics and Precision Technologies (PPT) Division. Both of our divisions offer a broad array of advanced technology products and services to original equipment manufacturer (OEM) and end-user customers across a wide range of applications and markets.

The following is a discussion and analysis of certain factors that have affected our results of operations and financial condition during the periods included in the accompanying consolidated financial statements.

**Acquisitions and Divestitures**

On July 19, 2010, we sold all of the outstanding capital stock of our Hilger Crystals Limited subsidiary. We received \$4.0 million in cash as consideration for the sale. In addition, if Hilger Crystals Limited achieves certain specified revenue targets in the 18-month period following the closing date, we could receive up to an additional \$0.75 million in cash.

We recognized a net loss of \$0.5 million related to this transaction in 2010. The net asset value of Hilger Crystals Limited at the time of the sale was \$2.5 million, including \$0.6 million of goodwill allocated to the business, and we incurred charges totaling \$1.4 million related to the pension plan associated with the business, a charge of \$0.4 million to write off an inter-company receivable that will not be repaid by the new owner and \$0.2 million in legal and consulting fees related to this transaction. Such net loss has been included in *loss (gain) on sale of assets and related costs* in the accompanying consolidated statements of operations. In addition, we recognized \$0.6 million in previously unrealized foreign currency losses as a non-operating expense upon the disposition of this business, which is included in *interest and other expense, net*.

The assets of the Hilger Crystals business had previously been included in our PPT Division. Below is a summary of the assets and liabilities disposed of:

(In thousands)

Assets and liabilities disposed of:	
Current assets	\$ 1,714
Other assets	1,775
Current liabilities	(1,020)
	<b>\$ 2,469</b>

**Table of Contents**

On July 4, 2009, we completed an asset exchange transaction with Oclaro, Inc. (Oclaro), pursuant to which we acquired certain assets and assumed certain liabilities related to Oclaro's New Focus business, and we sold certain assets and transferred certain liabilities related to our diode laser operations based in Tucson, Arizona to Oclaro. The acquisition of the New Focus business expanded our product offerings to include a number of new high-performance products, including opto-electronics, high-resolution actuators, high-speed detectors and modulators, opto-mechanics, tunable lasers, and custom-engineered solutions designed for OEM customers.

The fair value of the New Focus business on the acquisition date was \$14.1 million, and the purchase price was paid by the transfer to Oclaro of our diode laser assets and liabilities, which had a fair value of \$11.1 million, and the payment of \$3.0 million in cash. We incurred \$0.2 million in acquisition related expenses, which have been expensed as incurred and are included in *selling, general and administrative expenses* in the accompanying consolidated statements of operations.

Below is a summary of the purchase price, assets acquired and liabilities assumed:

<i>(In thousands)</i>	
Assets acquired and liabilities assumed:	
Current assets	\$ 8,930
Goodwill	1,392
Purchased intangible assets	4,830
Other assets	1,247
Current liabilities	(2,299)
	\$ 14,100

Our diode laser assets had a net book value of \$14.9 million, which resulted in a loss of \$4.4 million after considering the fair value of these assets of \$11.1 million and selling costs of \$0.6 million. This loss has been included in *loss (gain) on sale of assets and related costs* in our consolidated statements of operations. These assets had previously been included in our Lasers Division. Below is a summary of the assets and liabilities disposed of:

<i>(In thousands)</i>	
Assets and liabilities disposed of:	
Current assets	\$ 11,043
Other assets	5,106
Current liabilities	(1,284)
	\$ 14,865

**Fiscal Year End**

We use a 52/53-week accounting fiscal year. Our fiscal year ends on the Saturday closest to December 31, and our fiscal quarters end on the Saturday closest to the end of each corresponding calendar quarter. Fiscal year 2010 (referred to herein as 2010) ended on January 1, 2011, fiscal year 2009 (referred to herein as 2009) ended on January 2, 2010, and fiscal year 2008 (referred to herein as 2008) ended on January 3, 2009. Fiscal years 2010 and 2009 each consisted of 52 weeks, and fiscal year 2008 consisted of 53 weeks.

**Critical Accounting Policies and Estimates**

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our consolidated financial statements included in this Annual Report on Form 10-K, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We evaluate these estimates and assumptions on an ongoing basis. We base our estimates on our historical experience and on various other factors which we believe to be reasonable under the circumstances, the results of



which form the basis for making judgments

---

**Table of Contents**

about the carrying values of assets and liabilities and the amounts of certain expenses that are not readily apparent from other sources. Our significant accounting policies are discussed in Note 1 (Organization and Summary of Significant Accounting Policies) to the Notes to Consolidated Financial Statements, included in Item 15 (Exhibits, Financial Statement Schedules) of this Annual Report on Form 10-K. The accounting policies that involve the most significant judgments, assumptions and estimates used in the preparation of our financial statements are those related to revenue recognition, allowances for doubtful accounts, pension plans, inventory reserves, warranty obligations, asset impairment, income taxes and stock-based compensation expense. The judgments, assumptions and estimates used in these areas by their nature involve risks and uncertainties, and in the event that any of them prove to be inaccurate in any material respect, it could have a material adverse effect on our reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

***Revenue Recognition***

We recognize revenue after title to and risk of loss of products have passed to the customer, or delivery of the service has been completed, provided that persuasive evidence of an arrangement exists, the fee is fixed or determinable and collectability is reasonably assured. We recognize revenue and related costs for arrangements with multiple deliverables, such as equipment and installation, as each element is delivered or completed based upon its relative fair value, determined based upon the price that would be charged on a standalone basis. If a portion of the total contract price is not payable until installation is complete, we do not recognize such portion as revenue until completion of installation; however, we record the full cost of the product at the time of shipment. Revenue for extended service contracts is recognized over the related contract periods. Certain sales to international customers are made through third-party distributors. A discount below list price is generally provided at the time the product is sold to the distributor, and such discount is reflected as a reduction in net sales. Freight costs billed to customers are included in *net sales*, and freight costs incurred are included in *selling, general and administrative expenses*. Sales taxes collected from customers are recorded on a net basis and any amounts not yet remitted to tax authorities are included in *accrued expenses and other current liabilities*.

In the event that we determine that all of the criteria for recognition of revenue have not been met for a transaction, the amount of revenue that we recognize in a given reporting period could be adversely affected. In particular, our ability to recognize revenue for high-value product shipments could cause significant fluctuations in the amounts of revenue reported from period to period depending on the timing of the shipments and the terms of sale of such products.

Our customers (including distributors) generally have 30 days from the original invoice date (generally 60 days for international customers) to return a standard catalog product purchase for exchange or credit. Catalog products must be returned in the original condition and meet certain other criteria. Custom, option-configured and certain other products as defined in the terms and conditions of sale cannot be returned without our consent. For certain products, we establish a sales return reserve based on the historical product returns. If actual product returns are significant and/or exceed our established sales return reserves, our net sales could be adversely affected.

***Accounts and Notes Receivable***

We record reserves for specific receivables deemed to be at risk for collection, as well as a reserve based on our historical collections experience. We estimate the collectability of customer receivables on an ongoing basis by reviewing past due invoices and assessing the current creditworthiness of each customer. A considerable amount of judgment is required in assessing the ultimate realization of these receivables.

Certain of our Japanese customers provide us with promissory notes on the due date of the receivable. The payment dates of the promissory notes generally range between 60 and 150 days from the original receivable due date. For balance sheet presentation purposes, amounts due to us under such promissory notes are reclassified from accounts receivable to notes receivable. At January 1, 2011 and January 2, 2010, *notes receivable, net* totaled \$3.3 million and \$2.3 million, respectively. Certain of these promissory notes are sold with recourse to banks in Japan with which we regularly do business. The sales of these receivables have been accounted for as secured borrowings, as we have not met the criteria for sale treatment in accordance with Accounting Standards Codification (ASC) 860-30, *Transfers and Servicing - Secured Borrowing and Collateral*. The principal amount of the

---

**Table of Contents**

promissory notes sold with recourse is included in both *notes receivable, net* and *short-term borrowings* until the underlying note obligations are ultimately satisfied through payment by the customers to the banks. At January 1, 2011 and January 2, 2010, the principal amount of such promissory notes included in *notes receivable, net* and *short-term borrowings* in the accompanying consolidated balance sheets totaled \$2.0 million and \$1.3 million, respectively.

***Pension Plans***

Several of our non-U.S. subsidiaries have defined benefit pension plans covering substantially all full-time employees at those subsidiaries. Some of the plans are unfunded, as permitted under the plans and applicable laws. For financial reporting purposes, the calculation of net periodic pension costs is based upon a number of actuarial assumptions, including a discount rate for plan obligations, an assumed rate of return on pension plan assets and an assumed rate of compensation increase for employees covered by the plan. All of these assumptions are based upon our judgment, considering all known trends and uncertainties. Actual results that differ from these assumptions would impact future expense recognition and the cash funding requirements of our pension plans.

***Inventories***

We state our inventories at the lower of cost (determined on either a first-in, first-out (FIFO) or average cost basis) or fair market value and include materials, labor and manufacturing overhead. Inventories that are expected to be sold within one year are classified as current inventories and are included in *inventories*, and inventories that we expect to hold for longer than one year are included in *other assets* in the accompanying consolidated balance sheets. We write down excess and obsolete inventory to net realizable value. Once we write down the carrying value of inventory, a new cost basis is established, and we do not increase the newly established cost basis based on subsequent changes in facts and circumstances. In assessing the ultimate realization of inventories, we make judgments as to future demand requirements and compare those requirements with the current and committed inventory levels. We record any amounts required to reduce the carrying value of inventory to net realizable value as a charge to cost of sales. Should actual demand requirements differ from our estimates, we may be required to reduce the carrying value of inventory to net realizable value, resulting in a charge to cost of sales which could adversely affect our operating results.

***Warranty***

Unless otherwise stated in our product literature or in our agreements with our customers, products sold by our PPT Division 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. Products of this division sold to OEM customers generally carry longer warranties, typically 15 to 19 months. Products sold by our Lasers Division carry warranties that vary by product and product component, but that generally range from 90 days to two years. In certain cases, such warranties for Lasers Division products are limited by either a set time period or a maximum amount of usage of the product, whichever occurs first. Defective products will either be repaired or replaced, generally at our option, upon meeting certain criteria. We accrue 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 at the time revenue for that product is recognized. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, our warranty obligations are affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage and/or service delivery costs negatively differ from our estimates, revisions to the estimated warranty obligation would be required which could adversely affect our operating results. 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. Short-term warranty obligations were \$4.1 million and \$3.9 million as of January 1, 2011 and January 2, 2010, respectively. As of January 1, 2011 and January 2, 2010, the amounts accrued for long-term warranty obligations were not material.

---

**Table of Contents*****Impairment of Assets***

We assess the impairment of long-lived assets at least annually and whenever events or changes in circumstances indicate that their carrying value may not be recoverable. The determination of related estimated useful lives and whether or not these assets are impaired involves significant judgments, related primarily to the future profitability and/or future value of the assets. Changes in our strategic plan and/or market conditions could significantly impact these judgments and could require adjustments to recorded asset balances.

We hold minority interests in companies having operations or technologies in areas which were within or adjacent to our strategic focus when acquired, all of which are privately held and whose values are difficult to determine. Investments in technology companies involve significant risks, including the risks that such companies may be unable to raise additional required operating capital on acceptable terms or at all, or may not achieve or maintain market acceptance of their technology or products. In the event that any of such risks occurs, the value of our investment could decline significantly. In addition, because there is no public market for the securities we have acquired, our ability to liquidate our investments is limited, and such markets may not develop in the future. During 2008, we determined that a minority interest investment had an other-than-temporary decline in value and wrote off \$2.9 million, representing the full carrying value of such investment. At January 1, 2011 and January 2, 2010, none of our minority interest investments had any carrying value. If we are able to liquidate our holdings in any minority interest investments in the future, any proceeds received from such a transaction will be recognized as a gain in the period in which the stock is sold.

Goodwill represents the excess of the purchase price of the net assets of acquired entities over the fair value of such assets. Under ASC 350-20, *Intangibles - Goodwill and Other*, goodwill and other intangible assets are not amortized but are tested for impairment at least annually or when circumstances exist that would indicate an impairment of such goodwill or other intangible assets. We perform the annual impairment test as of the beginning of the fourth quarter of each year. A two-step test is used to identify the potential impairment and to measure the amount of impairment, if any. The first step is based upon a comparison of the fair value of each of our reporting units, as defined, and the carrying value of the reporting unit's net assets, including goodwill. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired; otherwise, step two is required. Under step two, the implied fair value of goodwill, calculated as the difference between the fair value of the reporting unit and the fair value of the net assets of the reporting unit, is compared with the carrying value of goodwill. The excess of the carrying value of goodwill over the implied fair value represents the amount impaired.

We determine our reporting units by identifying those operating segments or components for which discrete financial information is available which is regularly reviewed by the management of that unit. For any acquisition, we allocate goodwill to the applicable reporting unit at the completion of the purchase price allocation through specific identification.

Fair value of our reporting units is determined using a combination of a comparative company analysis, a comparative transaction analysis, and a discounted cash flow analysis. The comparative company analysis establishes fair value by applying market multiples to our revenue and earnings before interest, income taxes, depreciation and amortization. Such multiples are determined by comparing our reporting units with other publicly traded companies within the respective industries that have similar economic characteristics. The comparative transaction analysis establishes fair value by applying market multiples to our revenue. Such multiples are determined through recent mergers and acquisitions for companies within the respective industries that have similar economic characteristics to our reporting units. The discounted cash flow analysis establishes fair value by estimating the present value of the projected future cash flows of each reporting unit. The present value of estimated discounted future cash flows is determined using our estimates of revenue and costs for the reporting units, driven by assumed growth rates, as well as appropriate discount rates. The discount rate is determined using a weighted-average cost of capital that incorporates market participant data and a risk premium applicable to each reporting unit.

At the end of the fourth quarter of 2008, due to a significant decline in our market capitalization, we reevaluated our goodwill and determined that the goodwill related to our Lasers Division was impaired and recorded a goodwill impairment charge of \$104.6 million. There were no such impairments during 2010 or 2009.

---

**Table of Contents**

During 2008, we conducted an impairment analysis on our intangible assets and, due to diminished cash flow projections for certain products, determined that certain developed technology related to our Lasers Division was impaired. Accordingly, we recorded impairment charges totaling \$15.4 million, which consisted of a charge of \$12.5 million related to developed technology associated with the Spectra-Physics acquisition and a charge of \$2.9 million related to developed technology that we acquired from Picarro, Inc. (Picarro) in 2006. During 2009, we determined that we would not continue to pursue technology related to certain purchased in-process research and development related to the New Focus business and recorded an impairment charge of \$0.4 million associated with such technology.

***Income Taxes***

Our income tax expense (benefit), deferred tax assets and liabilities and reserves for unrecognized tax benefits reflect management's best assessment of estimated future taxes. We are subject to income taxes in both the U.S. and numerous foreign jurisdictions. Significant judgments and estimates are required in determining our consolidated income tax expense (benefit).

We utilize the asset and liability method of accounting for income taxes as set forth in ASC 740, *Income Taxes*. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws themselves are subject to change as a result of changes in fiscal policy, changes in legislation, evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from our estimates, which could result in the need to record additional liabilities or to reverse previously recorded tax liabilities. Differences between actual results and our assumptions, or changes in our assumptions in future periods, are recorded in the period they become known.

Deferred income taxes are recognized for the future tax consequences of temporary differences using enacted statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Temporary differences include the difference between the financial statement carrying amounts and the tax bases of existing assets and liabilities and operating loss and tax credit carryforwards. The effect of a change in tax rates on deferred taxes is recognized in income in the period that includes the enactment date. In accordance with the provisions of ASC 740, a valuation allowance for deferred tax assets is recorded to the extent we cannot determine that the ultimate realization of the net deferred tax assets is more likely than not. Realization of deferred tax assets is principally dependent upon the achievement of future taxable income, the estimation of which requires significant management judgment.

We currently maintain a valuation allowance against a significant portion of our gross deferred tax assets. We monitor our actual results, forecast data and other available evidence, both positive and negative, and we periodically increase or reduce the valuation allowance based on our determinations of whether it is more likely than not that we will realize our net deferred tax assets. An explanation of adjustments made to our valuation allowance in 2008, 2009 and 2010 is included in the discussion of our results of operations under the heading *Income Taxes* on page 47 below. As of January 1, 2011, we were in a cumulative three-year loss position in the United States and certain foreign jurisdictions. After evaluating this loss position together with other positive and negative evidence, we could not determine as of January 1, 2011 that it is more likely than not that some or all of our domestic deferred tax assets and certain deferred tax assets related to our foreign subsidiaries will be realized. Therefore, we have maintained a valuation allowance of \$42.3 million against our deferred tax assets as of January 1, 2011. We will continue to monitor our cumulative three-year loss position together with all other available evidence, both positive and negative, in determining whether it is more likely than not that we will realize our net deferred tax assets. If we continue to meet our forecast of future income, we may have enough positive evidence to release our valuation allowance against our domestic deferred tax assets during the second half of 2011.

We utilize ASC 740-10-25, *Income Taxes - Recognition*, which requires income tax positions to meet a more-likely-than-not recognition threshold to be recognized in the financial statements. Under ASC 740-10-25, tax positions that previously failed to meet the more-likely-than-not threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. As a multi-national corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of

**Table of Contents**

complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine the liability no longer applies. Conversely, we record additional tax charges in a period in which we determine that a recorded tax liability is less than we expect the ultimate assessment to be. As a result of these adjustments, our effective tax rate in a given financial statement period could be materially affected.

**Stock-Based Compensation**

We account for stock-based compensation in accordance with ASC 718, *Compensation - Stock Compensation*. Under the fair value recognition provision of ASC 718, stock-based compensation cost is estimated at the grant date based on the fair value of the award. We estimate the fair value of stock options and stock appreciation rights granted using the Black-Scholes-Merton option pricing model and a single option award approach. The fair value of restricted stock unit awards is based on the closing market price of our common stock on the date of grant.

Determining the appropriate fair value of stock options and stock appreciation rights at the grant date requires significant judgment, including estimating the volatility of our common stock and expected term of the awards. We compute expected volatility based on historical volatility over the expected term. The expected term represents the period of time that stock options and stock appreciation rights are expected to be outstanding and is determined based on our historical experience, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expected exercise behavior.

A substantial portion of our awards vest based upon the achievement of one or more financial performance goals established by the Compensation Committee of our Board of Directors. Currently, such performance goals relate to the fiscal year in which the award is granted, and if such performance goals are met, the awards vest in equal installments on the first three anniversaries of the grant date. For awards issued prior to 2009, the vesting of such awards is conditioned upon achievement of performance goals relating to three annual performance periods. Until we have determined that performance goals have been met, the amount of expense that we record relating to performance-based awards is estimated based on the likelihood of achieving the performance goals. Estimating the likelihood of achievement of performance goals requires significant judgment, as such estimates are based on forecasted results of operations. We also make certain judgments regarding expected forfeitures of all stock-based awards, which may vary significantly from actual forfeitures. If our actual results of operations or forfeitures differ from our estimates, we may need to increase or decrease the compensation expense related to stock-based awards, which could significantly impact the amount of stock-based compensation expense recorded in a given period.

The fair value of stock-based awards, adjusted for estimated forfeitures (and adjusted for estimated or actual achievement of performance goals in the case of awards having performance-based vesting conditions), is amortized using the straight-line attribution method over the requisite service period of the award, which is generally the vesting period.

The total stock-based compensation expense included in our consolidated statements of operations was as follows:

	<b>January</b>	<b>Year Ended</b>	<b>January</b>
	<b>1,</b>	<b>2,</b>	<b>3,</b>
<i>(In thousands)</i>	<b>2011</b>	<b>2010</b>	<b>2009</b>
Cost of sales	\$ 392	\$ 137	\$ 52
Selling, general and administrative expenses	3,896	1,979	1,654
Research and development expense	560	216	97
	\$4,848	\$2,332	\$1,803

**Table of Contents****Results of Operations for the Years Ended January 1, 2011, January 2, 2010 and January 3, 2009**

The following table represents our results of operations for the periods indicated as a percentage of net sales:

	Percentage of Net Sales For the Year Ended		
	January 1, 2011	January 2, 2010	January 3, 2009
Net sales	100.0%	100.0%	100.0%
Cost of sales	57.2	61.1	61.6
<b>Gross profit</b>	<b>42.8</b>	<b>38.9</b>	<b>38.4</b>
Selling, general and administrative expenses	23.5	30.6	26.6
Research and development expense	8.2	10.1	10.4
Loss (gain) on sale of assets and related costs	0.1	1.2	(0.6)
Impairment charges		0.1	26.9
<b>Operating income (loss)</b>	<b>11.0</b>	<b>(3.1)</b>	<b>(24.9)</b>
Recovery (write-down) of note receivable and other amounts related to previously discontinued operations, net		0.0	(1.6)
Write-down of minority interest investment			(0.7)
Gain on extinguishment of debt		0.1	1.7
Interest and other expense, net	(1.8)	(2.3)	(1.5)
<b>Income (loss) before income taxes</b>	<b>9.2</b>	<b>(5.3)</b>	<b>(27.0)</b>
Income tax provision (benefit)	0.7	(0.5)	6.4
<b>Net income (loss)</b>	<b>8.5%</b>	<b>(4.8)%</b>	<b>(33.4)%</b>

In the following discussion regarding our results of operations, due to changes in our market classifications for certain of our customers and product applications, certain prior period amounts have been reclassified among our end markets to conform to the current period presentation.

**Net Sales**

For 2010, 2009 and 2008, our net sales totaled \$479.8 million, \$367.0 million and \$445.3 million, respectively. Our total net sales increased \$112.8 million, or 30.7%, in 2010 compared with 2009. Net sales by our PPT Division increased \$78.0 million, or 35.5%, and net sales by our Lasers Division increased \$34.8 million, or 23.6%, in 2010 compared with the prior year period. The increased sales in 2010 resulted primarily from improved worldwide macroeconomic conditions across our end markets, particularly the strong market conditions in the semiconductor equipment industry during 2010 following a severe downturn in that cyclical industry in 2008 and 2009. In addition, the acquisition of the New Focus business, which we completed at the end of the second quarter of 2009, contributed to the increase in net sales for the full year of 2010 compared with 2009, which had included only two quarters of sales from the New Focus business. Our sales for 2010 included \$36.9 million in sales from the New Focus business, which is included in our PPT Division, compared with \$10.3 million in sales for 2009.

Our total net sales decreased \$78.3 million, or 17.6%, in 2009 compared with 2008. Net sales by our PPT Division decreased \$38.1 million, or 14.8%, and net sales by our Lasers Division decreased \$40.2 million, or 21.4%, in 2009 compared with the prior year period. During 2009, we experienced decreases in net sales compared with 2008 in all of our end markets. These decreases resulted primarily from poor worldwide macroeconomic conditions and the cyclical downturn in the semiconductor equipment industry, particularly in the first half of 2009.

---

**Table of Contents**

Net sales to the scientific research, aerospace and defense/security markets were \$160.4 million, \$143.7 million and \$151.0 million for 2010, 2009 and 2008, respectively. The increase of \$16.7 million, or 11.7% in 2010 compared with 2009 was due primarily to an improvement in overall macroeconomic conditions in these markets due to higher levels of research funding by governmental entities, corporations and private foundations. The increase in net sales to these markets for 2010 was also due to the inclusion of a full year of sales of the New Focus business, which we acquired at the end of the second quarter of 2009, which contributed \$12.7 million in sales to these markets for 2010 compared with \$4.6 million in sales for 2009. The decrease of \$7.3 million, or 4.9%, in 2009 compared with 2008 was due primarily to decreased sales to research customers, including universities, resulting from lower funding from governmental entities, corporations and private foundations, and decreased sales to defense contractor customers, offset in part by additional sales from our acquisition of the New Focus business. Generally, our net sales to these markets by both of our divisions may fluctuate from period to period due to the timing of large sales relating to major research programs and, in some cases, these fluctuations may be offsetting between our divisions or between such periods.

Net sales to the microelectronics market were \$151.9 million, \$84.6 million and \$130.2 million for 2010, 2009 and 2008, respectively. The increase of \$67.3 million, or 79.4%, in 2010 compared with 2009 was due primarily to a significant increase in sales to customers in the semiconductor equipment industry as a result of the upturn in that cyclical industry during 2010. The increase in net sales to this market was also due to the inclusion of a full year of sales of the New Focus business, which contributed \$21.0 million in sales to this market for 2010 compared with \$3.3 million in sales for 2009. These increases were offset in part by a decrease in sales of systems for photovoltaic applications. The decrease of \$45.6 million, or 35.0%, in 2009 compared with 2008 was due primarily to a significant decline in sales of products and systems to our semiconductor capital equipment customers as a result of the cyclical downturn in that industry, and due to the fact that sales of laser-based disk texturing systems that occurred in 2008 did not recur in 2009.

Net sales to the life and health sciences market were \$96.5 million, \$87.5 million and \$90.1 million for 2010, 2009 and 2008, respectively. The increase of \$9.0 million, or 10.3%, in 2010 compared with 2009 was due to an improvement in the overall macroeconomic conditions in this market and an increase in sales of products for bioinstrumentation and bioimaging applications by our PPT Division, offset in part by a reduction in sales of diode laser products. We divested our diode laser operations at the end of the second quarter of 2009, however we continue to distribute certain diode laser products in Japan. Sales of diode laser products to the life and health sciences market in 2010 were \$0.9 million, compared with \$4.9 million in 2009. The overall decrease of \$2.6 million, or 2.9%, in 2009 compared with 2008 was also due primarily to a reduction in sales of diode laser products resulting from the divestiture of our diode laser operations, and to decreased sales of products for bioinstrumentation applications, offset in part by higher sales of products for bioimaging applications.

Net sales to our industrial and other end markets were \$71.0 million, \$51.2 million and \$74.0 million for 2010, 2009 and 2008, respectively, representing an increase of \$19.8 million, or 38.8%, in 2010 compared with 2009, and a decrease of \$22.8 million, or 30.9%, in 2009 compared with 2008. The increase in sales to these varied markets in 2010 compared with 2009 was due to significantly improved macroeconomic conditions. The decrease in sales in 2009 compared with 2008 was due primarily to the poor worldwide macroeconomic conditions during 2009.



**Table of Contents**

Geographically, net sales were as follows:

<i>(In thousands, except percentages)</i>	Year Ended		Increase	Percentage (Decrease)
	January 1, 2011	January 2, 2010		
United States	\$ 233,479	\$ 169,947	\$ 63,532	37.4%
Europe	102,369	97,886	4,483	4.6
Pacific Rim	123,364	79,770	43,594	54.6
Other	20,575	19,386	1,189	6.1
<b>Total sales</b>	<b>\$ 479,787</b>	<b>\$ 366,989</b>	<b>\$ 112,798</b>	<b>30.7%</b>

<i>(In thousands, except percentages)</i>	Year Ended		Decrease	Percentage Increase / (Decrease)
	January 2, 2010	January 3, 2009		
United States	\$ 169,947	\$ 208,736	\$ (38,789)	(18.6)%
Europe	97,886	114,936	(17,050)	(14.8)
Pacific Rim	79,770	100,676	(20,906)	(20.8)
Other	19,386	20,988	(1,602)	(7.6)
<b>Total sales</b>	<b>\$ 366,989</b>	<b>\$ 445,336</b>	<b>\$ (78,347)</b>	<b>(17.6)%</b>

The increases in sales to customers in the United States and the Pacific Rim in 2010 compared with 2009 were due primarily to increased sales to customers in our microelectronics market as a result of the upturn in the semiconductor equipment industry, as well as to the improved overall macroeconomic conditions in all of our end markets. The increase in sales to customers in Europe in 2010 compared with the prior year was due primarily to increased sales to customers in our industrial manufacturing and microelectronics end markets as a result of the improved overall macroeconomic conditions.

Poor global macroeconomic conditions in 2009 resulted in decreased sales to customers in all geographic regions compared with 2008. In particular, sales to customers in the United States, Europe and the Pacific Rim were negatively impacted by the cyclical downturn in the semiconductor equipment industry, and sales to the Pacific Rim were also negatively impacted by the absence of sales of laser-based disk texturing systems in 2009 compared with significant sales of such systems in 2008.

**Gross Margin**

Gross margin was 42.8%, 38.9% and 38.4% for 2010, 2009 and 2008, respectively. The increase in gross margin in 2010 compared with 2009 was due primarily to improved absorption of manufacturing overhead resulting from our higher sales level, lower excess and obsolete inventory reserves as a result of increased demand for products, and a higher proportion of sales of higher margin products. The increase in gross margin in 2009 compared with 2008 was due primarily to improved gross margins in our Lasers Division as a result of the divestiture of our diode laser operations, decreased warranty expenses, lower personnel costs resulting from headcount reductions, and improved operating efficiencies at certain facilities as a result of our cost reduction actions. This increase was offset in part by lower absorption of fixed overhead costs resulting from reduced sales.

In general, we expect that our gross margin will vary in any given period depending upon factors including our mix of sales, product pricing variations, manufacturing absorption levels, and changes in levels of inventory and warranty reserves.

**Selling, General and Administrative (SG&A) Expenses**

SG&A expenses totaled \$112.8 million, or 23.5% of net sales, \$112.2 million, or 30.6% of net sales, and \$118.5 million, or 26.6% of net sales, during 2010, 2009 and 2008, respectively. The slight increase in SG&A expenses in absolute dollars in 2010 compared with 2009 was due primarily to an increase of \$8.5 million in expenses related to incentive compensation due to our improved sales and earnings performance, which was offset in



---

## **Table of Contents**

large part by \$3.5 million of severance related costs incurred during 2009 that did not recur during 2010 and a decrease of \$4.6 million in rent and utilities. The decreased rent was due primarily to duplicate rental charges that we incurred in the 2009 period while we transitioned from our Mountain View facility to our Santa Clara facility that did not recur in 2010, and to the lower rental rate at the Santa Clara facility. The increase in SG&A expenses in absolute dollars in 2010 was also due to increased third party commissions, freight costs and professional fees, offset in part by decreases in bad debt expense and depreciation.

The decrease in SG&A expenses in absolute dollars in 2009 compared with 2008 was due primarily to decreased wages of \$3.5 million, consulting expenses of \$3.0 million and travel expenses of \$2.1 million, offset in part by increased rent of \$2.1 million and incentive compensation of \$1.3 million. There were also decreases in advertising expenses, shipping costs, accounting fees and insurance expenses, offset in part by increased bad debt expense and benefits costs.

In general, we expect that SG&A expenses will vary as a percentage of sales in the future based on our sales level in any given period. Because the majority of our SG&A expenses are fixed in the short term, these changes in SG&A expenses will likely not be in proportion to the changes in net sales.

### ***Research and Development (R&D) Expense***

R&D expense totaled \$39.3 million, or 8.2% of net sales, \$36.9 million, or 10.1% of net sales, and \$46.1 million, or 10.4% of net sales, during 2010, 2009 and 2008, respectively. The increase in R&D expense in absolute dollars in 2010 compared with 2009 was due primarily to the addition of R&D expense related to the New Focus business, for which there was only two quarters of corresponding expense in the prior year, and to increased new product development activity across the remainder of our business. The increase in 2010 was also due to increased personnel costs resulting primarily from higher incentive compensation due to our improved financial performance. The increase was offset in part by the elimination of R&D expense related to our diode laser operations as a result of our divestiture of such operations in July 2009.

The decrease in R&D expense in 2009 compared with 2008 was due to reduced spending in both our Lasers and PPT Divisions. The decrease in R&D spending in our Lasers Division was due primarily to the reduced expenses resulting from the divestiture of our diode laser operations and reduced headcount within the remainder of the division. The decrease in R&D spending in our PPT Division was due primarily to reduced spending on projects related to solar cell manufacturing applications, as the design and development of certain products was completed during 2008, and to reduced headcount.

We believe that the continued development and advancement of our products and technologies is critical to our future success, and we intend to continue to invest in R&D initiatives, while working to ensure that the efforts are focused and the funds are deployed efficiently. In general, we expect that R&D expense as a percentage of net sales will vary in the future based on our sales level in any given period. Because of our commitment to continued product development, and because the majority of our R&D expense is fixed in the short term, changes in R&D expense will likely not be in proportion to the changes in net sales.

### ***Loss / Gain on Sale of Assets and Related Costs***

During 2010, we recognized a loss of \$0.5 million associated with the sale of our Hilger Crystals Limited subsidiary, which was completed on July 19, 2010, as discussed under *Acquisitions and Divestitures* on page 35. Our Hilger Crystals business had previously been included in our PPT Division.

In the second quarter of 2009, we sold certain assets and transferred certain liabilities related to our diode laser operations based in Tucson, Arizona to Oclaro, and we recorded a loss on the sale of such assets of \$4.4 million in 2009. These assets had previously been included in our Lasers Division.

---

**Table of Contents**

During 2008, we sold a building under a sale-leaseback agreement for \$7.0 million, net of \$0.3 million in selling costs. We recorded a gain on the sale of the building of \$2.5 million after considering the net book value of the building and the present value of the leaseback agreement. The lease of the building expired on December 31, 2009.

***Impairment Charges***

During the fourth quarter of 2009, we determined that we would not continue to pursue technology related to certain purchased in-process research and development related to the New Focus business and recorded an impairment charge of \$0.4 million associated with such technology.

During the fourth quarter of 2008, due to a significant decline in our market capitalization and diminished cash flow projections related to certain laser products, we determined that goodwill and certain purchased intangible assets related to our Lasers Division were impaired. As a result, we recorded goodwill impairment charges totaling \$104.6 million, which consisted of a charge of \$103.0 million related to goodwill associated with the acquisition of Spectra-Physics and a charge of \$1.6 million related to goodwill associated with the acquisition of certain assets from Picarro. In addition, we recorded impairment charges related to certain purchased intangible assets totaling \$15.4 million, which consisted of a charge of \$12.5 million related to developed technology associated with the acquisition of Spectra-Physics and a charge of \$2.9 million related to developed technology acquired from Picarro.

***Write-Down of Note Receivable and Other Amounts***

In 2005, we sold our robotic systems operations to Kensington Laboratories LLC (Kensington) for \$0.5 million in cash and a note receivable of \$5.7 million, after adjustments provided for in the purchase agreement, and subleased the facility relating to such operations to Kensington. We had previously classified this business as a discontinued operation. Kensington failed to make certain principal, interest and rent payments due under our agreements. The note was secured by a first-priority security interest in certain Kensington assets. In 2008, due to uncertainty regarding the collectability of such amounts, we wrote off the note receivable and other amounts owed in full, resulting in charges totaling \$7.0 million, net of amounts recovered relating to the sublease. In accordance with the Securities and Exchange Commission Staff Accounting Bulletin Topic 5.Z.5, we have recorded this write-down through continuing operations in our consolidated statements of operations. In 2009, we entered into a settlement agreement with Kensington pursuant to which Kensington paid us \$0.2 million and transferred to us certain assets included in the collateral securing the note. In 2009, we recognized \$0.1 million as a recovery on the note, net of certain costs.

***Write-Down of Minority Interest Investment***

We own a minority interest in a privately held developer of flip chip and advanced packaging equipment for back-end semiconductor manufacturing applications. During the fourth quarter of 2008, we determined that such investment had declined in value and that such decline was other-than-temporary. Accordingly, we recorded a charge of \$2.9 million to write off the full carrying value of this investment. In early 2010, this company filed a registration statement for an initial public offering, which has not yet been completed. If and when this offering is complete, the public market for the company's stock would create greater liquidity for this investment. If we are able to liquidate our holdings in the future, any proceeds received from such a transaction will be recognized as a gain in the period in which the stock is sold.

***Gain on Extinguishment of Debt***

During 2009, we extinguished \$20.2 million of our convertible subordinated notes at a weighted-average price equal to 91.6% of the principal amount of the notes, or \$18.7 million. After allocating \$0.3 million to the equity component, we recorded a gain of \$0.3 million on extinguishment of debt, net of unamortized fees and debt discount. During 2008, we extinguished \$28.0 million of our convertible subordinated notes at a weighted-average price equal to 59.9% of the principal amount of the notes, or \$16.8 million. We recorded a gain of \$7.7 million on extinguishment of debt, net of unamortized fees and debt discount.

---

**Table of Contents*****Interest and Other Expense, Net***

Interest and other expense, net was \$8.5 million, \$8.6 million and \$6.8 million in 2010, 2009 and 2008, respectively. The decrease in interest and other expense, net in 2010 compared with 2009 was due primarily to a decrease in interest expense as a result of lower outstanding balances on our convertible subordinated notes and transaction gains resulting from foreign currency fluctuations, offset in large part by the write off of \$0.6 million for previously unrealized currency translation losses associated with our Hilger Crystals Limited subsidiary, which we sold in the third quarter of 2010, and a decrease in interest income earned due to lower interest rates. The increase in interest and other expense, net in 2009 compared with 2008 was due primarily to lower interest income earned as a result of lower interest rates and transaction losses resulting from foreign currency fluctuations, offset in part by a decrease in interest expense due to lower outstanding balances on our convertible subordinated notes.

***Income Taxes***

Our effective income tax rate reflected tax expense of 7.1% for 2010, tax benefit of 10.2% for 2009 and tax expense of (23.8%) for 2008. During the fourth quarter of 2008, we determined that goodwill and certain purchased intangible assets related to our Lasers Division were impaired, and we recorded impairment charges of \$119.9 million, which resulted in a cumulative three-year loss position as of January 3, 2009. After evaluating this loss position together with other positive and negative evidence, we determined that it was more likely than not that some or all of our net deferred tax assets would not be realized. Therefore, in the fourth quarter of 2008, we recorded a valuation allowance of \$19.8 million against our domestic deferred tax assets and certain deferred tax assets related to our foreign subsidiaries. In addition, due to such impairment of goodwill and other intangible assets, we determined that certain qualifying tax planning strategies were no longer deemed prudent and feasible and, as a result, we recorded an additional valuation allowance of \$4.6 million in 2008. In the fourth quarter of 2009, after evaluating all positive and negative evidence, it was determined that it was more likely than not that we would realize the net deferred tax assets applicable to our German entity. Therefore, we recorded a release of the valuation allowance associated with this entity of \$2.5 million. During 2010, we released a total of \$16.9 million of the valuation allowance related to the realization of domestic deferred tax assets as a result of the income we generated in 2010. We also recorded a reduction to foreign deferred tax assets and a corresponding reduction of \$1.3 million to the valuation allowance related to deferred tax assets that were lost due to reorganizations, sales, and liquidations of certain foreign entities. As of January 1, 2011, we were still in a cumulative three-year loss position in the United States and certain foreign jurisdictions. After evaluating this loss position together with other positive and negative evidence, we could not determine as of January 1, 2011 that it is more likely than not that some or all of our domestic deferred tax assets and certain deferred tax assets related to our foreign subsidiaries will be realized. Therefore, we maintained a valuation allowance against our deferred tax assets of \$42.3 million as of January 1, 2011.

As of January 1, 2011, we had \$10.0 million of gross unrecognized tax benefits and a total of \$9.1 million of net unrecognized tax benefits, which, if recognized, would affect our effective tax rate. We believe that it is reasonably possible that unrecognized tax benefits may decrease by \$1.0 million within the next twelve months. We accrue interest and penalties related to unrecognized tax benefits in our provision for income taxes. Such accrual totaled \$0.8 million as of January 1, 2011.

***Liquidity and Capital Resources***

Our cash and cash equivalents and marketable securities balances increased to \$200.2 million as of January 1, 2011 from \$141.9 million as of January 2, 2010. This increase was attributable primarily to cash generated from our operations, proceeds from the sale of our Hilger Crystals Limited subsidiary and proceeds from the issuance of common stock under our employee stock plans, offset in part by capital expenditures, net repayments of short-term borrowings, and payments made in connection with the cancellation of restricted stock units for taxes owed by employees upon vesting of restricted stock units issued under our stock incentive plans.

Net cash provided by our operating activities of \$70.6 million was attributable primarily to cash provided by our results of operations, an increase of \$9.5 million in accounts payable due to the timing of payments and an increase of \$8.8 million in accrued payroll expenses due to higher accrued incentive compensation and the timing of payments, offset in part by an increase of \$13.9 million in accounts and notes receivable due to higher sales and the

---

**Table of Contents**

timing of collections and an increase of \$11.4 million in gross inventory. During 2010, while our gross inventory balance increased \$11.4 million, our net current inventory balance decreased by \$5.4 million as a result of transferring \$7.0 million to a long-term inventory account, \$5.8 million in charges related to excess and obsolete inventory, \$2.4 million in amortization of demonstration equipment and \$0.9 million in inventory sold in connection with the sale of our Hilger Crystals Limited subsidiary.

Net cash used in investing activities of \$62.5 million consisted of net purchases of marketable securities of \$57.6 million and purchases of property and equipment of \$8.9 million, offset in part by \$4.0 million in proceeds we received from the sale of our Hilger Crystals Limited subsidiary.

Net cash used in financing activities of \$2.4 million was attributable primarily to the net repayment of short-term borrowings of \$3.5 million and payments of \$1.3 million in connection with the cancellation of restricted stock units for taxes owed by employees upon the vesting of restricted stock units issued under our stock incentive plans, offset in part by proceeds from the sale of stock under employee plans.

As of January 1, 2011, we had cash and cash equivalents of \$91.0 million and marketable securities of \$109.2 million. The majority of the marketable securities are invested in one portfolio managed by an investment management firm, under the oversight of our senior financial management team. This portfolio manager invests the funds allocated in accordance with our Investment Policy, which is reviewed regularly by our senior financial management and the Audit Committee of our Board of Directors. We expect that our cash balances will fluctuate in the future based on factors such as cash used in or provided by ongoing operations, acquisitions or divestitures, investments in other companies, extinguishment or repayment of notes, capital expenditures and contractual obligations, and changes in interest rates.

In February 2007, we issued \$175 million of convertible subordinated notes due 2012, which notes bear interest at a rate of 2.5% per year, payable in cash semiannually in arrears on February 15 and August 15 of each year. The sale of the notes generated net proceeds of \$169.4 million after deducting offering fees and expenses. At the time of issuance of the notes, we used \$40.0 million of the net proceeds from the offering to repurchase 2.1 million shares of our common stock at a purchase price of \$18.86 per share, and \$48.2 million of the net proceeds from the offering to prepay all of our long-term debt owed to Thermo pursuant to the note originally issued as part of the purchase price for Spectra-Physics in 2004. During 2007 and 2008, we used a portion of the proceeds from these notes to repurchase shares of our common stock under the stock repurchase programs approved by our Board of Directors. In addition, as noted above, during 2009 and 2008, we extinguished \$20.2 million and \$28.0 million of these notes for \$18.7 million and \$16.8 million, respectively. We intend to use the remaining proceeds from the offering for working capital and other general corporate purposes, which may include potential acquisitions, or extinguishment or repayment of the convertible notes. At January 1, 2011, these notes had an outstanding principal balance of \$126.8 million, which is due and payable in February 2012 when the notes mature. Our current cash, cash equivalents and marketable securities are sufficient to pay the outstanding principal balance of the notes, although they would be depleted significantly in so doing. We discuss certain risks associated with our ability to pay these notes and the impact of such payment upon us in [Risk Factors](#). Our convertible debt imposes significant financial obligations upon us, and certain provisions of our convertible notes could discourage a change in control on page 25.

In June 2008, we issued 300 million yen (\$3.7 million at January 1, 2011) in private placement bonds through a Japanese bank and used the proceeds from such issuance to pay the amounts outstanding under an expiring line of credit. These bonds bear interest at a rate of 1.55% per year, payable in cash semiannually in arrears on June 30 and December 31 of each year. The bonds mature on June 30, 2011.

At January 1, 2011, we had a total of three lines of credit, including one domestic revolving line of credit and two revolving lines of credit with Japanese banks. In addition, we had two other agreements with Japanese banks under which we sell trade notes receivable with recourse.

Our domestic revolving line of credit has a total credit limit of \$3.0 million and expires on December 1, 2011. Certain certificates of deposit held at this lending institution collateralize this line of credit, which bears interest at either the prevailing London Interbank Offered Rate (LIBOR) (0.26% at January 1, 2011) plus 1.00% or the British Bankers Association LIBOR Daily Floating Rate (0.25% at January 1, 2011) plus 1.00%, at our option, and carries

## Table of Contents

an unused line fee of 0.25% per year. At January 1, 2011, there were no balances outstanding under this line of credit, with \$1.6 million available, after considering outstanding letters of credit totaling \$1.4 million.

Our two revolving lines of credit with Japanese banks totaled 900 million yen (\$11.0 million at January 1, 2011) and expire as follows: \$7.3 million on March 1, 2011 (which has subsequently been extended to June 1, 2011) and \$3.7 million on August 31, 2011. The \$7.3 million line of credit bears interest at the prevailing bank rate and the \$3.7 million line of credit bears interest at LIBOR plus 1.75%. Certain certificates of deposit held by the lending institution's U.S. affiliate collateralize the \$3.7 million line of credit. At January 1, 2011, we had \$6.7 million outstanding and \$4.3 million available for borrowing under these lines of credit. Amounts outstanding under these revolving lines of credit are included in *short-term borrowings* in the accompanying consolidated balance sheets. Our two other agreements with Japanese banks, under which we sell trade notes receivable with recourse, totaled 550 million yen (\$6.7 million at January 1, 2011), have no expiration dates and bear interest at the bank's prevailing rate. At January 1, 2011, we had \$2.0 million outstanding and \$4.7 million available for the sale of notes receivable under these agreements. Amounts outstanding under these agreements are included in *short-term borrowings* in the accompanying consolidated balance sheets. As of January 1, 2011, the weighted-average effective interest rate on all of our Japanese borrowings, including the private placement bonds, was 2.1%.

In May 2008, our Board of Directors approved a share repurchase program, authorizing the purchase of up to 4.0 million shares of our common stock. Purchases may be made under this program from time to time in the open market or in privately negotiated transactions, and the timing and amount of the purchases will be based on factors including our share price, cash balances, expected cash requirements and general business and market conditions. Under this program, we repurchased 127,472 shares for \$1.4 million during 2008. We made no purchases under this program in 2009 or 2010. As of January 1, 2011, a total of approximately 3.9 million shares remained available for repurchase under the program.

During 2011, we expect to use \$10 million to \$15 million of cash for capital expenditures.

We believe our current working capital position, together with our expected future cash flows from operations will be adequate to fund our operations in the ordinary course of business, anticipated capital expenditures, debt payment requirements and other contractual obligations for at least the next twelve months. However, this belief is based upon many assumptions and is subject to numerous risks (see *Risk Factors* on pages 16-28), and there can be no assurance that we will not require additional funding in the future.

Except for the aforementioned capital expenditures, we have no present agreements or commitments with respect to any material acquisitions of other businesses, products, product rights or technologies or any other material capital expenditures. However, we will continue to evaluate acquisitions of and/or investments in products, technologies, capital equipment or improvements or companies that complement our business and may make such acquisitions and/or investments in the future. Accordingly, we may need to obtain additional sources of capital in the future to finance any such acquisitions and/or investments. We may not be able to obtain such financing on commercially reasonable terms, if at all. Even if we are able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing, or cause substantial dilution for our stockholders, in the case of equity financing.

**Table of Contents****Contractual Obligations**

We lease certain of our manufacturing and office facilities and equipment under non-cancelable leases, certain of which contain renewal options. In addition to the base rent, we are generally required to pay insurance, real estate taxes and other operating expenses relating to such facilities. In addition, we have purchase obligations related to minimum usage amounts for telecommunications and data services. We typically exceed these minimum purchase obligations.

Our long-term debt, capital and operating lease obligations, purchase obligations and pension benefit obligations at January 1, 2011 were as follows:

<i>(In thousands)</i>	<b>Capital Leases</b>	<b>Long-Term Debt</b>	<b>Operating Leases</b>	<b>Purchase Obligations</b>	<b>Pension Benefits</b>	<b>Total Obligations</b>
<b>Payments Due By Period:</b>						
2011	\$ 245	\$ 3,169	\$ 9,001	\$ 420	\$ 1,309	\$ 14,144
2012	206	128,360	6,872	420	810	136,668
2013	178		6,592	210	743	7,723
2014	177		6,026		755	6,958
2015	176		4,863		809	5,848
Thereafter	419		28,563		15,053	44,035
<b>Total minimum payments</b>	<b>1,401</b>	<b>131,529</b>	<b>\$ 61,917</b>	<b>\$ 1,050</b>	<b>\$ 19,479</b>	<b>\$ 215,376</b>
<b>Less amount representing interest</b>	<b>(264)</b>	<b>(4,754)</b>				
<b>Present value of obligation</b>	<b>\$ 1,137</b>	<b>\$ 126,775</b>				

We have subleased certain of our facilities. Future minimum rentals to be received by us under non-cancelable subleases at January 1, 2011 were as follows:

<i>(In thousands)</i>	<b>Operating Leases</b>
<b>Payments Due By Period:</b>	
2011	\$ 321
2012	19
<b>Total minimum sublease payments</b>	<b>\$ 340</b>

Our gross unrecognized tax benefits at January 1, 2011 were \$10.0 million. It is reasonably possible that unrecognized tax benefits may decrease by \$1.0 million within the next twelve months. However, we are not able to provide a detailed estimate of the timing of payments due to the uncertainty of when the related tax settlements are due.

**New Accounting Standards**

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-13, *Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force*, which amends the guidance in ASC 605, *Revenue Recognition*. ASU No. 2009-13 eliminates the residual method of accounting for revenue on undelivered products and instead, requires companies to allocate revenue to each of the deliverable products based on their relative selling price. In addition, this ASU expands the disclosure requirements regarding multiple-deliverable arrangements. ASU No. 2009-13 became effective for revenue arrangements entered into beginning in our fiscal year of 2011. The adoption of ASU No. 2009-13 has not had a material impact on our financial position or results of operations.





---

## **Table of Contents**

### **ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The principal market risks (i.e., the risk of loss arising from adverse changes in market rates and prices) to which we are exposed are changes in foreign exchange rates, which may generate translation and transaction gains and losses, and changes in interest rates.

#### **Foreign Currency Risk**

Operating in international markets sometimes involves exposure to volatile movements in currency exchange rates. The economic impact of currency exchange rate movements on our operating results is complex because such changes are often linked to variability in real growth, inflation, interest rates, governmental actions and other factors. These changes, if material, may cause us to adjust our financing and operating strategies. Consequently, isolating the effect of changes in currency does not incorporate these other important economic factors.

From time to time we use forward exchange contracts to mitigate the risks associated with certain foreign currency transactions entered into in the ordinary course of business, primarily foreign currency denominated receivables and payables. We do not engage in currency speculation. The forward exchange contracts generally require us to exchange U.S. dollars for foreign currencies at maturity, at rates agreed to at the inception of the contracts. If the counterparties to the exchange contracts (typically highly rated banks) do not fulfill their obligations to deliver the contracted currencies, we could be at risk for any currency related fluctuations. Such contracts are typically closed out prior to the end of each quarter. Transaction gains and losses are included in net income (loss) in our consolidated statements of operations. Net foreign exchange gains and losses were not material to our reported results of operations for the last three years. There were no forward exchange contracts outstanding at January 1, 2011 or January 2, 2010.

As currency exchange rates change, translation of the statements of operations of international operations into U.S. dollars affects the year-over-year comparability of operating results. We do not generally hedge translation risks because cash flows from international operations are generally reinvested locally. We do not enter into hedges to minimize volatility of reported earnings because we do not believe they are justified by the exposure or the cost.

Changes in currency exchange rates that would have the largest impact on translating our future international operating income include the euro and Japanese yen. We estimate that a hypothetical 10% change in foreign exchange rates would not have had a material effect on our reported net income for the year ended January 1, 2011. We believe that this quantitative measure has inherent limitations because, as discussed in the first paragraph of this section, it does not take into account any governmental actions or changes in either customer purchasing patterns or our financing and operating strategies.

#### **Interest Rate Risk**

The interest rates we pay on certain of our debt instruments are subject to interest rate risk. Our collateralized line of credit bears interest at either the prevailing London Interbank Offered Rate (LIBOR) plus 1.00% or the British Bankers Association LIBOR Daily Floating Rate plus 1.00%, at our option. Our \$3.7 million revolving line of credit with a Japanese bank bears interest at LIBOR plus 1.75%. Our other revolving line of credit and other credit agreements with Japanese banks bear interest at the lending bank's prevailing rate. Our convertible subordinated notes and private placement bonds bear interest at a fixed rate of 2.5% and 1.55% per year, respectively, and are not impacted by changes in interest rates. Our investments in cash, cash equivalents and marketable securities, which totaled \$200.2 million at January 1, 2011, are sensitive to changes in the general level of U.S. interest rates. In addition, certain assets related to our pension plans that are not part of such plans, which totaled \$8.6 million at January 1, 2011, are sensitive to interest rates and economic conditions in Europe. We estimate that a hypothetical 10% change in the interest rate earned on our investment portfolio or a 10% change in interest rates on our lines of credit would not have had a material effect on our net income for 2010.

---

**Table of Contents**

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The financial statements required by this item are included in Part IV, Item 15 of this Annual Report on Form 10-K and are presented beginning on page F-1. The supplementary financial information required by this item is included in Note 17, Supplementary Quarterly Consolidated Financial Data (Unaudited), of the Notes to Consolidated Financial Statements on page F-40.

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

Not applicable.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Evaluation of Disclosure Controls and Procedures**

Our chief executive officer and our chief financial officer, after evaluating our disclosure controls and procedures (as defined in Securities Exchange Act of 1934 (Exchange Act) Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Annual Report on Form 10-K (Evaluation Date) have concluded that as of the Evaluation Date, our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and to ensure that information required to be disclosed by us in such reports is accumulated and communicated to our management, including our chief executive officer and chief financial officer where appropriate, to allow timely decisions regarding required disclosure.

**Management's Annual Report on Internal Control Over Financial Reporting**

***Internal Control Over Financial Reporting***

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. This process includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the internal control over financial reporting to future periods are subject to risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with policies or procedures may deteriorate.

***Management's Assessment of the Effectiveness of our Internal Control Over Financial Reporting***

Management has evaluated the effectiveness of our internal control over financial reporting as of January 1, 2011. In conducting its evaluation, management used the framework set forth in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under such framework, our management has concluded that our internal control over financial reporting was effective as of January 1, 2011.

## **Table of Contents**

### ***Attestation Report***

Deloitte & Touche LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K for our fiscal year ended January 1, 2011, has issued an attestation report on our internal control over financial reporting. Such attestation report is included below under the heading *Attestation Report of Independent Registered Public Accounting Firm*.

### **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the fourth quarter of the year ended January 1, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

### **Attestation Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of

Newport Corporation

Irvine, California

We have audited the internal control over financial reporting of Newport Corporation and subsidiaries (the Company) as of January 1, 2011, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Assessment of the Effectiveness of our Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## **Table of Contents**

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 1, 2011, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended January 1, 2011 of the Company and our report dated March 7, 2011 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

Costa Mesa, California

March 7, 2011

### **ITEM 9B. OTHER INFORMATION**

Not applicable.

## **PART III**

### **ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

The information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of January 1, 2011 and delivered to stockholders in connection with our 2011 Annual Meeting of Stockholders, which is expected to be held on May 17, 2011.

### **ITEM 11. EXECUTIVE COMPENSATION**

The information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of January 1, 2011 and delivered to stockholders in connection with our 2011 Annual Meeting of Stockholders, which is expected to be held on May 17, 2011.

### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

All information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of January 1, 2011 and delivered to stockholders in connection with our 2011 Annual Meeting of Stockholders, which is expected to be held on May 17, 2011, with the exception of the information regarding securities authorized for issuance under our equity compensation plans, which is set forth in Item 5 of this Annual Report on Form 10-K under the heading Information Regarding Equity Compensation Plans and is incorporated herein by reference.

### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

The information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of January 1, 2011 and delivered to stockholders in connection with our 2011 Annual Meeting of Stockholders, which is expected to be held on May 17, 2011.

### **ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES**

The information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of January 1, 2011 and delivered to stockholders in connection with our 2011 Annual Meeting of Stockholders, which is expected to be held on May 17, 2011.



**Table of Contents****PART IV****ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) The following documents are filed as part of this Annual Report on Form 10-K:

**(1) Financial Statements.**

See Index to Financial Statements and Schedule on page F-1.

**(2) Financial Statement Schedules.**

See Index to Financial Statements and Schedule on page F-1. All other schedules are omitted as the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or notes thereto.

**(3) Exhibits.**

The following exhibits are filed (or incorporated by reference herein) as part of this Annual Report on Form 10-K:

Exhibit Number	Description of Exhibit
2.1	Stock Purchase Agreement dated May 28, 2004 by and among the Registrant, Thermo Electron Corporation and other related parties (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on June 17, 2004).
3.1	Restated Articles of Incorporation of the Registrant, as amended to date (incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2010).
3.2	Amended and Restated Bylaws adopted by the Board of Directors of the Registrant effective as of August 16, 2010 (incorporated by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 20, 2010).
4.1	Indenture, dated February 7, 2007, between the Registrant and Wells Fargo Bank, N.A. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 7, 2007).
4.2	Registration Rights Agreement, dated February 7, 2007, between the Registrant and Merrill, Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 7, 2007).
4.3	Form of 2.50% Convertible Subordinated Note due 2012 (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 7, 2007).
10.1	Lease Agreement dated March 27, 1991, as amended, pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.1 of the Registrant's Annual Report on Form 10-K for the year ended July 31, 1992).
10.2	First Amendment to Lease dated January 31, 2002, between the Registrant and IRP Muller Associates, LLC pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.2 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).





**Table of Contents**

<b>Exhibit</b>	
<b>Number</b>	<b>Description of Exhibit</b>
10.3	Second Amendment to Lease dated September 28, 2004, between the Registrant and BCSD Properties, L.P. pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.5 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004).
10.4	Third Amendment to Lease dated December 15, 2010, between the Registrant and BCSD Properties, L.P. pertaining to premises located in Irvine, California.
10.5*	1992 Stock Incentive Plan (incorporated by reference to exhibit in the Registrant's 1992 Proxy Statement).
10.6*	1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.11 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999).
10.7*	Amendment to 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-3, No. 333-40878, filed with the Securities and Exchange Commission on July 6, 2000).
10.8*	2001 Stock Incentive Plan (incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 27, 2001).
10.9*	Form of Nonqualified Stock Option Agreement under the Registrant's 2001 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.9 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
10.10*	Form of Incentive Stock Option Agreement under the Registrant's 2001 Stock Incentive Plan (incorporated by reference to Exhibit 10.10 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
10.11*	Form of Restricted Stock Agreement under the Registrant's 2001 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004).
10.12*	2006 Performance-Based Stock Incentive Plan (incorporated by reference to Appendix B of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 10, 2006).
10.13*	Form of Restricted Stock Unit Award Agreement under the Registrant's 2006 Performance-Based Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2006).
10.14*	Form of Restricted Stock Unit Award Agreement (as revised March 2009) under the Registrant's 2006 Performance-Based Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 4, 2009).
10.15*	Form of Stock Appreciation Right Award Agreement under the Registrant's 2006 Performance-Based Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 4, 2009).
10.16*	Amended and Restated Employee Stock Purchase Plan, as amended (incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005).

**Table of Contents**

**Exhibit**

<b>Number</b>	<b>Description of Exhibit</b>
10.17*	Severance Compensation Agreement dated April 1, 2008 between the Registrant and Robert J. Phillippy, President and Chief Executive Officer (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 7, 2008).
10.18*	Severance Compensation Agreement dated April 1, 2008 between the Registrant and Charles F. Cargile, Senior Vice President, Chief Financial Officer and Treasurer (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 7, 2008).
10.19*	Form of Severance Compensation Agreement between the Registrant and certain of its executive and other officers (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 7, 2008).
10.20*	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.21	Loan Agreement between the Registrant and Bank of America, N.A. dated January 2, 2008 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2008).
10.22	Amendment No. 1 to Loan Agreement between the Registrant and Bank of America, N.A. dated December 1, 2008 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 4, 2008).
10.23	Security Agreement between the Registrant and Bank of America, N.A. dated December 1, 2008 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 4, 2008).
10.24	Amendment No. 2 to Loan Agreement between the Registrant and Bank of America, N.A. dated November 30, 2009 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 2, 2009).
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
23.2	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (included in signature page).
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 (the Exchange Act).
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
32.1	Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350.
32.2	Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350.

\* This exhibit is identified as a management contract or compensatory plan or arrangement pursuant to Item 15(a)(3) of Form 10-K.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 7, 2011.

## NEWPORT CORPORATION

By: */s/ Robert J. Phillippy*  
Robert J. Phillippy  
President and Chief Executive Officer

## POWER OF ATTORNEY

The undersigned directors and officers of Newport Corporation constitute and appoint Robert J. Phillippy and Charles F. Cargile, or either of them, as their true and lawful attorney and agent with power of substitution, to do any and all acts and things in our name and behalf in our capacities as directors and officers and to execute any and all instruments for us and in our names in the capacities indicated below, which said attorney and agent may deem necessary or advisable to enable said corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with this Annual Report on Form 10-K, including specifically but without limitation, power and authority to sign for us or any of us in our names in the capacities indicated below, any and all amendments (including post-effective amendments) hereto; and we do hereby ratify and confirm all that said attorney and agent shall do or cause to be done by virtue hereof. Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
<i>/s/ Robert J. Phillippy</i> Robert J. Phillippy	President and Chief Executive Officer (Principal Executive Officer)	March 7, 2011
<i>/s/ Charles F. Cargile</i> Charles F. Cargile	Senior Vice President and Chief Financial Officer (Principal Financial Officer)	March 7, 2011
<i>/s/ Mark J. Nelson</i> Mark J. Nelson	Vice President, Corporate Controller and Chief Accounting Officer (Principal Accounting Officer)	March 7, 2011
<i>/s/ Robert L. Guyett</i> Robert L. Guyett	Director	March 7, 2011
<i>/s/ Oleg Khaykin</i> Oleg Khaykin	Director	March 7, 2011
<i>/s/ Michael T. O Neill</i> Michael T. O Neill	Director	March 7, 2011
<i>/s/ C. Kumar N. Patel</i> C. Kumar N. Patel	Director	March 7, 2011
<i>/s/ Kenneth F. Potashner</i> Kenneth F. Potashner	Director	March 7, 2011
<i>/s/ Peter J. Simone</i> Peter J. Simone	Director	March 7, 2011



**Table of Contents**

**INDEX TO FINANCIAL STATEMENTS AND SCHEDULE**

	Page
<u>Reports of Independent Registered Public Accounting Firms</u>	F-2
<u>Consolidated statements of operations for the years ended January 1, 2011, January 2, 2010 and January 3, 2009</u>	F-4
<u>Consolidated balance sheets as of January 1, 2011 and January 2, 2010</u>	F-5
<u>Consolidated statements of cash flows for the years ended January 1, 2011, January 2, 2010 and January 3, 2009</u>	F-6
<u>Consolidated statements of comprehensive income (loss) and stockholders' equity for the years ended January 1, 2011, January 2, 2010 and January 3, 2009</u>	F-7
<u>Notes to consolidated financial statements</u>	F-8
<u>Financial Statement Schedule Schedule II Valuation and qualifying accounts</u>	F-41

F-1

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders of

Newport Corporation

Irvine, California

We have audited the accompanying consolidated balance sheets of Newport Corporation and subsidiaries (the Company) as of January 1, 2011, and January 2, 2010, and the related consolidated statements of operations, comprehensive income (loss) and stockholders' equity, and cash flows for the years ended January 1, 2011 and January 2, 2010. Our audits also included the consolidated financial statement schedule listed in Item 15(a). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of January 1, 2011 and January 2, 2010, and the results of its operations and its cash flows for the years ended January 1, 2011 and January 2, 2010, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 1, 2011, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 7, 2011 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Costa Mesa, California

March 7, 2011

**Table of Contents**

**Report of Independent Registered Public Accounting Firm**

The Board of Directors and Stockholders of Newport Corporation

We have audited the accompanying consolidated statements of operations, comprehensive income (loss) and stockholders' equity, and cash flows of Newport Corporation for the year ended January 3, 2009. Our audit also included the financial statement schedule listed in Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of its operations and its cash flows for the year ended January 3, 2009, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Orange County, California

March 16, 2009

F-3

**Table of Contents****NEWPORT CORPORATION****Consolidated Statements of Operations****(In thousands, except per share data)**

	<b>Year Ended</b>		
	<b>January 1, 2011</b>	<b>January 2, 2010</b>	<b>January 3, 2009</b>
Net sales	\$ 479,787	\$ 366,989	\$ 445,336
Cost of sales	274,491	224,387	274,542
Gross profit	205,296	142,602	170,794
Selling, general and administrative expenses	112,754	112,177	118,518
Research and development expense	39,278	36,948	46,068
Loss (gain) on sale of assets and related costs	542	4,355	(2,504)
Impairment charges		360	119,944
Operating income (loss)	52,722	(11,238)	(111,232)
Recovery (write-down) of note receivable and other amounts related to previously discontinued operations, net		101	(7,040)
Write-down of minority interest investment			(2,890)
Gain on extinguishment of debt		328	7,734
Interest and other expense, net	(8,481)	(8,564)	(6,751)
Income (loss) before income taxes	44,241	(19,373)	(120,179)
Income tax provision (benefit)	3,128	(1,967)	28,545
Net income (loss)	\$ 41,113	\$ (17,406)	\$ (148,724)
Net income (loss) per share:			
Basic	\$ 1.12	\$ (0.48)	\$ (4.11)
Diluted	\$ 1.09	\$ (0.48)	\$ (4.11)
Shares used in the computation of income (loss) per share:			
Basic	36,647	36,175	36,155
Diluted	37,726	36,175	36,155

See accompanying notes.



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

	<b>January 1, 2011</b>	<b>January 2, 2010</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 90,992	\$ 87,727
Marketable securities	109,192	54,196
Accounts receivable, net of allowance for doubtful accounts of \$2,587 and \$3,111 as of January 1, 2011 and January 2, 2010, respectively	84,238	72,553
Notes receivable	3,313	2,264
Inventories	84,508	89,908
Deferred income taxes	9,424	4,835
Prepaid expenses and other current assets	10,362	13,963
Total current assets	392,029	325,446
Property and equipment, net	46,160	52,901
Goodwill	69,322	69,932
Deferred income taxes	3,493	4,437
Intangible assets, net	24,990	28,166
Investments and other assets	20,396	12,525
	\$ 556,390	\$ 493,407
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Short-term borrowings	\$ 12,468	\$ 11,056
Accounts payable	31,691	24,312
Accrued payroll and related expenses	30,804	22,231
Accrued expenses and other current liabilities	28,416	31,337
Total current liabilities	103,379	88,936
Long-term debt, net of debt discount	122,042	121,231
Obligations under capital leases, less current portion	979	1,231
Accrued pension liabilities	13,279	10,215
Deferred income taxes and other liabilities	21,252	17,158
Commitments and contingencies		
Stockholders equity:		
Common stock, par value \$0.1167 per share, 200,000,000 shares authorized; 36,909,317 and 36,315,834 shares issued and outstanding as of January 1, 2011 and January 2, 2010, respectively	4,307	4,238
Capital in excess of par value	415,757	409,773
Accumulated other comprehensive income	4,036	10,379
Accumulated deficit	(128,641)	(169,754)
Total stockholders equity	295,459	254,636
	\$ 556,390	\$ 493,407

See accompanying notes.

F-5

**Table of Contents****NEWPORT CORPORATION****Consolidated Statements of Cash Flows**

(In thousands)

	<b>Year Ended</b>		
	<b>January 1, 2011</b>	<b>January 2, 2010</b>	<b>January 3, 2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income (loss)	\$ 41,113	\$ (17,406)	\$ (148,724)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization	18,668	19,932	21,882
Amortization of discount on convertible subordinated notes	4,058	4,575	5,182
Impairment of goodwill and intangible assets		360	119,944
Deferred income taxes, net	(131)	210	15,186
Provision for losses on inventories	5,792	10,298	7,989
Write-down of note receivable and other amounts related to previously discontinued operations			7,061
Write-down of minority interest investment			2,890
Stock-based compensation expense	4,848	2,332	1,803
Provision for doubtful accounts, net	787	1,346	574
Loss on sale of assets	872	3,765	
Loss (gain) on disposal of property and equipment	100	860	(2,818)
Gain on extinguishment of debt		(328)	(7,734)
Increase (decrease) in cash, net of acquisitions and divestitures, due to changes in:			
Accounts and notes receivable	(13,937)	7,021	9,435
Inventories	(11,365)	(6,179)	5,537
Prepaid expenses and other assets	871	(1,419)	(64)
Accounts payable	9,549	(2,083)	(8,538)
Accrued payroll and related expenses	8,844	293	(1,101)
Accrued expenses and other liabilities	488	1,088	16,223
Net cash provided by operating activities	70,557	24,665	44,727
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Purchase of property and equipment	(8,868)	(9,668)	(18,575)
Proceeds from the sale of business	4,003		
Proceeds from the sale of property and equipment, net of selling costs			6,983
Purchase of marketable securities	(141,307)	(36,701)	(71,789)
Proceeds from the sale and maturity of marketable securities	83,684	57,485	51,759
Acquisition of business		(3,000)	
Net cash provided by (used in) investing activities	(62,488)	8,116	(31,622)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from the issuance long-term debt			3,307
Repayment of long-term debt	(159)	(18,644)	(16,850)
Proceeds from short term borrowings	12,336	23,867	33,184
Repayment of short term borrowings	(15,819)	(26,609)	(34,704)
Proceeds from the issuance of common stock under employee plans	2,548	765	2,053
Tax withholding payment related to net share settlement of equity awards	(1,343)		
Purchases of the Company's common stock			(12,822)
Net cash used in financing activities	(2,437)	(20,621)	(25,832)
Impact of foreign exchange rate changes on cash balances	(2,367)	693	(1,136)

Edgar Filing: NEWPORT CORP - Form 10-K

Net increase (decrease) in cash and cash equivalents	3,265	12,853	(13,863)
Cash and cash equivalents at beginning of year	87,727	74,874	88,737
Cash and cash equivalents at end of year	\$ 90,992	\$ 87,727	\$ 74,874

Supplemental disclosures of cash flow information:

Cash paid (received) during the year for:

Interest	\$ 3,520	\$ 4,185	\$ 5,146
Income taxes, net	\$ (361)	\$ (53)	\$ 26
Property and equipment accrued in accounts payable at year end	\$ 7	\$ 1,460	\$

See accompanying notes.

**Table of Contents****NEWPORT CORPORATION****Consolidated Statements of Comprehensive Income (Loss) and Stockholders Equity**

(In thousands)

	Common Stock		Capital in	Accumulated	Accumulated	Total
	Shares	Amount	excess of par value	other comprehensive income	deficit	stockholders equity
<b>December 29, 2007</b>	<b>36,918</b>	<b>4,308</b>	<b>415,912</b>	<b>10,243</b>	<b>(3,624)</b>	<b>426,839</b>
Net loss					(148,724)	(148,724)
Foreign currency translation loss				(3,251)		(3,251)
Unrecognized net pension gain, net of income tax of \$48				6		6
Unrealized loss on marketable securities				(707)		(707)
Comprehensive loss						(152,676)
Issuance of common stock under employee plans	320	38	2,015			2,053
Stock-based compensation expense			1,803			1,803
Repurchases of common stock	(1,189)	(139)	(12,683)			(12,822)
<b>January 3, 2009</b>	<b>36,049</b>	<b>4,207</b>	<b>407,047</b>	<b>6,291</b>	<b>(152,348)</b>	<b>265,197</b>
Net loss					(17,406)	(17,406)
Foreign currency translation gain				2,394		2,394
Unrecognized net pension loss, net of income tax of \$186				(607)		(607)
Unrealized gain on marketable securities, net of income tax of \$600				2,301		2,301
Comprehensive loss						(13,318)
Issuance of common stock under employee plans	267	31	734			765
Extinguishment of equity component of long-term debt			(340)			(340)
Stock-based compensation expense			2,332			2,332
<b>January 2, 2010</b>	<b>36,316</b>	<b>4,238</b>	<b>409,773</b>	<b>10,379</b>	<b>(169,754)</b>	<b>254,636</b>
Net income					41,113	41,113
Foreign currency translation loss				(4,871)		(4,871)
Unrecognized net pension loss, net of income tax of \$489				(1,007)		(1,007)
Unrealized loss on marketable securities				(465)		(465)
Comprehensive income						34,770
Issuance of common stock under employee plans	709	83	2,465			2,548
Tax withholding payment related to net share settlement of equity awards	(116)	(14)	(1,329)			(1,343)
Stock-based compensation expense			4,848			4,848
<b>January 1, 2011</b>	<b>36,909</b>	<b>\$ 4,307</b>	<b>\$ 415,757</b>	<b>\$ 4,036</b>	<b>\$ (128,641)</b>	<b>\$ 295,459</b>

See accompanying notes.

---

**Table of Contents**

**NEWPORT CORPORATION**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

*Organization*

Newport Corporation (the Company) is a global supplier of advanced technology products and systems to a wide range of industries, including scientific research, microelectronics, aerospace and defense/security, life and health sciences, and industrial manufacturing. The Company provides a broad portfolio of products to customers in these end markets, allowing it to offer them an end-to-end resource for photonics solutions.

*Basis of Presentation*

The accompanying financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany transactions and balances have been eliminated in consolidation.

The Company uses a 52/53-week accounting fiscal year ending on the Saturday closest to December 31, and its fiscal quarters end on the Saturday closest to the end of each corresponding calendar quarter. Fiscal year 2010 (referred to herein as 2010) ended January 1, 2011, fiscal year 2009 (referred to herein as 2009) ended January 2, 2010 and fiscal year 2008 (referred to herein as 2008) ended on January 3, 2009. Fiscal years 2010 and 2009 each consisted of 52 weeks, and fiscal year 2008 consisted of 53 weeks.

*Foreign Currency Translation*

Assets and liabilities for the Company's international operations are translated into U.S. dollars using current rates of exchange in effect at the balance sheet dates. Items of income and expense for the Company's international operations are translated using the monthly average exchange rates in effect for the period in which the items occur. The functional currency for the majority of the Company's international operations is the local currency. Where the local currency is the functional currency, the resulting translation gains and losses are included as a component of stockholders' equity in accumulated other comprehensive income. Where the U.S. dollar is the functional currency, the resulting translation gains and losses are included in the results of operations. Realized foreign currency transaction gains and losses for all entities are included in the results of operations.

*Derivative Instruments*

The Company recognizes all derivative financial instruments in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. The Company does not engage in currency speculation; however, the Company uses forward exchange contracts to mitigate the risks associated with certain foreign currency transactions entered into in the ordinary course of business, primarily foreign currency denominated receivables and payables. Such contracts do not qualify for hedge accounting and accordingly, changes in fair values are reported in the statement of operations. The forward exchange contracts generally require the Company to exchange U.S. dollars for foreign currencies at maturity, at rates agreed to at the inception of the contracts. If the counterparties to the exchange contracts (typically highly rated banks) do not fulfill their obligations to deliver the contracted currencies, the Company could be at risk for any currency related fluctuations. Such contracts are typically closed out prior to the end of each quarter. Transaction gains and losses are included in *interest and other expense, net* in the accompanying consolidated statements of operations. There were no forward exchange contracts outstanding at January 1, 2011 or January 2, 2010.

*Cash and Cash Equivalents and Marketable Securities*

The Company considers cash and highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. Investments with original maturities exceeding three months at the date of

---

**Table of Contents**

purchase are classified as marketable securities. All marketable securities are classified as available for sale and are recorded at market value using the specific identification method; unrealized gains and losses are reflected in *accumulated other comprehensive income* in the accompanying consolidated balance sheets, unless the Company determines there is an other-than-temporary impairment, in which case the loss is recorded in the consolidated statements of operations.

*Accounts and Notes Receivable*

The Company records reserves for specific receivables deemed to be at risk for collection, as well as a reserve based on its historical collections experience. The Company estimates the collectability of customer receivables on an ongoing basis by reviewing past due invoices and assessing the current creditworthiness of each customer. A considerable amount of judgment is required in assessing the ultimate realization of these receivables.

Certain of the Company's Japanese customers provide the Company with promissory notes on the due date of the receivable. The payment dates of the promissory notes range between 60 and 150 days from the original receivable due date. For balance sheet presentation purposes, amounts due to the Company under such promissory notes are reclassified from accounts receivable to notes receivable. At January 1, 2011 and January 2, 2010, *notes receivable, net* totaled \$3.3 million and \$2.3 million, respectively. Certain of these promissory notes are sold with recourse to banks in Japan with which the Company regularly does business. The sales of these receivables have been accounted for as secured borrowings, as the Company has not met the criteria for sale treatment in accordance with Accounting Standards Codification (ASC) 860-30, *Transfers and Servicing-Secured Borrowing and Collateral*. The principal amount of the promissory notes sold with recourse is included in both *notes receivable, net* and *short-term borrowings* until the underlying note obligations are ultimately satisfied through payment by the customers to the banks. At January 1, 2011 and January 2, 2010, the principal amount of such promissory notes included in *notes receivable, net* and *short-term borrowings* in the accompanying consolidated balance sheets totaled \$2.0 million and \$1.3 million, respectively.

*Concentrations of Credit Risk*

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, foreign exchange contracts and accounts receivable. The Company maintains cash and cash equivalents with and purchases its foreign exchange contracts from major financial institutions and performs periodic evaluations of the relative credit standing of these financial institutions in order to limit the amount of credit exposure with any one institution. The majority of the Company's marketable securities are managed by an investment management firm, under the oversight of the Company's senior financial management team. The portfolio manager invests the funds in accordance with the Company's investment policy, which, among other things, limits the amounts that may be invested with one issuer. Such policy is reviewed regularly by the Company's senior financial management team and the Audit Committee of the Company's Board of Directors.

The Company's customers are concentrated in the scientific research, aerospace and defense/security, microelectronics, life and health sciences and industrial manufacturing markets, and their ability to pay may be influenced by the prevailing macroeconomic conditions present in these markets. Receivables from the Company's customers are generally unsecured. To reduce the overall risk of collection, the Company performs ongoing evaluations of its customers' financial condition. For the years ended January 1, 2011, January 2, 2010 and January 3, 2009, no customer accounted for 10% or more of the Company's net sales or 10% or more of the Company's gross accounts receivable as of the end of such year.

*Pension Plans*

Several of the Company's non-U.S. subsidiaries have defined benefit pension plans covering substantially all full-time employees at those subsidiaries. Some of the plans are unfunded, as permitted under the plans and applicable laws. For financial reporting purposes, the calculation of net periodic pension costs is based upon a number of actuarial assumptions, including a discount rate for plan obligations, an assumed rate of return on pension plan assets

**Table of Contents**

and an assumed rate of compensation increase for employees covered by the plan. All of these assumptions are based upon management's judgment, considering all known trends and uncertainties.

*Inventories*

Inventories are stated at the lower of cost (determined on either a first-in, first-out (FIFO) or average cost basis) or fair market value and include materials, labor and manufacturing overhead. Inventories that are expected to be sold within one year are classified as current inventories and are included in *inventories*, and inventories that the Company expects to hold for longer than one year are included in *other assets* in the accompanying consolidated balance sheets. The Company writes down excess and obsolete inventory to net realizable value. Once the Company writes down the carrying value of inventory, a new cost basis is established, and the Company does not increase the newly established cost basis based on subsequent changes in facts and circumstances. In assessing the ultimate realization of inventories, the Company makes judgments as to future demand requirements and compares those requirements with the current or committed inventory levels. The Company records any amounts required to reduce the carrying value of inventory to net realizable value as a charge to cost of sales.

*Property and Equipment*

Property and equipment are stated at cost, less accumulated depreciation. Depreciation expense includes amortization of assets under capital leases. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	3 to 40 years
Machinery and equipment	2 to 20 years
Office equipment	3 to 10 years

Leasehold improvements are amortized over the shorter of their estimated useful life or the remaining lease term.

*Intangible Assets, including Goodwill*

Intangible assets, other than goodwill and indefinite-lived trademarks and trade names, are amortized on a straight-line basis over their estimated useful lives as follows:

Developed technology	10 years
Customer relationships	10 years
Other	1 to 3 years

Indefinite-lived trademarks and trade names are subject to annual impairment testing and are not amortized.

Goodwill represents the excess of the purchase price of the net assets of acquired entities over the fair value of such assets. Under ASC 350, *Intangibles - Goodwill and Other*, goodwill and other intangible assets are not amortized but are tested for impairment at least annually or when circumstances exist that would indicate an impairment of such goodwill or other intangible assets. The Company performs the annual impairment test as of the beginning of the fourth quarter of each year. A two-step test is used to identify the potential impairment and to measure the amount of impairment, if any. The first step is based upon a comparison of the fair value of each of the Company's reporting units, as defined, and the carrying value of the reporting unit's net assets, including goodwill. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired; otherwise, step two is required. Under step two, the implied fair value of goodwill, calculated as the difference between the fair value of the reporting unit and the fair value of the net assets of the reporting unit, is compared with the carrying value of goodwill. The excess of the carrying value of goodwill over the implied fair value represents the amount impaired.

The Company determines its reporting units by identifying those operating segments or components for which discrete financial information is available which is regularly reviewed by the management of that unit. For any acquisition, the Company allocates goodwill to the applicable reporting unit at the completion of the purchase price allocation through specific identification.



---

**Table of Contents**

Fair value of the Company's reporting units is typically determined using a combination of a comparative company analysis, weighted at 25%, a comparative transaction analysis, weighted at 25%, and a discounted cash flow analysis, weighted at 50%. The comparative company analysis establishes fair value by applying market multiples to the Company's revenue and earnings before interest, income taxes, depreciation and amortization. Such multiples are determined by comparing the Company's reporting units with other publicly traded companies within the respective industries that have similar economic characteristics. In addition, a control premium is added to reflect the value an investor would pay to obtain a controlling interest, which is consistent with the median control premium for transactions in those industries in which the Company does business. The comparative transaction analysis establishes fair value by applying market multiples to the Company's revenue. Such multiples are determined through recent mergers and acquisitions for companies within the respective industries that have similar economic characteristics to the Company's reporting units. The discounted cash flow analysis establishes fair value by estimating the present value of the projected future cash flows of each reporting unit and applying a terminal growth rate. The present value of estimated discounted future cash flows is determined using the Company's estimates of revenue and costs for the reporting units, driven by assumed growth rates, as well as appropriate discount rates. The discount rate is determined using a weighted-average cost of capital that incorporates market participant data and a risk premium applicable to each reporting unit. Due to recent market volatility, past transactions were deemed not to be comparable to the expected results from current transactions, and therefore, the comparative transaction analysis has been excluded from such analysis in recent years, and an additional weight of 25% has been added to the discounted cash flow analysis.

In the fourth quarter of 2008, due to a decline in its market capitalization, the Company reevaluated its goodwill and determined that the goodwill related to its Lasers Division was impaired and recorded a goodwill impairment charge of \$104.6 million. There were no such impairments during 2010 or 2009.

During 2008, the Company conducted an impairment analysis on its intangible assets and, due to diminished cash flow projections for certain products, determined that certain developed technology related to its Lasers Division was impaired. Accordingly, the Company recorded impairment charges totaling \$15.4 million, which consisted of a charge of \$12.5 million related to developed technology acquired by the Company in connection with its acquisition of Spectra-Physics, Inc. and certain related photonics entities (collectively, Spectra-Physics) in 2004 and a charge of \$2.9 million related to developed technology that the Company acquired from Picarro, Inc. (Picarro) in 2006. During 2009, the Company determined it was no longer going to pursue technology related to certain purchased in-process research and development related to the New Focus business and recorded an impairment charge of \$0.4 million associated with such technology.

*Long-Lived Assets*

The Company assesses the impairment of long-lived assets, other than goodwill and other indefinite-lived intangible assets, to determine if their carrying value may not be recoverable. The determination of related estimated useful lives and whether or not these assets are impaired involves significant judgments, related primarily to the future profitability and/or future value of the assets. Changes in the Company's strategic plan and/or other-than-temporary changes in market conditions could significantly impact these judgments and could require adjustments to recorded asset balances. Long-lived assets are evaluated for impairment at least annually in the fourth quarter of each year, as well as whenever an event or change in circumstances has occurred that could have a significant adverse effect on the fair value of long-lived assets.

*Warranty*

Unless otherwise stated in the Company's product literature or in its agreements with customers, products sold by the Company's Photonics and Precision Technologies (PPT) Division 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. Products of this division sold to original equipment manufacturer (OEM) customers generally carry longer warranties, typically 15 to 19 months. Products sold by the Company's Lasers Division carry warranties that vary by product and product component, but that generally range from 90 days to two years. In certain cases, such warranties for Lasers Division products are limited by either a set time period or a

---

## **Table of Contents**

maximum amount of usage of the product, whichever occurs first. Defective products will either be 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 at the time revenue for that product is recognized.

### *Environmental Reserves*

The Company accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures are discounted to their present value. Recoveries of environmental remediation costs from other parties are recognized as assets when their receipt is deemed probable. See Note 10 for additional information.

### *Revenue Recognition*

The Company recognizes revenue after title to and risk of loss of products have passed to the customer, or delivery of the service has been completed, provided that persuasive evidence of an arrangement exists, the fee is fixed or determinable and collectability is reasonably assured. The Company recognizes revenue and related costs for arrangements with multiple deliverables, such as equipment and installation, as each element is delivered or completed based upon its relative fair value, determined based upon the price that would be charged on a standalone basis. If a portion of the total contract price is not payable until installation is complete, the Company does not recognize such portion as revenue until completion of installation; however, the Company records the full cost of the product at the time of shipment. Revenue for extended service contracts is recognized over the related contract periods. Certain sales to international customers are made through third-party distributors. A discount below list price is generally provided at the time the product is sold to the distributor, and such discount is reflected as a reduction in net sales. Freight costs billed to customers are included in *net sales*, and freight costs incurred are included in *selling, general and administrative expenses*. Sales taxes collected from customers are recorded on a net basis and any amounts not yet remitted to tax authorities are included in *accrued expenses and other current liabilities*.

Customers (including distributors) generally have 30 days from the original invoice date (generally 60 days for international customers) to return a standard catalog product purchase for exchange or credit. Catalog products must be returned in the original condition and meet certain other criteria. Custom, option-configured and certain other products as defined in the terms and conditions of sale cannot be returned without the Company's consent. For certain products, the Company establishes a sales return reserve based on the historical product returns.

### *Advertising*

The Company expenses the costs of advertising as incurred, except for the costs of its product catalogs, which are accounted for as prepaid supplies until they are distributed to customers or are no longer expected to be used. Capitalized catalog costs were not material at January 1, 2011 and January 2, 2010. Advertising costs, including the costs of the Company's participation at industry trade shows, totaled \$3.1 million, \$3.3 million and \$4.1 million for 2010, 2009 and 2008, respectively.

### *Shipping and Handling Costs*

The Company expenses the costs of shipping and handling as incurred. Shipping and handling costs of \$4.9 million, \$4.3 million and \$5.3 million are included in *selling, general and administrative expenses* for 2010, 2009 and 2008, respectively.

### *Research and Development*

All research and development costs are expensed as incurred.

---

**Table of Contents***Income Taxes*

The Company utilizes the asset and liability method of accounting for income taxes as set forth in ASC 740, *Income Taxes*. Deferred income taxes are recognized for the future tax consequences of temporary differences using enacted statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Temporary differences include the difference between the financial statement carrying amounts and the tax bases of existing assets and liabilities and operating loss and tax credit carryforwards. In accordance with the provisions of ASC 740, a valuation allowance for deferred tax assets is recorded to the extent the Company cannot determine that the ultimate realization of the net deferred tax assets is more likely than not.

Effective at the beginning of fiscal year 2007, the Company adopted ASC 740-10-25, *Income Taxes Recognition*, for the recognition, measurement and disclosure of uncertain tax positions. Under ASC 740-10-25, income tax positions must meet the more-likely-than-not threshold to be recognized in the financial statements. The Company's policy is to record interest and penalties associated with unrecognized tax benefits as income tax expense.

*Income (loss) per Share*

Basic income (loss) per share is computed by dividing net income (loss) by the weighted-average number of shares of common stock outstanding during the period. Diluted income per share is computed using the weighted-average number of shares of common stock outstanding during the period plus the dilutive effects of common stock equivalents (restricted stock units, stock options and stock appreciation rights) outstanding during the period, determined using the treasury stock method. Diluted loss per share excludes the antidilutive effects of common stock equivalents outstanding during the periods.

*Stock-Based Compensation*

The Company accounts for stock-based compensation in accordance with ASC 718, *Compensation Stock Compensation*. Under the fair value recognition provision of ASC 718, stock-based compensation cost is estimated at the grant date based on the fair value of the award. The Company estimates the fair value of stock options and stock appreciation rights granted using the Black-Scholes-Merton option pricing model and a single option award approach. The fair value of restricted stock unit awards is based on the closing market price of the Company's common stock on the date of grant.

Determining the appropriate fair value of stock options and stock appreciation rights at the grant date requires significant judgment, including estimating the volatility of the Company's common stock and expected term of the awards. The Company computes expected volatility based on historical volatility over the expected term. The expected term represents the period of time that stock options and stock appreciation rights are expected to be outstanding and is determined based on historical experience, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expected exercise behavior.

A substantial portion of the Company's awards vest based upon the achievement of one or more financial performance goals established by the Compensation Committee of the Company's Board of Directors. Currently, such performance goals relate to the fiscal year in which the award is granted, and if such performance goals are met, the awards vest in equal installments on the first three anniversaries of the grant date. Until the Company has determined that performance goals have been met, the amount of expense that the Company records relating to performance-based awards is estimated based on the likelihood of achieving the performance goals. The fair value of stock-based awards, adjusted for estimated forfeitures (and adjusted for estimated or actual achievement of performance goals in the case of awards having performance-based vesting conditions), is amortized using the straight-line attribution method over the requisite service period of the award, which is generally the vesting period.

*Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates made in

**Table of Contents**

preparing the consolidated financial statements include (but are not limited to) those related to revenue recognition, the allowance for doubtful accounts, inventory reserves, warranty obligations, pension plans, asset impairment valuations, income tax valuations, and stock-based compensation expenses.

*Recent Accounting Pronouncements*

In October 2009, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2009-13, *Multiple-Deliverable Revenue Arrangements a consensus of the FASB Emerging Issues Task Force*, which amends the guidance in ASC 605, *Revenue Recognition*. ASU No. 2009-13 eliminates the residual method of accounting for revenue on undelivered products and instead, requires companies to allocate revenue to each of the deliverable products based on their relative selling price. In addition, this ASU expands the disclosure requirements regarding multiple-deliverable arrangements. ASU No. 2009-13 became effective for revenue arrangements entered into beginning in the Company's fiscal year of 2011. The adoption of ASU No. 2009-13 has not had a material impact on the Company's financial position or results of operations.

**NOTE 2 ACQUISITIONS, DIVESTITURES AND INVESTMENTS***Divestiture of Hilger Crystals Limited*

On July 19, 2010, the Company sold all of the outstanding capital stock of its Hilger Crystals Limited subsidiary. The Company received \$4.0 million in cash as consideration for the sale. In addition, if Hilger Crystals Limited achieves certain specified revenue targets in the 18-month period following the closing date, the Company could receive up to an additional \$0.75 million in cash.

The Company recognized a net loss of \$0.5 million related to this transaction in 2010. The net asset value of Hilger Crystals Limited at the time of the sale was \$2.5 million, including \$0.6 million of goodwill allocated to the business, and the Company incurred charges totaling \$1.4 million related to the pension plan associated with the business (see Note 14 for additional detail), a charge of \$0.4 million to write off an inter-company receivable that will not be repaid by the new owner and \$0.2 million in legal and consulting fees related to this transaction. Such net loss has been included in *loss (gain) on sale of assets and related costs* in the accompanying consolidated statements of operations. In addition, the Company recognized \$0.6 million in previously unrealized foreign currency losses as a non-operating expense upon the disposition of this business, which are included in *interest and other expense, net*.

The assets of the Hilger Crystals business had previously been included in the Company's PPT Division. Below is a summary of the assets and liabilities disposed of:

*(In thousands)*

<b>Assets and liabilities disposed of:</b>	
Current assets	\$ 1,714
Other assets	1,775
Current liabilities	(1,020)
	<b>\$ 2,469</b>

*Acquisition of New Focus and Divestiture of Diode Laser Operations*

On July 4, 2009, the Company completed an asset exchange transaction with Oclaro, Inc. (Oclaro), pursuant to which the Company acquired certain assets and assumed certain liabilities related to Oclaro's New Focus business, and sold certain assets and transferred certain liabilities related to its diode laser operations based in Tucson, Arizona to Oclaro. The acquisition of the New Focus business expanded the Company's product offerings to include a number of new high-performance products, including opto-electronics, high-resolution actuators, high-speed detectors and modulators, opto-mechanics, tunable lasers, and custom-engineered solutions designed for OEM customers.

**Table of Contents**

The fair value of the New Focus business on the acquisition date was \$14.1 million, and the purchase price was paid by the transfer to Oclaro of the Company's diode laser assets and liabilities, which had a fair value of \$11.1 million, and the payment of \$3.0 million in cash. The Company incurred \$0.2 million in acquisition related expenses, which have been expensed as incurred and are included in *selling, general and administrative expenses* in the accompanying statements of operations.

Below is a summary of the purchase price, assets acquired and liabilities assumed:

*(In thousands)*

Assets acquired and liabilities assumed:	
Current assets	\$ 8,930
Goodwill	1,392
Purchased intangible assets	4,830
Other assets	1,247
Current liabilities	(2,299)
	<b>\$ 14,100</b>

The \$1.4 million in goodwill has been allocated to the Company's PPT Division and will be deductible for tax purposes, as this was an asset acquisition.

The Company's diode laser assets had a net book value of \$14.9 million, which resulted in a loss of \$4.4 million after considering the fair value of these assets of \$11.1 million and selling costs of \$0.6 million. This loss has been included in *loss (gain) on sale of assets and related costs* in the Company's consolidated statements of operations. These assets had previously been included in the Company's Lasers Division. Below is a summary of the assets and liabilities disposed of:

*(In thousands)*

Assets and liabilities disposed of:	
Current assets	\$ 11,043
Other assets	5,106
Current liabilities	(1,284)
	<b>\$ 14,865</b>

*Investments*

The Company owns a minority interest in a privately held developer of flip chip and advanced packaging equipment for back-end semiconductor manufacturing applications. During the fourth quarter of 2008, due to such entity's continued net losses and a decline in the valuation of its common stock, the Company determined that this investment had experienced an other-than-temporary decline in value and recorded a charge of \$2.9 million to write off the full carrying value of such investment. If the Company is able to liquidate this investment in the future, any proceeds received from such a transaction will be recognized as a gain in the period in which the stock is sold.

**Table of Contents****NOTE 3 MARKETABLE SECURITIES**

The Company's portfolio of marketable securities was as follows:

<i>(In thousands)</i>	January 1, 2011	January 2, 2010
U.S. government and agency debt securities	\$ 23,181	\$ 13,610
Corporate debt securities	78,286	5,156
Equity securities	548	20,859
Asset-backed securities		6,849
Certificates of deposit	7,177	7,722
	\$ 109,192	\$ 54,196

All marketable securities 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 income* in the accompanying consolidated balance sheets. The aggregate fair value of available for sale securities and aggregate amount of unrealized gains and losses for available for sale securities at January 1, 2011 were as follows:

<i>(In thousands)</i>	Aggregate Fair Value	Aggregate Amount of Unrealized	
		Gains	Losses
U.S. government and agency debt securities	\$ 23,181	\$ 130	\$ (7)
Corporate debt securities	78,286	18	(34)
Equity securities	548	65	
Certificates of deposit	7,177		
	\$ 109,192	\$ 213	\$ (41)

<i>(In thousands)</i>	Marketable Securities In Cumulative Unrealized Loss Positions			
	Less Than 12 Months		More Than 12 Months	
	Aggregate Fair Value	Unrealized Loss	Aggregate Fair Value	Unrealized Loss
U.S. government and agency debt securities	\$ 17,754	\$ (7)	\$	\$
Corporate debt securities	40,469	(34)		
	\$ 58,223	\$ (41)	\$	\$

**Table of Contents**

The aggregate fair value of available for sale securities and the aggregate amount of unrealized gains and losses for available for sale securities at January 2, 2010 were as follows:

<i>(In thousands)</i>	Aggregate Fair Value	Aggregate Amount of Unrealized	
		Gains	Losses
U.S. government and agency debt securities	\$ 13,610	\$ 300	\$
Corporate debt securities	5,156	4	
Equity securities	20,859	450	
Asset-backed securities	6,849	172	(3)
Certificates of deposit	7,722	2	
	\$ 54,196	\$ 928	\$ (3)

<i>(In thousands)</i>	Marketable Securities In Cumulative Unrealized Loss Positions			
	Less Than 12 Months		More Than 12 Months	
	Aggregate Fair Value	Unrealized Loss	Aggregate Fair Value	Unrealized Loss
Asset-backed securities			475	(3)

The contractual maturities of available for sale securities were as follows:

<i>(In thousands)</i>	January 1, 2011	January 2, 2010
0 1 Year	\$ 105,262	\$ 22,611
1 2 Years		2,598
2 3 Years		3,835
3 5 Years	887	2,213
5 10 Years		
More than 10 years	2,495	2,080
	\$ 108,644	\$ 33,337

**Table of Contents**

The gross realized gains and losses on sales of available for sale securities were as follows:

<i>(In thousands)</i>	January 1, 2011	Year Ended January 2, 2010	January 3, 2009
Gross realized gains	\$ 125	\$ 4	\$ 123
Gross realized losses		(314)	(3)
	\$ 125	\$ (310)	\$ 120

**NOTE 4 SUPPLEMENTAL BALANCE SHEET INFORMATION***Inventories*

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:

<i>(In thousands)</i>	January 1, 2011	January 2, 2010
Raw materials and purchased parts	\$ 54,704	\$ 60,543
Work in process	9,592	8,317
Finished goods	20,212	21,048
	\$ 84,508	\$ 89,908

*Property and Equipment, net*

Property and equipment, net, including assets under capital leases, were as follows:

<i>(In thousands)</i>	January 1, 2011	January 2, 2010
Land	\$ 255	\$ 406
Buildings	1,346	2,415
Leasehold improvements	28,399	29,027
Machinery and equipment	58,529	54,054
Office equipment	45,824	50,054
	134,353	135,956
Less accumulated depreciation	(88,193)	(83,055)
	\$ 46,160	\$ 52,901

Depreciation expense, including the amortization of assets under capital leases, totaled \$12.4 million, \$14.2 million and \$15.0 million for 2010, 2009 and 2008, respectively. At January 1, 2011 and January 2, 2010, assets under capital leases were \$1.5 million and \$1.9 million, net of accumulated amortization of \$1.3 million and \$1.2 million, respectively.

*Accrued Warranty Obligations*



## Edgar Filing: NEWPORT CORP - Form 10-K

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. Short-term warranty obligations were \$4.1 million and \$3.9 million as of January 1, 2011 and January 2, 2010, respectively. As of January 1, 2011 and January 2, 2010, the amounts accrued for long-term warranty obligations were not material.

F-18

**Table of Contents**

The activity in accrued warranty obligations was as follows:

<i>(In thousands)</i>	<b>Year Ended</b>	
	<b>January 1, 2011</b>	<b>January 2, 2010</b>
Balance at beginning of year	\$ 3,898	\$ 5,978
Additions charged to cost of sales	4,400	4,175
Warranty claims	(4,193)	(6,255)
Balance at end of year	\$ 4,105	\$ 3,898

*Accrued Expenses and Other Current Liabilities*

Accrued expenses and other current liabilities were as follows:

<i>(In thousands)</i>	<b>January 1, 2011</b>	<b>January 2, 2010</b>
	Deferred revenue	\$ 11,294
Deferred lease liability	4,985	1,703
Short-term accrued warranty obligations	4,066	3,898
Other	8,071	10,548
	\$ 28,416	\$ 31,337

*Accumulated Other Comprehensive Income*

Accumulated other comprehensive income consisted of the following:

<i>(In thousands)</i>	<b>January 1, 2011</b>	<b>January 2, 2010</b>
	Cumulative foreign currency translation gains	\$ 4,407
Unrecognized net pension losses, net of taxes	(1,556)	(549)
Unrealized gains on marketable securities	1,185	1,650
	\$ 4,036	\$ 10,379

**Table of Contents****NOTE 5 GOODWILL AND INTANGIBLE ASSETS**

The changes in the carrying amount of goodwill for the years ended January 1, 2011 and January 2, 2010 are as follows:

<i>(In thousands)</i>	<b>PPT Division</b>	<b>Lasers Division</b>	<b>Total</b>
<b>Balance at January 3, 2009:</b>			
Goodwill	\$ 68,540	\$ 104,562	\$ 173,102
Accumulated impairment losses		(104,562)	(104,562)
	68,540		68,540
Goodwill acquired	1,392		1,392
<b>Balance at January 2, 2010:</b>			
Goodwill	69,932	104,562	174,494
Accumulated impairment losses		(104,562)	(104,562)
	69,932		69,932
Goodwill allocated to disposal of Hilger Crystals Limited	(610)		(610)
<b>Balance at January 1, 2011:</b>			
Goodwill	69,322	104,562	173,884
Accumulated impairment losses		(104,562)	(104,562)
	\$ 69,322	\$	\$ 69,322

During 2010, the Company allocated \$0.6 million in goodwill to the disposal of its Hilger Crystals Limited subsidiary, based on the relative fair values of Hilger Crystals Limited and the Company's PPT Division.

During 2009, the Company recorded \$1.4 million in goodwill related to its acquisition of New Focus. See Note 2 for additional information.

In the fourth quarter of 2008, due to a significant decline in its market capitalization, the Company reevaluated its goodwill and concluded that the goodwill related to its Lasers Division was impaired. Based upon the implied fair value of goodwill, the Company recorded goodwill impairment charges totaling \$104.6 million, which consisted of a charge of \$103.0 million related to goodwill associated with the acquisition of Spectra-Physics and a charge of \$1.6 million related to goodwill associated with the acquisition of assets from Picarro.

Intangible assets, excluding goodwill, were as follows:

<i>(In thousands)</i>	<b>January 1, 2011</b>	<b>January 2, 2010</b>
<b>Intangible assets subject to amortization:</b>		
Developed technology, net of accumulated amortization of \$5,056 and \$4,060 as of January 1, 2011 and January 2, 2010, respectively	\$ 5,074	\$ 5,740
Customer relationships, net of accumulated amortization of \$12,684 and \$10,674 as of January 1, 2011 and January 2, 2010, respectively	7,416	9,426
Other, net of accumulated amortization of \$340 and \$170 as of January 1, 2011 and January 2, 2010, respectively		500
	12,490	15,666
<b>Intangible assets not subject to amortization:</b>		
Trademarks and trade names	12,500	12,500

Edgar Filing: NEWPORT CORP - Form 10-K

Intangible assets, net	\$ 24,990	\$ 28,166
------------------------	-----------	-----------

Amortization expense related to intangible assets totaled \$3.2 million, \$3.0 million and \$3.9 million for 2010, 2009 and 2008, respectively.

F-20

**Table of Contents**

During 2009, the Company determined it was no longer going to pursue technology related to certain purchased in-process research and development related to the New Focus business and recorded an impairment charge of \$0.4 million associated with such technology.

During 2008, the Company conducted an impairment analysis and, due to diminished cash flow projections for certain products, determined that developed technology related to its Lasers Division was impaired. Accordingly, the Company recorded impairment charges totaling \$15.4 million, which consisted of a charge of \$12.5 million related to developed technology associated with the Spectra-Physics acquisition and a charge of \$2.9 million related to developed technology acquired from Picarro.

Estimated aggregate amortization expense for future fiscal years will be amortized over a weighted-average life of 4.7 years as follows:

<i>(In thousands)</i>	<b>Estimated Aggregate Amortization Expense</b>
2011	\$ 3,023
2012	3,023
2013	3,023
2014	1,799
2015	353
Thereafter	1,269
	<b>\$ 12,490</b>

**NOTE 6 INTEREST AND OTHER EXPENSE, NET**

Interest and other expense, net, was as follows:

<i>(In thousands)</i>	<b>January 1, 2011</b>	<b>Year Ended January 2, 2010</b>	<b>January 3, 2009</b>
Interest and dividend income	\$ 928	\$ 2,155	\$ 4,208
Interest expense	(8,292)	(9,472)	(10,860)
Bank and portfolio asset management fees	(742)	(638)	(612)
Other, net	(375)	(609)	513
	<b>\$ (8,481)</b>	<b>\$ (8,564)</b>	<b>\$ (6,751)</b>

Interest expense included amortization of the debt discount related to the Company's convertible subordinated notes of \$4.1 million, \$4.6 million and \$5.2 million for 2010, 2009 and 2008, respectively. See Note 8 for additional information.

**Table of Contents****NOTE 7 STOCK INCENTIVE PLANS AND STOCK-BASED COMPENSATION***Stock-Based Benefit Plans*

In March 2006, the Company's Board of Directors adopted the 2006 Performance-Based Stock Incentive Plan (2006 Plan) subject to approval of its stockholders, which was received in May 2006. The primary purpose of the 2006 Plan is to enhance the Company's ability to attract, motivate and retain the services of qualified employees, officers and directors, consultants and other service providers upon whose judgment, initiative and efforts, the successful conduct and development of the Company's business largely depends.

The 2006 Plan authorizes the Company to grant up to 6,000,000 shares of common stock, which includes the number of shares that had been available for future grant under the Company's 2001 Stock Incentive Plan (2001 Plan) at the time the 2006 Plan was approved. This number of shares is subject to adjustments as to the number and kind of shares in the event of stock splits, stock dividends or certain other similar changes in the capital structure of the Company. Upon approval of the 2006 Plan by the Company's stockholders, the 2001 Plan was terminated for purposes of future grants.

The 2006 Plan permits the grant of stock appreciation rights, restricted stock, restricted stock units, incentive stock options and non-qualified stock options. Any stock options or stock appreciation rights granted under the 2006 Plan will have exercise prices or base values not less than the fair market value of the Company's common stock on the date of grant and terms of not more than seven years. The vesting of substantially all awards granted to directors under the 2006 Plan occurs over a period of one year. The vesting of substantially all awards granted to officers and employees under the 2006 Plan occurs over a period of three years, conditioned on the achievement of performance goals established by the Compensation Committee of the Company's Board of Directors. Currently, such performance goals relate to the fiscal year in which the award is granted, and if such performance goals are met, the awards vest in equal installments on the first three anniversaries of the grant date. For awards issued prior to 2009, the vesting of such awards is conditioned upon achievement of performance goals relating to three annual performance periods. Such prior awards also provide that if the performance goals are not achieved in full for the initial applicable annual performance period, then fifty percent of the awards tied to such performance goals that do not vest will carry over and be eligible for vesting, subject to the achievement of certain performance goals for the next annual performance period. All awards are subject to forfeiture if employment or other service terminates prior to the vesting of the awards.

The Company maintains an Employee Stock Purchase Plan (Purchase Plan) to provide employees of the Company with an opportunity to purchase common stock through payroll deductions. The Purchase Plan allows employees to purchase common stock in any quarterly offering period at 95% of the fair market value of the stock on the last day of the offering period.

*Stock-Based Compensation Expense*

ASC 718 requires the Company to recognize compensation expense related to the fair value of its stock-based awards. The Company estimates the fair value of stock options and stock appreciation rights at the date of grant using a Black-Scholes-Merton option-pricing model. The weighted average fair value and underlying assumptions for all stock appreciation rights awarded in 2010 and 2009 are set forth in the table below. No stock appreciation rights or stock options were awarded in 2008.

	Year Ended	
	January 1, 2011	January 2, 2010
Fair value	\$ 5.44	\$ 1.64
Expected annual volatility	50.31%	45.50%
Risk-free interest rate	2.27%	1.66%
Expected term (years)	4.5	4.4
Annualized expected dividend yield		

**Table of Contents**

The total stock-based compensation expense included in the Company's consolidated statements of operations was as follows:

<i>(In thousands)</i>	<b>January 1, 2011</b>	<b>Year Ended January 2, 2010</b>	<b>January 3, 2009</b>
Cost of sales	\$ 392	\$ 137	\$ 52
Selling, general and administrative expenses	3,896	1,979	1,654
Research and development expense	560	216	97
	\$ 4,848	\$ 2,332	\$ 1,803

As required by ASC 718, the Company estimates the expected future forfeitures of stock options, stock appreciation rights and restricted stock units and recognizes compensation expense for only those equity awards expected to vest, excluding the expected future forfeitures. If actual forfeitures differ from the Company's estimates, the amount of compensation expense recognized for the applicable period is cumulatively adjusted. The Company assumed forfeitures rate in recognizing compensation expense of 15.4% for 2010, 2009 and 2008.

At January 1, 2011, the total compensation cost related to unvested stock-based awards granted to employees, officers and directors under the Company's stock-based benefit plans that had not yet been recognized was \$5.6 million (net of estimated forfeitures of \$2.2 million). Such amount excludes compensation expense associated with awards that are subject to performance conditions that the Company does not expect to be met. This future compensation expense will be amortized, using the straight-line attribution method over a weighted-average period of 1.5 years. The actual compensation expense that the Company will recognize in the future related to stock-based awards will be adjusted for subsequent forfeitures and will be adjusted based on the Company's determination as to the extent to which performance conditions applicable to any stock-based awards are achieved. At January 1, 2011, there were 0.4 million performance-based restricted stock units outstanding with a weighted-average grant date fair value of \$9.84 per share that were not expected to vest.

*Stock-Based Award Activity*

The following table summarizes stock option activity for the year ended January 1, 2011:

	<b>Number of Options (In thousands)</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life (Years)</b>	<b>Aggregate Intrinsic Value (In thousands)</b>
Outstanding at January 2, 2010	2,435	\$ 20.94		
Exercised	(139)	\$ 12.45		
Expired (cancelled post-vesting)	(556)	\$ 43.79		
Outstanding at January 1, 2011	1,740	\$ 14.32	2.6	\$ 6,787
Vested and expected to vest at January 1, 2011	1,740	\$ 14.32	2.6	\$ 6,787
Options exercisable at January 1, 2011	1,740	\$ 14.32	2.6	\$ 6,787

The intrinsic value of options exercised during fiscal years 2010, 2009 and 2008 totaled \$0.4 million, \$0.4 million and \$0.8 million, respectively. The intrinsic value of options exercised is calculated as the difference between the market price on the date of exercise and the exercise price multiplied by the number of options exercised.

The grant date fair value of options that vested during fiscal year 2009 and 2008 totaled \$1.1 million and \$1.0 million, respectively. No options vested during fiscal year 2010.





**Table of Contents**

The following table summarizes the Company's restricted stock unit activity for the year ended January 1, 2011:

	Number of Shares (In thousands)	Weighted Average Grant Date Fair Value
Outstanding at January 2, 2010	2,351	\$ 6.98
Granted	439	\$ 12.33
Vested	(451)	\$ 4.21
Forfeited	(756)	\$ 8.94
Outstanding at January 1, 2011	1,583	\$ 8.31

The following table summarizes the Company's stock appreciation rights activity for the year ended January 1, 2011:

	Number of Shares (In thousands)	Weighted Average Grant Date Fair Value
Outstanding at January 2, 2010	925	\$ 1.64
Granted	351	\$ 5.44
Exercised	(71)	\$ 1.64
Forfeited (cancelled pre-vesting)	(51)	\$ 2.68
Expired (cancelled post-vesting)	(4)	\$ 1.64
Outstanding at January 1, 2011	1,150	\$ 2.75

At January 1, 2011, the Company had reserved 6,768,375 shares of common stock for future issuance under its stock incentive plans and assumed stock options, which included 2,295,386 shares that were reserved for the future grant of stock-based awards under these plans, and had reserved 1,160,313 shares of common stock for future issuance under the Purchase Plan.

**NOTE 8 DEBT AND LINES OF CREDIT***Long-term convertible notes*

In February 2007, the Company issued \$175 million in convertible subordinated notes. The notes are subordinated to all of the Company's existing and future senior indebtedness, mature on February 15, 2012 and bear interest at a rate of 2.5% per year, payable in cash semiannually in arrears on February 15 and August 15 of each year. During 2008 and 2009, the Company extinguished \$28.0 million and \$20.2 million of these notes, respectively.

During 2009, the Company extinguished \$20.2 million of its convertible subordinated notes at a weighted-average price equal to 91.6% of the principal amount of the notes, or \$18.7 million. The \$0.3 million difference between the fair value of the notes and the carrying value of the notes, which included \$1.7 million in deferred debt issuance costs and unamortized debt discount, has been recorded as a *gain on extinguishment of debt* in the Company's consolidated statements of operations. In addition, \$0.3 million was allocated to the extinguishment of the equity component of such notes.

During 2008, the Company extinguished \$28.0 million of its convertible subordinated notes at a weighted-average price equal to 59.9% of the principal amount of the notes, or \$16.8 million. The \$7.7 million difference between the fair value of the notes and the carrying value of the notes, which included \$3.5 million in deferred debt issuance costs and unamortized debt discount, has been recorded as a *gain on extinguishment of debt* in the Company's consolidated statements of operations.



**Table of Contents**

Holders may convert their notes based on a conversion rate of 41.5861 shares of the Company's common stock per \$1,000 principal amount of notes (equal to an initial conversion price of approximately \$24.05 per share) under certain circumstances. Upon conversion, in lieu of shares of the common stock, for each \$1,000 principal amount of notes, a holder will receive an amount in cash equal to the lesser of (i) \$1,000 or (ii) the conversion value, determined in the manner set forth in the indenture. If the conversion value exceeds \$1,000, the Company will also deliver, at its election, cash or common stock or a combination of cash and common stock with respect to the remaining common stock deliverable upon conversion. As of January 1, 2011, the conversion value was less than the principal amount of the notes.

At January 1, 2011, the Company had \$126.8 million in convertible subordinated notes outstanding with a carrying value of \$122.0 million, net of \$4.8 million in unamortized debt discount, which is included in *long-term debt* in the accompanying consolidated balance sheets. At January 2, 2010, the Company had \$126.8 million in convertible subordinated notes outstanding with a carrying value of \$118.0 million, net of \$8.8 million in unamortized debt discount. At January 1, 2011 and January 2, 2010, the carrying value of the equity component was \$26.2 million, net of \$0.9 million of equity issuance costs. At January 1, 2011 and January 2, 2010, debt issuance costs of \$0.8 million and \$1.5 million, respectively, net of accumulated amortization, were included in other long-term assets in *investments and other assets*. The remaining debt issuance costs and unamortized debt discount are being amortized through February 15, 2012 using the effective interest method.

Interest cost on the convertible subordinated notes consisted of the following components:

<i>(In thousands)</i>	<b>January 1, 2011</b>	<b>Year Ended January 2, 2010</b>	<b>January 3, 2009</b>
Contractual interest	\$ 3,196	\$ 3,636	\$ 4,281
Amortization of debt discount	4,058	4,575	5,182
<b>Interest cost on convertible subordinated notes</b>	<b>\$ 7,254</b>	<b>\$ 8,211</b>	<b>\$ 9,463</b>

Total long-term debt, net of debt discount, was as follows:

<i>(In thousands)</i>	<b>January 1, 2011</b>	<b>January 2, 2010</b>
Japanese private placement bonds due June 2011, interest at 1.55% payable semi-annually	\$	\$ 3,246
Convertible notes due February 2012, interest at 2.5% payable semi-annually	122,042	117,985
<b>Total long-term debt</b>	<b>\$ 122,042</b>	<b>\$ 121,231</b>

*Short-term debt*

On June 30, 2008, the Company issued 300 million yen (\$3.7 million at January 1, 2011) in private placement bonds through a Japanese bank and used the proceeds from such issuance to pay the amounts outstanding under an expiring line of credit. These bonds bear interest at a rate of 1.55% per year, payable in cash semiannually in arrears on June 30 and December 31 of each year. The bonds mature on June 30, 2011. During 2010, the Company reclassified this debt from long-term to short-term, and the bonds are included in *short-term borrowings* in the accompanying consolidated balance sheets.

*Lines of credit*

At January 1, 2011 and January 2, 2010, the Company had a total of three lines of credit, including one domestic revolving line of credit and two revolving lines of credit with Japanese banks. Additionally, the Company has agreements with two Japanese banks under which it sells trade notes receivable with recourse.

**Table of Contents**

The Company's domestic revolving line of credit has a total credit limit of \$3.0 million and expires on December 1, 2011. Certain certificates of deposit held at this lending institution collateralize this line of credit, which bears interest at either the prevailing London Interbank Offered Rate (LIBOR) (0.26% at January 1, 2011) plus 1.00% or the British Bankers Association LIBOR Daily Floating Rate (0.25% at January 1, 2011) plus 1.00%, at the Company's option, and carries an unused line fee of 0.25% per year. At January 1, 2011, there were no balances outstanding under this line of credit, with \$1.6 million available, after considering outstanding letters of credit totaling \$1.4 million.

The two revolving lines of credit with Japanese banks totaled 900 million yen (\$11.0 million at January 1, 2011) and expire as follows: \$7.3 million on March 1, 2011 (which has subsequently been extended to June 1, 2011) and \$3.7 million on August 31, 2011. The \$7.3 million line of credit bears interest at the prevailing bank rate and the \$3.7 million line of credit bears interest at LIBOR plus 1.75%. Certain certificates of deposit held by the lending institution's U.S. affiliate collateralize the \$3.7 million line of credit. At January 1, 2011, the Company had \$6.7 million outstanding and \$4.3 million available for borrowing under these lines of credit. Amounts outstanding are included in *short-term borrowings* in the accompanying consolidated balance sheets.

The Company has agreements with two Japanese banks under which it sells trade notes receivable with recourse. These agreements allow the Company to sell receivables totaling up to 550 million yen (\$6.7 million at January 1, 2011), have no expiration dates and bear interest at the prevailing bank rate. At January 1, 2011, the Company had \$2.0 million outstanding and \$4.7 million available for the sale of notes receivable under these agreements. Amounts outstanding under these agreements are included in *short-term borrowings* in the accompanying consolidated balance sheets, as the sale of these receivables has not met the criteria for sale treatment in accordance with ASC 860.

As of January 1, 2011, the weighted-average interest rate on all of the Company's Japanese borrowings, including the private placement bonds, was 2.1%.

**NOTE 9 NET INCOME (LOSS) PER SHARE**

The following table sets forth the numerator and denominator used in the computation of net income (loss) per share:

<i>(In thousands, except per share data)</i>	<b>January 1, 2011</b>	<b>Year Ended January 2, 2010</b>	<b>January 3, 2009</b>
Net income (loss)	\$ 41,113	\$ (17,406)	\$ (148,724)
Shares:			
Weighted average shares outstanding - basic	36,647	36,175	36,155
Dilutive potential common shares, using treasury stock method	1,079		
Weighted average shares outstanding - diluted	37,726	36,175	36,155
Net income (loss) per share:			
Basic	\$ 1.12	\$ (0.48)	\$ (4.11)
Diluted	\$ 1.09	\$ (0.48)	\$ (4.11)

For 2010, 2009 and 2008, 1,198,164, 2,432,931 and 2,614,368 stock options with weighted-average exercise prices of \$15.72, \$20.95 and \$21.19, respectively, were excluded from the computations of diluted net income (loss) per share, as their inclusion would be antidilutive. In addition, for 2010, 2009 and 2008, 372,091, 1,236,920 and 2,075,140 restricted stock units representing shares that were issuable contingent upon the achievement of performance conditions were excluded from the computation of diluted net income (loss) per share, as the performance criteria had not been met. For 2009 and 2008, an additional 749,524 and 79,514 common stock

**Table of Contents**

equivalents, respectively, have been excluded from the denominator for purposes of computing diluted net loss per share, as their inclusion would be antidilutive due to the Company incurring a net loss.

**NOTE 10 COMMITMENTS AND CONTINGENCIES***Facility Leases*

The Company leases certain of its manufacturing and office facilities and equipment under non-cancelable leases, certain of which contain renewal options. In addition to the base rent, the Company is generally required to pay insurance, real estate taxes and other operating expenses relating to such facilities. In some cases, base rent increases during the term of the lease based on a predetermined schedule. The Company recognizes rent expense on a straight-line basis over the life of the lease for leases containing stated rent escalations.

Future minimum rental commitments under the terms of these leases at January 1, 2011 were as follows:

<i>(In thousands)</i>	<b>Capital Leases</b>	<b>Operating Leases</b>	<b>Total Obligations</b>
<b>Payments Due By Period:</b>			
2011	\$ 245	\$ 9,001	\$ 9,246
2012	206	6,872	7,078
2013	178	6,592	6,770
2014	177	6,026	6,203
2015	176	4,863	5,039
Thereafter	419	28,563	28,982
 Total minimum payments	 1,401	 \$ 61,917	 \$ 63,318
 Less amount representing interest	 (264)		
 Present value of obligation	 \$ 1,137		

*Subleases*

The Company has subleased certain of its facilities. Future minimum rentals to be received by the Company under non-cancelable subleases at January 1, 2011 were as follows:

<i>(In thousands)</i>	<b>Operating Leases</b>
<b>Payments Due By Period:</b>	
2011	\$ 321
2012	19
 Total minimum sublease payments	 \$ 340

Rental expense, net of sublease income, under all leases totaled \$8.0 million, \$11.2 million and \$9.0 million for 2010, 2009 and 2008, respectively.

*Environmental Reserves*

The Company's former Mountain View, California facility is an EPA-designated Superfund site and is subject to a cleanup and abatement order from the California Regional Water Quality Control Board. Spectra-Physics, along with several other entities with facilities located near the

## Edgar Filing: NEWPORT CORP - Form 10-K

Mountain View, California facility, have been identified as Responsible Parties with respect to this Superfund site, due to releases of hazardous substances during the 1960s and 1970s. The site is mature, and investigations and remediation efforts have been ongoing for approximately 25 years.

F-27

**Table of Contents**

Spectra-Physics and the other Responsible Parties have entered into a cost-sharing agreement covering the costs of remediating the off-site groundwater contamination, pursuant to which Spectra-Physics is responsible for 30% of the remediation costs.

At the time of the Company's acquisition of Spectra-Physics, it established a reserve to cover known costs relating to this site for which it was liable, the balance of which was immaterial at January 1, 2011 and January 2, 2010. In connection with the acquisition, Thermo Fisher Scientific, Inc., formerly known as Thermo Electron Corporation (Spectra-Physics' former parent) has agreed, subject to certain conditions, to indemnify the Company for certain costs of remediation that are incurred and third party claims that are made prior to July 16, 2014 relating to this site. The Company is unaware of any significant future expenses associated with this site for which the Company will be liable.

*Other Contingencies*

From time to time, the Company may be involved in litigation relating to claims arising out of its operations in the normal course of business. The Company currently is not a party to any legal proceedings, the adverse outcome of which, in management's opinion, individually or in the aggregate, would have a material adverse effect on its consolidated results of operations, financial position or cash flows.

**NOTE 11 INCOME TAXES**

United States and foreign income (loss) before income taxes were as follows:

<i>(In thousands)</i>	<b>January 1, 2011</b>	<b>Year Ended January 2, 2010</b>	<b>January 3, 2009</b>
United States	\$ 38,363	\$ (15,103)	\$ (122,927)
Foreign	5,878	(4,270)	2,748
	\$ 44,241	\$ (19,373)	\$ (120,179)

The income tax provision (benefit) based on income (loss) were as follows:

<i>(In thousands)</i>	<b>January 1, 2011</b>	<b>Year Ended January 2, 2010</b>	<b>January 3, 2009</b>
<b>Current:</b>			
Federal	\$ 565	\$ (538)	\$ (17)
State	687	158	933
Foreign	1,340	(1,180)	3,105
	2,592	(1,560)	4,021
<b>Deferred:</b>			
Federal	440	431	21,125
State	(218)	(14)	3,567
Foreign	314	(824)	(168)
	536	(407)	24,524
	\$ 3,128	\$ (1,967)	\$ 28,545

**Table of Contents**

The income tax provision (benefit) that was based on income (loss) differs from the amount obtained by applying the statutory tax rate as follows:

<i>(In thousands)</i>	<b>January 1, 2011</b>	<b>Year Ended January 2, 2010</b>	<b>January 3, 2009</b>
Income tax (benefit) provision at statutory rate	\$ 15,484	\$ (6,781)	\$ (42,063)
Increase (decrease) in taxes resulting from:			
Impairment or reduction of goodwill	213		36,576
Non-deductible expenses	188	204	182
State tax, net of federal benefit	1,549	(284)	2,864
Dividend from foreign subsidiary	2,962		
Foreign rate variance	1,328	1,084	(1,090)
Income tax credits	(880)	(509)	(178)
Valuation allowance	(18,179)	1,522	27,067
Increase of tax contingency	691	2,152	3,160
Other, net	(228)	645	2,027
	\$ 3,128	\$ (1,967)	\$ 28,545

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the deferred taxes were as follows:

<i>(In thousands)</i>	<b>January 1, 2011</b>	<b>January 2, 2010</b>
Deferred tax assets:		
Net operating loss carryforwards	\$ 8,227	\$ 33,606
Accruals and reserves not currently deductible	24,045	22,045
Tax credit carryforwards	17,790	16,515
Other basis differences	5,591	4,847
 Total gross deferred tax assets	 55,653	 77,013
Valuation allowance	(42,324)	(60,363)
	13,329	16,650
Deferred tax liabilities:		
Intangible assets	6,784	7,186
Property and equipment	3,812	5,408
Convertible debt	1,735	3,307
Other basis differences	44	199
 Total deferred tax liabilities	 12,375	 16,100
 Net deferred tax assets	 \$ 954	 \$ 550

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers taxable income in carryback years, the scheduled reversal of deferred tax liabilities, tax planning strategies and projected future taxable income in making this assessment.



## Edgar Filing: NEWPORT CORP - Form 10-K

The Company had previously established a valuation allowance against its deferred tax assets due to the uncertainty as to the timing and ultimate realization of its deferred tax assets. During the fourth quarter of 2008, the Company determined that goodwill and certain purchased intangible assets related to its Lasers Division were impaired, and

F-29

---

**Table of Contents**

the Company recorded impairment charges of \$119.9 million, which resulted in a cumulative three-year loss position as of January 3, 2009. After evaluating this loss position together with other positive and negative evidence, the Company determined that it was more likely than not that some or all of its net deferred tax assets would not be realized. Therefore, in 2008, the Company recorded a valuation allowance of \$19.8 million against its domestic deferred tax assets and certain deferred tax assets related to its foreign subsidiaries. In addition, due to such impairment of goodwill and other intangible assets, the Company determined that certain qualifying tax planning strategies were no longer deemed prudent and feasible and, as a result, the Company recorded an additional valuation allowance of \$4.6 million in 2008. In the fourth quarter of 2009, after evaluating all positive and negative evidence, it was determined that it was more likely than not that the Company would realize the net deferred tax assets applicable to the Company's German entity. Therefore, the Company recorded a release of the valuation allowance associated with this entity of \$2.5 million. During 2010, the Company released a total of \$16.9 million of valuation allowance related to the realization of domestic deferred tax assets as a result of the income generated in 2010. The Company also recorded a reduction to foreign deferred tax assets and a corresponding reduction to the valuation allowance of \$1.3 million related to deferred tax assets that were lost due to reorganizations, sales, and liquidations of certain foreign entities.

As of January 1, 2011, the Company could not determine that it is more likely than not that some or all of its domestic and certain foreign subsidiaries' net deferred tax assets would be realized. Therefore, the Company has maintained a valuation allowance of \$42.3 million against its domestic and certain foreign subsidiaries' deferred tax assets.

At January 1, 2011, the Company had gross federal, state, and foreign net operating loss carryforwards totaling approximately \$24.7 million, \$33.4 million, and \$13.0 million, respectively. Of the \$24.7 million and \$33.4 million federal and state net operating loss, respectively, \$16.2 million relates to tax deductions associated with certain stock compensation, the tax benefit of which will be credited to additional paid in capital when recognized. Federal net operating loss carryforwards begin to expire in 2022 and state net operating loss carryforwards begin to expire in 2011. The majority of the Company's foreign net operating loss carryforwards may be carried forward indefinitely.

At January 1, 2011, the Company had federal and state income tax credit carryforwards of \$17.7 million and \$5.3 million, respectively. If not previously utilized, the federal carryforwards will begin to expire in 2012. The state carryforwards do not expire.

If the Company has an ownership change as defined under the Internal Revenue Code, utilization of its net operating loss and tax credit carryforwards may be subject to an annual limitation against taxable income in future periods.

Undistributed earnings of the Company's historic and acquired foreign subsidiaries for which no federal or state liability has been recorded totaled \$22.8 million and \$16.9 million at January 1, 2011 and January 2, 2010, respectively. These undistributed earnings are considered to be indefinitely reinvested. Accordingly, no provision for federal and state income taxes or foreign withholding taxes has been provided on such undistributed earnings. Determination of the potential amount of unrecognized deferred federal and state income tax liability and foreign withholding taxes is not practicable because of the complexities associated with this hypothetical calculation; however, unrecognized foreign tax credits would be available to reduce some portion of the federal liability.

As of January 2, 2010, the Company had \$9.5 million of gross unrecognized tax benefits and a total of \$9.1 million of net unrecognized tax benefits, which, if recognized, would affect the effective tax rate. Interest and penalties related to unrecognized tax benefits were not significant as of January 2, 2010.

As of January 1, 2011, the Company had \$10.0 million of gross unrecognized tax benefits and a total of \$9.1 million of net unrecognized tax benefits, which, if recognized, would affect the effective tax rate. Interest and penalties related to unrecognized tax benefits were \$0.8 million as of January 1, 2011. The Company anticipates that it is reasonably possible that its unrecognized tax benefits may decrease by \$1.0 million within the next twelve months.

**Table of Contents**

A reconciliation of the beginning and ending amounts of unrecognized tax benefits is as follows:

<i>(In thousands)</i>	<b>Year Ended</b>		
	<b>January 1, 2011</b>	<b>January 2, 2010</b>	<b>January 3, 2009</b>
Unrecognized tax benefits at beginning of year	\$ 9,500	\$ 8,608	\$ 6,896
Gross increases for tax positions of prior years		2,385	
Gross decreases for tax positions of prior years		(691)	(1,196)
Gross increases for tax positions of current year	638	815	3,047
Settlements	(26)	(907)	(139)
Lapse of statute of limitations	(159)	(710)	
<b>Unrecognized tax benefits at end of year</b>	<b>\$ 9,953</b>	<b>\$ 9,500</b>	<b>\$ 8,608</b>

The Company and its subsidiaries file income tax returns in the U.S. and various state, local and foreign jurisdictions. The tax years that remain subject to examination by significant jurisdiction are as follows:

U.S. Federal	2007 through current periods
California	2006 through current periods
France	2007 through current periods
Germany	2005 through current periods
Japan	2004 through current periods

However, the use of domestic net operating losses in future periods could trigger a review of attributes and other tax matters in years that are not otherwise subject to examination, beginning with the 2001 tax year.

**NOTE 12 STOCKHOLDERS EQUITY TRANSACTIONS**

In May 2008, the Board of Directors approved a share repurchase program, authorizing the purchase of up to 4.0 million shares of the Company's common stock. Purchases may be made under this program from time to time in the open market or in privately negotiated transactions, and the timing and amount of the purchases will be based on factors including the Company's share price, cash balances, expected cash requirements and general business and market conditions. During 2008, the Company repurchased 127,472 shares for \$1.4 million under this program. As of January 1, 2011, a total of approximately 3.9 million shares remained available for repurchase under the program.

In 2010 and 2008, the Company received and cancelled 116,144 and 5,145 shares of common stock, respectively, in payment by employees of the exercise price and taxes owed upon the exercise of stock options and taxes owed upon the vesting of restricted stock units issued to them under the Company's stock incentive plans. The value of these shares totaled \$1.3 million and \$0.1 million, respectively, at the time they were received.

**NOTE 13 FAIR VALUE MEASUREMENTS**

The Company's financial instruments include cash and cash equivalents, marketable securities, pension assets not owned by plan, short-term borrowings and long-term debt. The carrying amount of cash and cash equivalents and short-term borrowings approximates fair value due to the short-term maturities of these instruments. The fair value of marketable securities and pension assets not owned by plan were estimated based on quoted market prices. The fair value of the Company's long-term debt was estimated based on the current rates for similar issues or on the current rates offered to the Company for debt of similar remaining maturities.

**Table of Contents**

The estimated fair values of the Company's financial instruments were as follows:

<i>(In thousands)</i>	January 1, 2011		January 2, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	\$ 90,992	\$ 90,992	\$ 87,727	\$ 87,727
Marketable securities	\$ 109,192	\$ 109,192	\$ 54,196	\$ 54,196
Pension assets not owned by plan	\$ 8,628	\$ 8,628	\$ 8,990	\$ 8,990
Short-term borrowings	\$ 12,468	\$ 12,468	\$ 11,056	\$ 11,056
Long-term debt	\$ 122,042	\$ 123,251	\$ 121,231	\$ 121,633

ASC 820-10 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. The Company's assets measured at fair value on a recurring basis are categorized in the table below based upon their level within the fair value hierarchy.

<i>(In thousands)</i>	January 1, 2011	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	January 1, 2011			
Assets:				
Cash:				
Cash	\$ 46,242	\$ 46,242	\$	\$
Money market funds	33,785	33,785		
Short-term investments	10,965	2,204	8,761	
	90,992	82,231	8,761	
Marketable securities:				
U.S. government and agency	23,181		23,181	
Corporate debt securities	78,286	48,893	29,393	
Equity securities	548	548		
Certificates of deposit	7,177		7,177	
	109,192	49,441	59,751	
Pension assets not owned by plan	8,628		8,628	
	\$ 208,812	\$ 131,672	\$ 77,140	\$

**NOTE 14 EMPLOYEE BENEFIT PLANS**

*Defined Contribution Plan*

The Company sponsors a 401(k) defined contribution plan. Generally, all U.S. employees are eligible to participate in and contribute to this plan. The Company makes certain safe harbor matching contributions to this plan based on participating employees' contributions to the plan and their total compensation. Expense recognized for the plan totaled \$4.3 million, \$4.1 million and \$4.8 million for 2010, 2009 and 2008, respectively.

*Defined Benefit Pension Plans*

## Edgar Filing: NEWPORT CORP - Form 10-K

The Company has defined benefit pension plans covering substantially all full-time employees in France, Japan, Germany and the United Kingdom. The French and German plans are unfunded, as permitted under the plans and applicable laws. For financial reporting purposes, the calculation of net periodic pension costs was based upon a number of actuarial assumptions, including a discount rate for plan obligations, an assumed rate of return on pension plan assets and an assumed rate of compensation increase for employees covered by the plan. All of these assumptions were based upon management's judgment, considering all known trends and uncertainties. Actual

F-32

**Table of Contents**

results that differ from these assumptions would impact future expense recognition and the cash funding requirements of the Company's pension plans.

January 1, 2011, January 2, 2010 and January 3, 2009 serve as the measurement dates for the respective amounts shown below. Net periodic benefit costs for the plans in aggregate included the following components:

<i>(In thousands)</i>	<b>Year Ended</b>		
	<b>January 1, 2011</b>	<b>January 2, 2010</b>	<b>January 3, 2009</b>
Service cost	\$ 592	\$ 672	\$ 668
Interest cost on projected benefit obligation	704	705	745
Expected return on plan assets	(165)	(158)	(373)
Curtailed loss	735		
Amortization of net (gain) loss	107	(29)	
	\$ 1,973	\$ 1,190	\$ 1,040

In July 2010, the Company sold all of the outstanding capital stock of its Hilger Crystals Limited subsidiary (see Note 2 for additional detail). As a result of this transaction, employee participants in the Company's United Kingdom defined benefit pension plan became deferred participants and stopped accruing additional pension benefits under the plan. As a consequence, the Company recognized a charge of \$0.7 million in the second quarter of 2010 related to this plan curtailment, consisting of \$0.6 million in previously unrecognized actuarial losses, which had been included in other comprehensive income, and an increase of \$0.1 million in the projected benefit obligation, which resulted from a change in actuarial assumptions due to the change in status of the employee participants to deferred membership. In addition, the Company is obligated under the terms of the sale to wind up the pension plan and has therefore accrued \$0.7 million in expected costs to complete the wind up.

**Table of Contents**

The changes in projected benefit obligation and plan assets, as well as the ending balance sheet amounts for the Company's defined benefit plans were as follows:

<i>(In thousands)</i>	<b>January 1, 2011</b>	<b>January 2, 2010</b>
<b>Change in projected benefit obligation:</b>		
Projected benefit obligation, beginning of year	\$ 16,899	\$ 17,092
Service cost	592	617
Interest cost	704	705
Contributions by plan participants	5	9
Actuarial loss (gain)	2,637	(750)
Benefits paid	(610)	(1,162)
Curtailement loss	77	
Currency translation adjustments	24	388
Projected benefit obligation, end of year	20,328	16,899
<b>Change in plan assets:</b>		
Fair value of plan assets, beginning of year	4,835	4,402
Company contributions	2,180	1,084
Contributions by plan participants	5	9
Gain on plan assets	152	39
Benefits paid	(172)	(843)
Currency translation adjustments	221	144
Fair value of plan assets, end of year	7,221	4,835
Funded status	\$ (13,107)	\$ (12,064)
Amounts recognized in the balance sheet:		
Prepaid pension asset	\$ 476	\$
Current portion of pension liabilities	(304)	(1,849)
Accrued pension liabilities	(13,279)	(10,215)
Accumulated other comprehensive income	(1,556)	(549)
Net amount recognized	\$ (14,663)	\$ (12,613)

At January 1, 2011, the United Kingdom plan was overfunded and had assets of \$4.3 million and a projected benefit obligation of \$3.8 million. All other plans were underfunded and had combined assets of \$2.9 million and combined projected benefit obligations of \$16.5 million.

At January 1, 2011, the aggregate projected benefit obligation, accumulated benefit obligation and fair value of plan assets were \$20.3 million, \$16.0 million and \$7.2 million, respectively. At January 2, 2010, the aggregate projected benefit obligation, accumulated benefit obligation and fair value of plan assets were \$16.9 million, \$13.7 million and \$4.8 million, respectively.

**Table of Contents**

At January 1, 2011, the estimated benefit payments for the next 10 years were as follows:

<i>(In thousands)</i>	<b>Estimated Benefit Payments</b>
2011	\$ 1,309
2012	810
2013	743
2014	755
2015	809
Thereafter	15,053
	<b>\$ 19,479</b>

The Company expects to contribute \$0.9 million to the plans during 2011.

The weighted-average rates used to determine the net periodic benefit costs were as follows:

	<b>January 1, 2011</b>	<b>January 2, 2010</b>	<b>January 3, 2009</b>
Discount rate	4.10%	4.30%	4.90%
Rate of increase in salary levels	3.15%	2.80%	2.90%
Expected long-term rate of return on assets	1.86%	2.50%	3.60%

The weighted-average rates used to determine projected benefit obligations at the respective periods were as follows:

	<b>January 1, 2011</b>	<b>January 2, 2010</b>
Discount rate	3.03%	4.70%
Rate of increase in salary levels	2.34%	2.70%
Expected long-term rate of return on assets	1.86%	2.50%

In determining the expected long-term rate of return on plan assets, the Company considers the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes, and economic and other indicators of future performance.

Plan assets were held in the following categories as a percentage of total plan assets:

	<b>January 1, 2011</b>		<b>January 2, 2010</b>	
	<b>Amount</b>	<b>Percentage</b>	<b>Amount</b>	<b>Percentage</b>
Cash	\$ 3,293	45%	\$ 1,592	33%
Bonds	984	14	975	20
Pooled funds of insurance companies	2,944	41	2,268	47
	<b>\$ 7,221</b>	<b>100%</b>	<b>\$ 4,835</b>	<b>100%</b>

In general, the Company's asset management objectives included maintaining an adequate level of diversification to reduce interest rate and market risk while providing adequate liquidity to meet immediate and future benefit payment requirements. In Japan, assets are invested in pooled funds of insurance companies. The expected long-term rate of return on these assets is 1.5%, which is based on the general yield



## Edgar Filing: NEWPORT CORP - Form 10-K

environment for high quality instruments in Japan. The United Kingdom pension plan invests in a combination of high yield cash accounts and bond funds. The bond funds are split between a fixed interest fund and an index linked fund, which are subject to interest rate risk. The allocation mix is designed to minimize risk while providing liquidity and earning a reasonable rate of return. The expected long-term rate of return on these assets is 2.2%, which is based on Government gilt yields and bank base rates. There are two pension plans in Germany and one in France, in which the related assets are not part of the plan,

F-35

## **Table of Contents**

as discussed below. The Company does not invest in derivative instruments, although the pooled funds it owns may use such instruments in a risk management capacity.

The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturities of these instruments. The fair value of bond funds is based on quoted prices provided by the fund issuer and the fair value of pooled funds of insurance companies is based on quoted prices provided by the insurance provider. Since the bond funds and pooled funds of insurance companies are not actively traded, they fall within Level 2 of the fair value hierarchy.

### *Other Pension-Related Assets*

As of January 1, 2011 and January 2, 2010, the Company had assets with aggregate market values of \$8.6 million and \$9.0 million, respectively, which it has set aside in connection with its French and German pension plans. These assets are invested in group insurance contracts through the insurance companies administering these plans, in accordance with applicable pension laws. The German contracts have a guaranteed minimum rate of return ranging from 2.25% to 4.0%, depending on the contract. The French contracts have an expected rate of return of 2.4%. Because these assets were not assets of the pension plan and could be accessed by the Company, they were not included in the Company's plan assets shown above. Such assets are included in *investments and other assets* in the accompanying consolidated balance sheets.

## **NOTE 15 BUSINESS SEGMENT INFORMATION**

The operating segments reported below are the segments of the Company for which separate financial information is available and for which operating results are evaluated regularly by the Company's Chief Executive Officer, who is the Company's chief operating decision maker, in deciding how to allocate resources and in assessing performance.

The Company develops, manufactures and markets its products within two distinct business segments, its PPT Division and its Lasers Division.

The PPT Division's products and systems are sold to end users in a wide range of markets, including the microelectronics, scientific research, life and health sciences and industrial manufacturing markets. In addition, the division sells subsystems to third parties that integrate these products into larger systems, particularly for microelectronics and life and health sciences applications. The products sold by this division include photonics instruments and systems, precision positioning systems and subsystems, vibration isolation systems and subsystems, optics, optical hardware, and opto-mechanical subassemblies. The PPT Division also offers automated systems and subsystems for advanced applications in the manufacturing of solar panels and communications and electronic devices, including microwave, optical, radio frequency and multi-chip modules.

The Lasers Division offers a broad array of laser technology products and services to OEM and end-user customers across a wide range of applications and markets, including the microelectronics, scientific research, life and health sciences and industrial manufacturing markets. The lasers and laser-based systems include ultrafast lasers and amplifiers, diode-pumped solid-state lasers, high-energy pulsed lasers, tunable lasers and gas lasers.

The Company measured operating income (loss) reported for each business segment, which included only the costs that were directly attributable to the operations of that segment, and excluded certain unallocated operating expenses, other charges and gains, interest and other expense, net, and income taxes.

**Table of Contents**

Selected segment financial information for the Company's reportable segments for the years ended January 1, 2011, January 2, 2010 and January 3, 2009 were as follows:

<i>(In thousands)</i>	<b>PPT Division</b>	<b>Lasers Division</b>	<b>Total</b>
<b>Year ended January 1, 2011</b>			
Sales to external customers	\$ 297,666	\$ 182,121	\$ 479,787
Depreciation and amortization	\$ 7,039	\$ 3,583	\$ 10,622
Loss on disposal assets and related costs	\$ 542	\$	\$ 542
Segment income	\$ 62,759	\$ 14,275	\$ 77,034
Segment assets	\$ 237,231	\$ 80,433	\$ 317,664
Expenditures for long-lived assets	\$ 4,815	\$ 854	\$ 5,669
<b>Year ended January 2, 2010</b>			
Sales to external customers	\$ 219,645	\$ 147,344	\$ 366,989
Depreciation and amortization	\$ 7,341	\$ 4,422	\$ 11,763
Impairment charges	\$ 360	\$	\$ 360
Loss on disposal of diode laser assets and related costs	\$	\$ 4,355	\$ 4,355
Segment income (loss)	\$ 30,245	\$ (5,567)	\$ 24,678
Segment assets	\$ 212,551	\$ 102,065	\$ 314,616
Expenditures for long-lived assets	\$ 3,317	\$ 6,605	\$ 9,922
<b>Year ended January 3, 2009</b>			
Sales to external customers	\$ 257,800	\$ 187,536	\$ 445,336
Depreciation and amortization	\$ 6,290	\$ 7,270	\$ 13,560
Impairment charges	\$	\$ 119,944	\$ 119,944
Segment income (loss)	\$ 39,665	\$ (126,313)	\$ (86,648)
Segment assets	\$ 187,920	\$ 135,618	\$ 323,538
Expenditures for long-lived assets	\$ 7,216	\$ 3,892	\$ 11,108

The segment income reported for the Company's PPT Division for 2010 included a loss on the sale of assets and related costs, totaling \$0.5 million related to the sale of the Company's Hilger Crystals Limited subsidiary (see Note 2).

The segment income reported for the Company's PPT Division for 2009 included an impairment charge of \$0.4 million related to the write off of in-process research and development related to the New Focus acquisition. The segment loss reported for the Company's Lasers Division for 2009 included a loss on the sale of assets and related costs, totaling \$4.4 million related to the divestiture of the Company's diode laser operations in July 2009.

The segment loss for the Company's Lasers Division for 2008 included impairment charges of \$119.9 million related to goodwill and intangible assets (see Note 5 for additional detail).

**Table of Contents**

The following reconciles segment income (loss) to consolidated income (loss) before income taxes:

<i>(In thousands)</i>	<b>January 1, 2011</b>	<b>Year Ended January 2, 2010</b>	<b>January 3, 2009</b>
Segment income (loss)	\$ 77,034	\$ 24,678	\$ (86,648)
Unallocated operating expenses	(24,312)	(35,916)	(27,088)
Recovery (write-down) of note receivable and other amounts related to previously discontinued operations, net		101	(7,040)
Write-down of minority interest investment			(2,890)
Gain on extinguishment of debt		328	7,734
Gain on sale of building			2,504
Interest and other expense, net	(8,481)	(8,564)	(6,751)
Consolidated income (loss) before income taxes	\$ 44,241	\$ (19,373)	\$ (120,179)

The following reconciles segment depreciation and amortization, total assets and expenditures to consolidated amounts:

<i>(In thousands)</i>	<b>As of or for the Year Ended</b>		
	<b>January 1, 2011</b>	<b>January 2, 2010</b>	<b>January 3, 2009</b>
Depreciation and amortization for reportable segments	\$ 10,622	\$ 11,763	\$ 13,560
Depreciation and amortization for assets held at corporate	8,046	8,169	8,322
Total depreciation and amortization	\$ 18,668	\$ 19,932	\$ 21,882
Assets of reportable segments	\$ 317,664	\$ 314,616	\$ 323,538
Assets held at corporate, primarily cash and cash equivalents and marketable securities	238,726	178,791	201,365
Total assets	\$ 556,390	\$ 493,407	\$ 524,903
Expenditures for long-lived assets for reportable segments	\$ 5,669	\$ 9,922	\$ 11,108
Expenditures for assets held at corporate	1,745	1,211	7,467
Total expenditures for long-lived assets	\$ 7,414	\$ 11,133	\$ 18,575

**Table of Contents**

Selected financial information for the Company's operations by geographic area was as follows:

<i>(In thousands)</i>	As of or for the Year Ended		
	January 1, 2011	January 2, 2010	January 3, 2009
<b>Geographic area net sales:</b>			
United States	\$ 233,479	\$ 169,947	\$ 208,736
Europe	102,369	97,886	114,936
Pacific Rim	123,364	79,770	100,676
Other	20,575	19,386	20,988
	\$ 479,787	\$ 366,989	\$ 445,336
<b>Geographic area long-lived assets:</b>			
United States	\$ 34,939	\$ 38,099	
Europe	7,565	11,027	
Other	3,656	3,775	
	\$ 46,160	\$ 52,901	

**NOTE 16 WRITE DOWN OF NOTE RECEIVABLE AND OTHER AMOUNTS**

In 2005, the Company sold its robotic systems operations to Kensington Laboratories LLC (Kensington) for \$0.5 million in cash and a note receivable of \$5.7 million, after adjustments provided for in the purchase agreement, and subleased the facility relating to such operations to Kensington. Such business had been previously classified by the Company as a discontinued operation. Kensington failed to make certain principal, interest and rent payments due under its agreements with the Company. The note was secured by a first-priority security interest in certain Kensington assets. Due to uncertainty regarding collectability of such amounts, in 2008, the Company wrote off such note receivable and other amounts owed in full, resulting in charges totaling \$7.0 million, net of amounts recovered relating to the sublease. In accordance with the Securities and Exchange Commission Staff Accounting Bulletin Topic 5.Z.5, the Company has recorded this write-down through continuing operations in its consolidated statements of operations. In 2009, the Company entered into a settlement agreement with Kensington pursuant to which Kensington paid to the Company \$0.2 million and transferred to the Company certain assets included in the collateral securing the note. In 2009, the Company recognized \$0.1 million as a recovery on the note, net of certain costs.

**Table of Contents****NOTE 17 SUPPLEMENTARY QUARTERLY CONSOLIDATED FINANCIAL DATA (Unaudited)**

<i>(In thousands, except per share data)</i>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
<b>Year Ended January 1, 2011:</b>				
Net sales	\$ 107,150	\$ 114,600	\$ 125,187	\$ 132,850
Gross profit	\$ 43,038	\$ 49,693	\$ 53,735	\$ 58,830
Net income	\$ 5,054	\$ 8,279	\$ 12,604	\$ 15,176
Basic income per share (1)	\$ 0.14	\$ 0.23	\$ 0.34	\$ 0.41
Diluted income per share (1)	\$ 0.14	\$ 0.22	\$ 0.34	\$ 0.40

<i>(In thousands, except per share data)</i>	<b>First Quarter</b>	<b>Second Quarter</b>	<b>Third Quarter</b>	<b>Fourth Quarter</b>
<b>Year Ended January 2, 2010:</b>				
Net sales	\$ 89,536	\$ 87,541	\$ 88,317	\$ 101,595
Gross profit	\$ 34,307	\$ 32,103	\$ 35,220	\$ 40,972
Net income (loss)	\$ (4,818)	\$ (9,143)	\$ (3,518)	\$ 73
Basic income (loss) per share (1)	\$ (0.13)	\$ (0.25)	\$ (0.10)	\$
Diluted income (loss) per share (1)	\$ (0.13)	\$ (0.25)	\$ (0.10)	\$

- (1) Per share data was computed independently for each of the quarters presented. Therefore, the sum of the quarterly per share information may not equal the annual income per share.

**Table of Contents****NEWPORT CORPORATION****Schedule II****Valuation and Qualifying Accounts**

<i>(In thousands)</i>	<b>Balance at Beginning of Period</b>	<b>Additions Charged to Costs and Expenses</b>	<b>Charged to Other Accounts</b>	<b>Write-Offs</b>	<b>Other Charges Add/Deduct (1)</b>	<b>Balance at End of Period</b>
<b>Year Ended January 1, 2011:</b>						
Deducted from asset accounts:						
Allowance for doubtful accounts	\$ 3,111	\$ 787	\$	\$ (1,339)	\$ 28	\$ 2,587
Reserve for inventory obsolescence	\$ 29,655	\$ 5,792	\$	\$ (5,850)	\$ (702)	\$ 28,895
<b>Year Ended January 2, 2010:</b>						
Deducted from asset accounts:						
Allowance for doubtful accounts	\$ 1,642	\$ 1,346	\$	\$ (54)	\$ 177	\$ 3,111
Reserve for inventory obsolescence	\$ 26,685	\$ 10,298	\$	\$ (8,034)	\$ 706	\$ 29,655
<b>Year Ended January 3, 2009:</b>						
Deducted from asset accounts:						
Allowance for doubtful accounts	\$ 1,381	\$ 573	\$	\$ (252)	\$ (60)	\$ 1,642
Reserve for inventory obsolescence	\$ 23,144	\$ 7,989	\$	\$ (4,825)	\$ 377	\$ 26,685

- (1) Amounts reflect the effect of exchange rate changes on translating valuation accounts of foreign subsidiaries in accordance with ASC 830, *Foreign Currency Matters* and certain reclassifications between balance sheet accounts.

**Table of Contents****EXHIBIT INDEX**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
2.1	Stock Purchase Agreement dated May 28, 2004 by and among the Registrant, Thermo Electron Corporation and other related parties (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on June 17, 2004).
3.1	Restated Articles of Incorporation of the Registrant, as amended to date (incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2010).
3.2	Amended and Restated Bylaws adopted by the Board of Directors of the Registrant effective as of August 16, 2010 (incorporated by reference to Exhibit 3.2 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on August 20, 2010).
4.1	Indenture, dated February 7, 2007, between the Registrant and Wells Fargo Bank, N.A. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 7, 2007).
4.2	Registration Rights Agreement, dated February 7, 2007, between the Registrant and Merrill, Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 7, 2007).
4.3	Form of 2.50% Convertible Subordinated Note due 2012 (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 7, 2007).
10.1	Lease Agreement dated March 27, 1991, as amended, pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.1 of the Registrant's Annual Report on Form 10-K for the year ended July 31, 1992).
10.2	First Amendment to Lease dated January 31, 2002, between the Registrant and IRP Muller Associates, LLC pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.2 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
10.3	Second Amendment to Lease dated September 28, 2004, between the Registrant and BCSD Properties, L.P. pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.5 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004).
10.4	Third Amendment to Lease dated December 15, 2010, between the Registrant and BCSD Properties, L.P. pertaining to premises located in Irvine, California.
10.5*	1992 Stock Incentive Plan (incorporated by reference to exhibit in the Registrant's 1992 Proxy Statement).
10.6*	1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.11 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999).
10.7*	Amendment to 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-3, No. 333-40878, filed with the Securities and Exchange Commission on July 6, 2000).
10.8*	2001 Stock Incentive Plan (incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 27, 2001).



**Table of Contents**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
10.9*	Form of Nonqualified Stock Option Agreement under the Registrant's 2001 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.9 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
10.10*	Form of Incentive Stock Option Agreement under the Registrant's 2001 Stock Incentive Plan (incorporated by reference to Exhibit 10.10 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
10.11*	Form of Restricted Stock Agreement under the Registrant's 2001 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004).
10.12*	2006 Performance-Based Stock Incentive Plan (incorporated by reference to Appendix B of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 10, 2006).
10.13*	Form of Restricted Stock Unit Award Agreement under the Registrant's 2006 Performance-Based Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2006).
10.14*	Form of Restricted Stock Unit Award Agreement (as revised March 2009) under the Registrant's 2006 Performance-Based Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 4, 2009).
10.15*	Form of Stock Appreciation Right Award Agreement under the Registrant's 2006 Performance-Based Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 4, 2009).
10.16*	Amended and Restated Employee Stock Purchase Plan, as amended (incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005).
10.17*	Severance Compensation Agreement dated April 1, 2008 between the Registrant and Robert J. Phillippy, President and Chief Executive Officer (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 7, 2008).
10.18*	Severance Compensation Agreement dated April 1, 2008 between the Registrant and Charles F. Cargile, Senior Vice President, Chief Financial Officer and Treasurer (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 7, 2008).
10.19*	Form of Severance Compensation Agreement between the Registrant and certain of its executive and other officers (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 7, 2008).
10.20*	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.21	Loan Agreement between the Registrant and Bank of America, N.A. dated January 2, 2008 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 7, 2008).

**Table of Contents**

<b>Exhibit Number</b>	<b>Description of Exhibit</b>
10.22	Amendment No. 1 to Loan Agreement between the Registrant and Bank of America, N.A. dated December 1, 2008 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 4, 2008).
10.23	Security Agreement between the Registrant and Bank of America, N.A. dated December 1, 2008 (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 4, 2008).
10.24	Amendment No. 2 to Loan Agreement between the Registrant and Bank of America, N.A. dated November 30, 2009 (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 2, 2009).
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
23.2	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (included in signature page).
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 (the Exchange Act).
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
32.1	Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350.
32.2	Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350.

\* This exhibit is identified as a management contract or compensatory plan or arrangement pursuant to Item 15(a)(3) of Form 10-K.