

NEWPORT CORP
Form 10-Q
November 12, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended October 3, 2015

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)

Nevada
(State or other jurisdiction of
incorporation or organization)

94-0849175
(IRS Employer Identification No.)

1791 Deere Avenue, Irvine, California 92606

(Address of principal executive offices) (Zip Code)

(949) 863-3144

(Registrant's telephone number, including area code)

Not Applicable

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

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

Yes No

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

Yes No

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

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

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

Yes No

As of October 30, 2015, 38,576,708 shares of the registrant's sole class of common stock were outstanding.

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	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Net sales	\$ 147,560	\$ 146,299	\$ 452,192	\$ 446,421
Cost of sales	85,133	80,334	255,565	245,109
Gross profit	62,427	65,965	196,627	201,312
Selling, general and administrative expense	37,730	39,122	117,029	120,413
Research and development expense	14,232	14,082	44,345	42,538
Loss (gain) on sale or other disposal of assets, net			1,088	(411)
Operating income	10,465	12,761	34,165	38,772
Interest and other expense, net	(1,353)	(958)	(3,320)	(2,592)
Income before income taxes	9,112	11,803	30,845	36,180
Income tax provision	2,009	2,330	9,308	9,769
Net income	7,103	9,473	21,537	26,411
Net income attributable to non-controlling interests		3		103
Net income attributable to Newport Corporation	\$ 7,103	\$ 9,470	\$ 21,537	\$ 26,308
Net income	\$ 7,103	\$ 9,473	\$ 21,537	\$ 26,411
Other comprehensive income (loss):				
Foreign currency translation gains (losses)	673	(7,203)	(5,290)	(7,567)
Unrecognized net pension gains, net of tax	79	204	508	306
Unrealized losses on investments and marketable securities, net of tax	(13)	(155)	(122)	(177)
Other comprehensive income (loss)	739	(7,154)	(4,904)	(7,438)
Comprehensive income	\$ 7,842	\$ 2,319	\$ 16,633	\$ 18,973
Comprehensive (loss) income attributable to non-controlling interests	\$	\$ (5)	\$	\$ 110
Comprehensive income attributable to Newport Corporation	7,842	2,324	16,633	18,863
Comprehensive income	\$ 7,842	\$ 2,319	\$ 16,633	\$ 18,973

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Net income per share attributable to Newport

Corporation:

Basic	\$	0.18	\$	0.24	\$	0.55	\$	0.66
Diluted	\$	0.18	\$	0.23	\$	0.54	\$	0.65

Shares used in per share calculations:

Basic	38,982	39,921	39,434	39,776
Diluted	39,374	40,612	40,066	40,546

The accompanying notes are an integral part of these financial statements.

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NEWPORT CORPORATION

Consolidated Balance Sheets

(In thousands, except share and per share data)

(Unaudited)

	October 3, 2015	January 3, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 30,440	\$ 46,883
Restricted cash	974	1,704
Marketable securities		57
Accounts receivable, net of allowance for doubtful accounts of \$1,297 and \$1,242 as of October 3, 2015 and January 3, 2015, respectively	103,714	96,512
Inventories	122,845	112,440
Current deferred tax assets	20,606	20,734
Prepaid expenses and other current assets	18,294	14,948
Total current assets	296,873	293,278
Property and equipment, net	84,362	82,793
Goodwill	103,854	97,524
Long-term deferred tax assets	6,049	5,005
Intangible assets, net	68,228	70,811
Investments and other assets	28,486	30,516
Total assets	\$ 587,852	\$ 579,927
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings	\$ 3,579	\$ 3,772
Accounts payable	31,281	31,448
Accrued payroll and related expenses	31,890	34,607
Accrued expenses and other current liabilities	30,785	31,797
Total current liabilities	97,535	101,624
Long-term debt	84,254	71,000
Pension liabilities	29,432	28,554
Long-term deferred tax liabilities	14,119	14,272
Other long-term liabilities	6,881	7,773
Commitments and contingencies		
Stockholders equity:		
Common stock, par value \$0.1167 per share, 200,000,000 shares authorized; 38,576,708 and 39,603,662 shares issued and outstanding as of October 3, 2015 and January 3, 2015, respectively	4,506	4,626
Capital in excess of par value	450,989	468,575
Accumulated other comprehensive loss	(22,886)	(17,982)
Accumulated deficit	(76,978)	(98,515)
Total stockholders equity	355,631	356,704
Total liabilities and stockholders equity	\$ 587,852	\$ 579,927

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The accompanying notes are an integral part of these financial statements.

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NEWPORT CORPORATION

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Nine Months Ended	
	October 3, 2015	September 27, 2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 21,537	\$ 26,411
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,363	22,271
Gain on sale of assets		(411)
Provision for losses on inventories	6,115	4,429
Stock-based compensation expense	10,058	8,588
Provision for doubtful accounts	225	585
Loss on disposal of property and equipment	1,158	370
Deferred income taxes	(897)	(929)
Excess tax benefits from stock-based compensation	(2,596)	(4,403)
Increase (decrease) in cash, net of acquisition and divestiture, due to changes in:		
Accounts receivable	(6,950)	(7,576)
Inventories	(15,992)	(20,183)
Prepaid expenses and other assets	(345)	27
Accounts payable	(3,105)	3,763
Accrued payroll and related expenses	(3,497)	2,569
Accrued expenses and other liabilities	816	4,447
Other long-term liabilities	490	(977)
Net cash provided by operating activities	28,380	38,981
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(15,511)	(17,993)
Restricted cash	661	600
Proceeds from divestiture of business		5,030
Acquisition of business, net of cash acquired	(7,865)	
Refundable amounts related to acquisition of a business	(2,319)	
Purchase of investments and marketable securities	(1,139)	(1,414)
Proceeds from the sale or maturity of investments and marketable securities	281	8,509
Net cash used in investing activities	(25,892)	(5,268)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt	28,000	4,000
Repayment of long-term debt and obligations under capital leases	(15,012)	(20,200)
Proceeds from short-term borrowings	1,916	5,766
Repayment of short-term borrowings	(6,123)	(5,635)
Purchases of non-controlling interests		(1,863)
Proceeds from the issuance of common stock under employee plans	1,353	4,156
Tax withholding payments related to net share settlement of equity awards	(3,419)	(2,940)
Purchases of the Company's common stock	(27,893)	(4,480)
Excess tax benefits from stock-based compensation	2,596	4,403
Net cash used in financing activities	(18,582)	(16,793)

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Impact of foreign exchange rate changes on cash balances	(349)		(1,650)
Net (decrease) increase in cash and cash equivalents	(16,443)		15,270
Cash and cash equivalents at beginning of period	46,883		53,710
Cash and cash equivalents at end of period	\$ 30,440	\$	68,980
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ 1,498	\$	1,490
Cash paid during the period for income taxes, net	\$ 7,003	\$	4,065
Property and equipment accrued in accounts payable	\$ 292	\$	123

The accompanying notes are an integral part of these financial statements.

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Notes to Consolidated Financial Statements

October 3, 2015

NOTE 1 BASIS OF PRESENTATION

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

The accompanying unaudited consolidated financial statements do not include certain footnotes and financial presentations normally required under generally accepted accounting principles (GAAP) and, therefore, should be read in conjunction with the consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K for the year ended January 3, 2015. The results for the interim periods are not necessarily indicative of the results the Company will have for the full year ending January 2, 2016. The January 3, 2015 balances reported herein are derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended January 3, 2015.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

In September 2015, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2015-16, *Simplifying the Accounting for Measurement Period Adjustments*. ASU No. 2015-16 requires an acquirer in a business combination to recognize adjustments to the provisional amounts that are identified during the measurement period to be reported in the period in which the adjustment amounts are determined. In addition, the effect on earnings of changes in depreciation or amortization, or other income effects (if any) as a result of the change to the provisional amounts, calculated as if the accounting had been completed as of the acquisition date, must be recorded in the reporting period in which the adjustment amounts are determined. ASU No. 2015-16 will be effective for fiscal years and interim periods beginning after December 15, 2015, and is required to be applied prospectively. Early adoption is permitted for financial statements that have not been issued prior to the effective date of this update. The Company's adoption of ASU No. 2015-16 is not expected to have a material impact on the Company's financial position or results of operations.

NOTE 3 ACQUISITION OF FEMTOLASERS

On February 11, 2015, the Company acquired all of the capital stock of FEMTOLASERS Produktions GmbH (FEMTOLASERS). The initial purchase price of \$9.1 million was paid in cash at closing and is subject to a net asset adjustment. The Company has estimated a net asset adjustment of \$2.1 million, resulting in a purchase price of \$7.0 million (approximately \$7.9 million). The final amount of this net asset

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adjustment is currently under negotiation between the Company and the FEMTOLASERS selling shareholders. Of the initial purchase price, 2.3 million was deposited at closing into escrow until 30 months after closing, to secure certain obligations of the FEMTOLASERS selling shareholders under the share purchase agreement, including the net asset adjustment. The Company incurred \$0.4 million in transaction costs, which have been expensed as incurred and are included in *selling, general and administrative expense* in the statements of income and comprehensive income. FEMTOLASERS expands the Company's offering of ultrafast laser products and enhances its technology base in this area. The results of FEMTOLASERS have been included in the results of the Company's Lasers Group as of the acquisition date.

Immediately following the closing of the acquisition, the Company repaid 3.6 million (approximately \$4.0 million) of FEMTOLASERS outstanding loans that were assumed as part of the acquisition.

The consideration paid by the Company for the acquisition of FEMTOLASERS is allocated to the assets acquired, net of the liabilities assumed, based upon their estimated fair values as of the date of the acquisition. The excess of the purchase price over the estimated fair value of the assets acquired, net of the estimated fair value of the liabilities assumed, is recorded as goodwill. As discussed above, the Company has not yet finalized the purchase price. Any changes during the measurement period may have a further impact on goodwill.

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Notes to Consolidated Financial Statements

October 3, 2015

	October 3, 2015 Purchase Price Allocation
Assets acquired and liabilities assumed:	
Cash	\$ 78
Accounts receivable	1,968
Inventories	2,759
Deferred tax assets	1,019
Other assets	2,015
Goodwill	6,681
Developed technology	1,811
In-process research and development	1,721
Other intangible assets	543
Accounts payable	(3,417)
Debt	(4,021)
Deferred tax liabilities	(1,019)
Other liabilities	(2,195)
	\$ 7,943

The goodwill related to the acquisition of FEMTOLASERS has been allocated to the Company's Lasers Group and will not be deductible for tax purposes.

The actual net sales and net income (loss) of FEMTOLASERS from February 11, 2015, the closing date of the acquisition, were included in the Company's consolidated statements of income and comprehensive income for the three and nine months ended October 3, 2015, and are set forth in the table below. Also set forth in the table below are the pro forma net sales and net income of the Company during the three and nine months ended October 3, 2015 and September 27, 2014, including the results of FEMTOLASERS as though the acquisition had occurred at the beginning of 2014. This supplemental pro forma financial information is presented for information purposes only and is not necessarily indicative of the results of operations that would have been achieved if the acquisition had occurred as of the beginning of 2014.

(Unaudited, in thousands)	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Actual:				
Net sales	\$ 2,166	\$	\$ 4,489	\$
Net income (loss) attributable to Newport Corporation	\$ 339	\$	\$ (1,480)	\$
Supplemental pro forma information:				
Net sales	\$ 147,560	\$ 148,057	\$ 452,461	\$ 453,786
Net income attributable to Newport Corporation	\$ 7,121	\$ 9,025	\$ 21,926	\$ 25,624
Net income per share				

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Basic	\$	0.18	\$	0.23	\$	0.56	\$	0.64
Diluted	\$	0.18	\$	0.22	\$	0.55	\$	0.63

For the purposes of determining pro forma net income, adjustments were made to actual net income of the Company for all periods presented in the table above. The pro forma net income assumes that amortization of acquired intangible assets began at the beginning of 2014 rather than on February 11, 2015. The result is a net increase in amortization expense of \$0.1 million and \$0.4 million for the three and nine months ended September 27, 2014, respectively. Transaction costs totaling \$0.4 million, which were incurred prior to the closing of the acquisition, are excluded from pro forma net income.

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Notes to Consolidated Financial Statements

October 3, 2015

NOTE 4 FAIR VALUE MEASUREMENTS

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

The Company's assets and liabilities measured at fair value on a recurring basis are categorized in the table below based upon their level within the fair value hierarchy as of October 3, 2015.

(In thousands) Description	October 3, 2015	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Restricted Cash	\$ 974	\$ 974	\$	\$
Derivative assets:				
Option contracts	214		214	
Funds in investments and other assets:				
Israeli pension funds	11,926		11,926	
Group insurance contracts	5,909		5,909	
	17,835		17,835	
	\$ 19,023	\$ 974	\$ 18,049	\$
Liabilities:				
Derivative liabilities:				
Option contracts	266		266	

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Notes to Consolidated Financial Statements

October 3, 2015

The Company's assets and liabilities measured at fair value on a recurring basis are categorized in the table below based upon their level within the fair value hierarchy as of January 3, 2015.

(In thousands) Description	January 3, 2015	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Restricted Cash	\$ 1,704	\$ 1,704	\$	\$
Marketable securities:				
Money market funds	7	7		
Certificates of deposit	50		50	
	57	7	50	
Derivative assets:				
Option contracts	103		103	
Funds in investments and other assets:				
Israeli pension funds	11,090		11,090	
Group insurance contracts	6,140		6,140	
	17,230		17,230	
	\$ 19,094	\$ 1,711	\$ 17,383	\$
Liabilities:				
Derivative liabilities:				
Option contracts	\$ 921	\$	\$ 921	\$

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

(In thousands)	October 3, 2015		January 3, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Short-term borrowings	\$ 3,579	\$ 3,579	\$ 3,772	\$ 3,772
Long-term debt	\$ 84,254	\$ 83,497	\$ 71,000	\$ 69,761

NOTE 5

SUPPLEMENTAL FINANCIAL 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:

(In thousands)	October 3,		January 3,	
	2015		2015	
Raw materials and purchased parts	\$	75,111	\$	68,989
Work in process		18,747		16,564
Finished goods		28,987		26,887
Short-term inventories	\$	122,845	\$	112,440

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Notes to Consolidated Financial Statements

October 3, 2015

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

(In thousands)	October 3, 2015	January 3, 2015
Raw materials and purchased parts	\$ 2,138	\$ 3,208
Finished goods	2,969	3,856
Long-term inventories	\$ 5,107	\$ 7,064

Accrued Warranty Obligations

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

The activity in accrued warranty obligations was as follows:

(In thousands)	Nine Months Ended	
	October 3, 2015	September 27, 2014
Balance at beginning of year	\$ 3,556	\$ 3,285
Additions charged to cost of sales	2,278	2,134
Warranty claims	(2,386)	(2,487)
Balance at end of period	\$ 3,448	\$ 2,932

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Notes to Consolidated Financial Statements

October 3, 2015

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities were as follows:

(In thousands)	October 3, 2015	January 3, 2015
Deferred revenue	\$ 12,246	\$ 13,032
Deferred lease liability	4,743	5,094
Short-term accrued warranty obligations	3,254	3,324
Accrued third party commissions	1,551	1,395
Accrued income taxes	1,445	2,219
Other	7,546	6,733
	\$ 30,785	\$ 31,797

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consisted of the following:

(In thousands)	October 3, 2015	January 3, 2015
Cumulative foreign currency translation losses	\$ (19,846)	\$ (14,556)
Unrecognized net pension losses, net of tax	(4,347)	(4,855)
Unrealized gains on investments and marketable securities, net of tax	1,307	1,429
	\$ (22,886)	\$ (17,982)

NOTE 6 GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amounts of goodwill were as follows:

(In thousands)	Photonics Group	Lasers Group	Optics Group	Total
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Balance at January 3, 2015:				
Goodwill	98,808	129,761	41,314	269,883
Accumulated impairment losses	(47,458)	(104,562)	(20,339)	(172,359)
	51,350	25,199	20,975	97,524
Goodwill allocated to acquisition		6,681		6,681
Foreign currency impact		(351)		(351)
	51,350	31,529	20,975	103,854
Balance at October 3, 2015:				
Goodwill	98,808	136,091	41,314	276,213
Accumulated impairment losses	(47,458)	(104,562)	(20,339)	(172,359)
	\$ 51,350	\$ 31,529	\$ 20,975	\$ 103,854

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Notes to Consolidated Financial Statements

October 3, 2015

As of October 3, 2015, acquisition related intangible assets were as follows:

(In thousands)	Amortization Period	Gross Value	Accumulated Amortization	Carrying Value
Intangible assets subject to amortization:				
Developed technology	10-20 years	\$ 39,888	\$ (11,777)	\$ 28,111
Customer relationships	up to 10 years	28,693	(20,839)	7,854
In-process research and development	10 years	15,154	(2,075)	13,079
Other	3 months-10 years	2,211	(1,332)	879
		85,946	(36,023)	49,923
Intangible assets not subject to amortization:				
Trademarks and trade names		18,305		18,305
Intangible assets		\$ 104,251	\$ (36,023)	\$ 68,228

As of October 3, 2015, the gross values and accumulated amortization shown in the table above for intangible assets subject to amortization exclude amounts related to the Company's acquisition of Spectra-Physics, Inc. (and certain related entities), as the purchased intangible assets related to that acquisition have been fully amortized.

As of January 3, 2015, acquisition related intangible assets were as follows:

(In thousands)	Amortization Period	Gross Value	Accumulated Amortization	Carrying Value
Intangible assets subject to amortization:				
Developed technology	10-20 years	\$ 45,646	\$ (16,782)	\$ 28,864
Customer relationships	up to 10 years	47,827	(37,312)	10,515
In-process research and development	10 years	13,461	(1,496)	11,965
Other	3 months-10 years	7,461	(6,299)	1,162
		114,395	(61,889)	52,506
Intangible assets not subject to amortization:				
Trademarks and trade names		18,305		18,305
Intangible assets		\$ 132,700	\$ (61,889)	\$ 70,811

Amortization expense related to intangible assets totaled \$2.1 million and \$1.9 million for the three months ended October 3, 2015 and September 27, 2014, respectively, and \$6.3 million and \$6.8 million for the nine months ended October 3, 2015 and September 27, 2014, respectively.

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Estimated aggregate amortization expense for future fiscal years is as follows:

(In thousands)		Estimated Aggregate Amortization Expense
2015 (remaining)	\$	2,168
2016		8,283
2017		7,131
2018		4,966
2019		4,376
Thereafter		20,015
	\$	46,939

The Company has excluded \$3.0 million of estimated amortization expense related to certain in-process research and development from the table above, as it was uncertain as of October 3, 2015 when the technology will be completed and when the amortization will begin.

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Notes to Consolidated Financial Statements

October 3, 2015

NOTE 7 INTEREST AND OTHER EXPENSE, NET

Interest and other expense, net, was as follows:

(In thousands)	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Interest expense	\$ (611)	\$ (522)	\$ (1,749)	\$ (1,779)
Interest and dividend income	18	129	86	252
Derivative (loss) gain, net	(430)	(372)	103	(248)
Bank and portfolio asset management fees	(322)	(293)	(1,015)	(819)
Other (expense) income, net	(8)	100	(745)	2
	\$ (1,353)	\$ (958)	\$ (3,320)	\$ (2,592)

NOTE 8 STOCK-BASED COMPENSATION

During the nine months ended October 3, 2015, the Company granted 0.5 million restricted stock units and 0.5 million stock-settled stock appreciation rights with weighted average grant date fair values of \$19.06 and \$7.60, respectively.

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

(In thousands)	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Cost of sales	\$ 367	\$ 271	\$ 1,048	\$ 762
Selling, general and administrative expense	2,490	2,508	7,812	6,809
Research and development expense	374	362	1,198	1,017
	\$ 3,231	\$ 3,141	\$ 10,058	\$ 8,588

At October 3, 2015, 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 \$18.3 million, net of estimated forfeitures. This future compensation expense will be amortized over a weighted-average period of 1.9 years using the straight-line attribution method. The actual compensation

expense that the Company will recognize in the future related to unvested stock-based awards outstanding at October 3, 2015 will be adjusted for actual 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 have been or will be achieved.

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October 3, 2015

At October 3, 2015, the Company's outstanding and exercisable stock options and stock appreciation rights, and the weighted average exercise price or base value, the weighted average remaining contractual life and the aggregate intrinsic value thereof, were as follows:

	Number of Shares (In thousands)	Weighted Average Exercise Price or Base Value	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In thousands)
Stock options outstanding and exercisable	30	\$ 13.86	0.3	\$
Stock appreciation rights outstanding	2,354	\$ 15.61	4.4	\$ 2,197
Stock appreciation rights exercisable	1,328	\$ 13.88	3.2	\$ 2,187

NOTE 9 DEBT AND LINES OF CREDIT

Total short-term borrowings were as follows:

(In thousands)	October 3, 2015	January 3, 2015
Japanese revolving lines of credit	\$ 3,117	\$ 3,163
Japanese receivables financing facilities	312	25
Israeli loans due October 2015	150	584
Total short-term borrowings	\$ 3,579	\$ 3,772

Total long-term debt was as follows:

(In thousands)	October 3, 2015	January 3, 2015
U.S. revolving line of credit expiring July 2018	\$ 84,000	\$ 71,000
Austrian loans due through March 2019	254	
	\$ 84,254	\$ 71,000

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October 3, 2015

NOTE 10 **NET INCOME PER SHARE**

The following table sets forth the computation of basic and diluted net income per share:

(In thousands, except per share data)	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Net income attributable to Newport Corporation	\$ 7,103	\$ 9,470	\$ 21,537	\$ 26,308
Shares:				
Weighted average shares outstanding - basic	38,982	39,921	39,434	39,776
Dilutive potential common shares, using treasury stock method	392	691	632	770
Weighted average shares outstanding - diluted	39,374	40,612	40,066	40,546
Net income per share attributable to Newport Corporation:				
Basic	\$ 0.18	\$ 0.24	\$ 0.55	\$ 0.66
Diluted	\$ 0.18	\$ 0.23	\$ 0.54	\$ 0.65

For the three and nine months ended October 3, 2015, 1.5 million stock appreciation rights, and for the three and nine months ended September 27, 2014, an aggregate of 0.7 million stock options and stock appreciation rights, were excluded from the computations of diluted net income per share, as their inclusion would have been antidilutive. For the three and nine months ended October 3, 2015, 0.5 million performance-based restricted stock units, and for the three and nine months ended September 27, 2014, 0.6 million performance-based restricted stock units, were excluded from the computations of diluted net income per share, as the performance criteria for their vesting had not been met as of the end of such periods.

NOTE 11 **INCOME TAXES**

Income tax expense for each of the three and nine months ended October 3, 2015 and September 27, 2014 consisted of a provision for federal, state and foreign taxes based on the annual estimated effective tax rate applicable to the Company, adjusted for items which are considered discrete to a particular period. The effective tax rates for the three and nine months ended October 3, 2015 were 22.0% and 30.2%, respectively, and the effective tax rates for the three and nine months ended September 27, 2014 were 19.7% and 27.0%, respectively.

The effective tax rates for the three and nine months ended October 3, 2015 were lower than the U.S. statutory rate of 35% due primarily to the benefit of income recorded in foreign jurisdictions that have tax rates that are lower than U.S. tax rates and an increased utilization of foreign tax credits that were previously unrecognized, necessitated by the completion and filing of the 2014 U.S. federal consolidated return during the third quarter, which was recorded as a discrete item. The effective tax rate for the three months ended October 3, 2015 was also favorably impacted by profitable results recorded in jurisdictions where the Company maintains a full valuation allowance. The effective tax rate for the nine months ended October 3, 2015 was unfavorably impacted by the passage of Japanese tax reform legislation on March 31, 2015, which lowered long-term corporate tax rates, necessitating a corresponding reduction of deferred tax assets applicable to the Company's Japanese locations. The effective tax rates for the three and nine months ended September 27, 2014 were lower than the rates for the three and nine months ended October 3, 2015, respectively, due primarily to the favorable impact of an extraterritorial income exclusion benefit and a reduction of the corresponding uncertain tax position, which was recorded as a discrete item during the third quarter of 2014.

NOTE 12

STOCKHOLDERS EQUITY TRANSACTIONS

In May 2008, the Board of Directors of the Company approved a share repurchase program, authorizing the purchase of up to 4.0 million shares of the Company's common stock. During the nine months ended October 3, 2015, the Company repurchased 1.7 million shares for a total of \$27.9 million under this program. As of October 3, 2015, 1.7 million shares remained available for purchase under the program.

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During the nine months ended October 3, 2015, the Company cancelled 0.2 million shares of common stock underlying restricted stock units in payment by employees of taxes owed upon the vesting of restricted stock units issued to them under the Company's stock incentive plans. The value of these restricted stock units totaled \$3.4 million at the time they were cancelled.

NOTE 13 DEFINED BENEFIT PENSION PLANS

The Company has defined benefit pension plans covering substantially all full-time employees in France, Germany, Israel and Japan. In addition, the Company has certain pension liabilities relating to former employees of the Company in the United Kingdom. The Company's German plan is unfunded, as permitted under the plan 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 management's 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 the Company's pension plans.

Net periodic benefit costs for the plans in aggregate included the following components:

(In thousands)	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Service cost	\$ 547	\$ 482	\$ 1,849	\$ 1,740
Interest cost on benefit obligations	120	198	362	514
Expected return on plan assets	(44)	(70)	(131)	(211)
Amortization of net loss	91	44	273	134
	\$ 714	\$ 654	\$ 2,353	\$ 2,177

NOTE 14 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 Chief Executive Officer, who is the chief operating decision maker, in deciding how to allocate resources and in assessing performance. The Company develops, manufactures and markets its products within three distinct business segments: its Photonics Group, its Lasers Group and its Optics Group.

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The Company measured income reported for each operating segment, which included only those costs that were directly attributable to the operations of that segment, and excluded unallocated operating expenses, such as corporate overhead and intangible asset amortization, certain gains and losses, interest and other expense, net, and income taxes.

(In thousands)	Photonics		Lasers		Optics		Total
Three months ended October 3, 2015:							
Sales to external customers	\$	60,904	\$	48,247	\$	38,409	\$ 147,560
Segment income	\$	14,274	\$	4,278	\$	3,168	\$ 21,720
Three months ended September 27, 2014:							
Sales to external customers	\$	59,757	\$	44,228	\$	42,314	\$ 146,299
Segment income	\$	12,255	\$	6,423	\$	4,949	\$ 23,627
Nine months ended October 3, 2015:							
Sales to external customers	\$	186,843	\$	142,602	\$	122,747	\$ 452,192
Segment income	\$	46,703	\$	10,943	\$	12,803	\$ 70,449
Nine months ended September 27, 2014:							
Sales to external customers	\$	182,693	\$	137,815	\$	125,913	\$ 446,421
Segment income	\$	40,201	\$	18,151	\$	14,494	\$ 72,846

The following table reconciles segment income to consolidated income before income taxes:

(In thousands)	Three Months Ended		Nine Months Ended	
	October 3, 2015	September 27, 2014	October 3, 2015	September 27, 2014
Segment income	\$ 21,720	\$ 23,627	\$ 70,449	\$ 72,846
Unallocated operating expenses	(11,255)	(10,866)	(35,196)	(34,485)
(Loss) gain on disposal of assets			(1,088)	411
Interest and other expense, net	(1,353)	(958)	(3,320)	(2,592)
	\$ 9,112	\$ 11,803	\$ 30,845	\$ 36,180

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our unaudited consolidated financial statements and related notes included elsewhere in this Quarterly Report on Form 10-Q and in conjunction with our Annual Report on Form 10-K for the year ended January 3, 2015 previously filed with the SEC. This discussion contains descriptions of our expectations regarding future trends affecting our business. 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 or condition, trends in our business, or other characterizations of future events or circumstances are forward-looking statements. These forward-looking statements and other forward-looking statements made elsewhere in this report are made in reliance upon safe harbor provisions in Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of several factors, including, but not limited to those factors set forth and discussed 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 our Annual Report on Form 10-K for the year ended January 3, 2015. In light of the significant uncertainties inherent in the forward-looking information included in this report, the inclusion of this information should not be regarded as a representation by us or any other person that our objectives or plans will be achieved and readers are cautioned not to place undue reliance on such forward-looking information. Except as required by law, we undertake no obligation to update or revise these forward-looking statements, whether as a result of new information, future events or otherwise.

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, subassemblies and subsystems, and three-dimensional non-contact measurement equipment. Our products are used worldwide in a variety of industries, including scientific research, defense and security, microelectronics, life and health sciences and industrial markets. We operate within three distinct business segments: our Photonics Group, our Lasers Group and our Optics Group. Each of these groups offers a broad array of advanced technology products and services to original equipment manufacturer (OEM) and end-user customers across a wide range of applications in all of our targeted end 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 unaudited consolidated financial statements.

Acquisition of FEMTOLASERS

On February 11, 2015, we acquired all of the capital stock of FEMTOLASERS Produktions GmbH (FEMTOLASERS). The initial purchase price of 9.1 million was paid in cash at closing and is subject to a net asset adjustment. We have estimated a net asset adjustment of 2.1 million,

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resulting in a purchase price of 7.0 million (approximately \$7.9 million). The final amount of this net asset adjustment is currently under negotiation between us and the FEMTOLASERS selling shareholders. Of the initial purchase price, 2.3 million was deposited at closing into escrow until 30 months after closing, to secure certain obligations of the FEMTOLASERS selling shareholders under the share purchase agreement, including the net asset adjustment. We incurred \$0.4 million in transaction costs, which have been expensed as incurred and are included in *selling, general and administrative expense* in the statements of income and comprehensive income. FEMTOLASERS expands our offering of ultrafast laser products and enhances our technology base in this area. The results of FEMTOLASERS have been included in the results of our Lasers Group as of the acquisition date.

Immediately following the closing of the acquisition, we repaid 3.6 million (approximately \$4.0 million) of FEMTOLASERS outstanding loans that were assumed as part of the acquisition.

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

	Percentage of Net Sales			
	Three Months Ended October 3, 2015	Three Months Ended September 27, 2014	Nine Months Ended October 3, 2015	Nine Months Ended September 27, 2014
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	57.7	54.9	56.5	54.9
Gross profit	42.3	45.1	43.5	45.1
Selling, general and administrative expense	25.6	26.8	25.9	27.0
Research and development expense	9.6	9.6	9.8	9.5
Loss (gain) on sale of assets			0.2	(0.1)
Operating income	7.1	8.7	7.6	8.7
Interest and other expense, net	(0.9)	(0.6)	(0.7)	(0.6)
Income before income taxes	6.2	8.1	6.9	8.1
Income tax provision	1.4	1.6	2.1	2.2
Net income	4.8	6.5	4.8	5.9
Net income attributable to non-controlling interests		0.0		0.0
Net income attributable to Newport Corporation	4.8%	6.5%	4.8%	5.9%

Net Sales

Each of our operating groups sells products to customers in a wide range of industries, which we categorize into five key end markets: scientific research market; defense and security markets; microelectronics market; life and health sciences market; and industrial manufacturing and other end markets. The tables below reflect our net sales for the three and nine months ended October 3, 2015 and September 27, 2014, by operating group and by key end market.

Sales by Operating Group

(In thousands)	Three Months Ended			Increase / (Decrease)	Percentage Increase / (Decrease)
	October 3, 2015	September 27, 2014			
Photonics Group	\$ 60,904	\$ 59,757	\$ 1,147	1.9%	
Lasers Group	48,247	44,228	4,019	9.1	
Optics Group	38,409	42,314	(3,905)	(9.2)	
Total sales	\$ 147,560	\$ 146,299	\$ 1,261	0.9%	

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(In thousands)	Nine Months Ended		Increase / (Decrease)	Percentage Increase / (Decrease)
	October 3, 2015	September 27, 2014		
Photonics Group	\$ 186,843	\$ 182,693	\$ 4,150	2.3%
Lasers Group	142,602	137,815	4,787	3.5
Optics Group	122,747	125,913	(3,166)	(2.5)
Total sales	\$ 452,192	\$ 446,421	\$ 5,771	1.3%

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(In thousands)	Three Months Ended		Increase / (Decrease)	Percentage Increase / (Decrease)
	October 3, 2015	September 27, 2014		
Scientific research	\$ 36,414	\$ 32,228	\$ 4,186	13.0%
Microelectronics	34,945	37,113	(2,168)	(5.8)
Life and health sciences	29,354	31,126	(1,772)	(5.7)
Defense and security	14,770	13,103	1,667	12.7
Industrial manufacturing and other	32,077	32,729	(652)	(2.0)
Total sales	\$ 147,560	\$ 146,299	\$ 1,261	0.9%

(In thousands)	Nine Months Ended		Increase / (Decrease)	Percentage Increase / (Decrease)
	October 3, 2015	September 27, 2014		
Scientific research	\$ 105,200	\$ 94,653	\$ 10,547	11.1%
Microelectronics	113,770	111,935	1,835	1.6
Life and health sciences	88,281	97,781	(9,500)	(9.7)
Defense and security	44,241	39,161	5,080	13.0
Industrial manufacturing and other	100,700	102,891	(2,191)	(2.1)
Total sales	\$ 452,192	\$ 446,421	\$ 5,771	1.3%

Our sales for the three and nine months ended October 3, 2015 were negatively impacted by the stronger U.S. dollar, which resulted in the translation of foreign currency denominated sales into fewer U.S. dollars, compared with the corresponding periods in 2014. Our sales for both periods in 2015 were positively impacted compared with the corresponding periods in 2014 by the additional sales contributed by V-Gen Ltd. (V-Gen), which we acquired in the fourth quarter of 2014, and by FEMTOLASERS, which we acquired in the first quarter of 2015. The aggregate sales of these acquired businesses, which are included in our Lasers Group, were \$3.6 million and \$10.7 million for the three and nine months ended October 3, 2015, respectively, and there were no corresponding sales in the three and nine months ended September 27, 2014.

The increases in sales to the scientific research market for the three and nine months ended October 3, 2015 compared with the corresponding periods in 2014 were due primarily to increased demand for products sold by our Lasers Group for research applications, and our acquisition of FEMTOLASERS, which contributed net sales to this market of \$2.2 million and \$4.5 million for the three and nine months ended October 3, 2015, respectively, for which there were no corresponding sales in the 2014 periods. Generally, our net sales to this market by each of our operating groups may fluctuate from period to period due to changes in overall research spending levels and the timing of large sales relating to major research programs and, in some cases, these fluctuations may be offsetting between our operating groups or between such periods.

The decrease in sales to the microelectronics market for the three months ended October 3, 2015 compared with the corresponding period in 2014 was due primarily to lower sales by both our Lasers and Optics Groups to semiconductor equipment manufacturing customers, as well as a large sale of laser products for a solar equipment manufacturing application in the third quarter of 2014 that did not recur in the third quarter of 2015. Such decreases were offset in part by higher sales by our Photonics Group to semiconductor equipment manufacturing customers. The increase in sales to this market in the nine months ended October 3, 2015 compared with the corresponding period in 2014 was due primarily to higher sales by our Photonics Group to semiconductor equipment and mobile device manufacturing customers, offset in part by the lower sales by our Lasers and Optics Groups discussed above. Our microelectronics market is comprised primarily of OEM customers in the semiconductor capital equipment industry, which has historically been characterized by sudden and severe cyclical variations in product supply and demand. In addition, certain of our programs with these customers often comprise a significant portion of our sales to this market in any period. As such, our net sales to this market may fluctuate significantly from period to period depending on the timing and severity of industry upturns and downturns, as well as the timing and success of new design wins and associated customer programs.

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The decreases in sales to the life and health sciences market for the three and nine months ended October 3, 2015 compared with the corresponding periods in 2014 were due primarily to decreased sales of products used for surgical and dental imaging applications. For the three month period, the decrease was offset in part by increased sales of products used in bioimaging applications. Generally, our net sales to this market may fluctuate from period to period due to the timing of shipments to our OEM customers and, in some cases, these fluctuations may be offsetting between our operating groups or between such periods.

The increase in sales to the defense and security markets for the three months ended October 3, 2015 compared with the corresponding period in 2014 was due to moderately higher sales by each of our operating groups. The increase in sales to these markets for the nine months ended October 3, 2015 compared with the corresponding period in 2014 was due primarily to increased sales of optics products for defense programs that had been previously delayed due to government funding constraints and for new programs. Generally, our net sales to these markets by each of our operating groups may fluctuate from period to period due to changes in overall defense spending levels and the timing of large sales relating to major defense programs and, in some cases, these fluctuations may be offsetting between our operating groups or between such periods.