

NEWPORT CORP  
Form 10-Q  
May 10, 2012  
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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 March 31, 2012

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 000-01649

**NEWPORT CORPORATION**

(Exact name of registrant as specified in its charter)

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

**94-0849175**  
(IRS Employer  
Identification No.)

**1791 Deere Avenue, Irvine, California 92606**

(Address of principal executive offices) (Zip Code)

**(949) 863-3144**

(Registrant's telephone number, including area code)

**Not Applicable**

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

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

Yes  No

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

Yes  No

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

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

Yes  No

As of April 27, 2012, 38,210,066 shares of the registrant's sole class of common stock were outstanding.

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**FORM 10-Q**

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>April 2,</b>
	<b>2012</b>	<b>2011</b>
Net sales	\$ 157,167	\$ 128,411
Cost of sales	89,098	70,535
Gross profit	68,069	57,876
Selling, general and administrative expenses	44,060	30,473
Research and development expense	13,799	10,437
Operating income	10,210	16,966
Foreign currency translation gain from dissolution of subsidiary		7,198
Interest and other expense, net	(2,187)	(2,405)
Income before income taxes	8,023	21,759
Income tax provision	1,435	1,000
Net income	6,588	20,759
Net loss attributable to non-controlling interests	(4)	
Net income attributable to Newport Corporation	\$ 6,592	\$ 20,759
Net income	\$ 6,588	\$ 20,759
Other comprehensive income:		
Foreign currency translation gains (losses)	1,629	(4,037)
Unrecognized net pension losses	(16)	(134)
Unrealized gains on marketable securities	33	138
Comprehensive income	\$ 8,234	\$ 16,726
Comprehensive loss attributable to non-controlling interests	\$ (42)	\$
Comprehensive income attributable to Newport Corporation	8,276	16,726
Comprehensive income	\$ 8,234	\$ 16,726
Net income per share attributable to Newport Corporation:		
Basic	\$ 0.17	\$ 0.56
Diluted	\$ 0.17	\$ 0.53
Shares used in per share calculations:		
Basic	37,731	37,005
Diluted	38,931	38,837

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See accompanying notes.

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

	March 31, 2012	December 31, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 45,270	\$ 55,701
Restricted cash	925	12,367
Marketable securities	5,180	4,787
Accounts receivable, net of allowance for doubtful accounts of \$1,707 and \$2,532 as of March 31, 2012 and December 31, 2011, respectively	100,093	97,690
Notes receivable	2,175	2,091
Inventories	113,035	112,968
Deferred income taxes	31,960	30,339
Prepaid expenses and other current assets	16,826	15,374
<b>Total current assets</b>	<b>315,464</b>	<b>331,317</b>
Property and equipment, net	88,708	89,873
Goodwill	147,198	143,259
Deferred income taxes	9,302	9,289
Intangible assets, net	150,647	150,572
Other assets	39,545	39,759
	<b>\$ 750,864</b>	<b>\$ 764,069</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Short-term borrowings, net	\$ 35,402	\$ 45,149
Accounts payable	31,721	30,856
Accrued payroll and related expenses	31,391	36,914
Accrued expenses and other current liabilities	41,155	39,800
<b>Total current liabilities</b>	<b>139,669</b>	<b>152,719</b>
Long-term debt, net	166,229	178,043
Accrued pension liabilities	24,731	24,444
Deferred income taxes and other liabilities	38,643	36,586
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$0.1167 per share, 200,000,000 shares authorized; 38,196,259 and 37,634,403 shares issued and outstanding as of March 31, 2012 and December 31, 2011, respectively	4,457	4,392
Capital in excess of par value	432,704	431,606
Accumulated other comprehensive loss	(4,343)	(5,989)
Accumulated deficit	(53,159)	(59,751)
<b>Total stockholders' equity of Newport Corporation</b>	<b>379,659</b>	<b>370,258</b>
Non-controlling interests	1,933	2,019
<b>Total stockholders' equity</b>	<b>381,592</b>	<b>372,277</b>

\$ 750,864      \$ 764,069

See accompanying notes.

**Table of Contents****NEWPORT CORPORATION****Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

	<b>Three Months Ended</b>	
	<b>March 31,</b>	<b>April 2,</b>
	<b>2012</b>	<b>2011</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 6,588	\$ 20,759
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,806	4,374
Amortization of discount on convertible subordinated notes	12	1,036
Foreign currency gain		(7,198)
Provision for losses on inventories	2,310	1,222
Stock-based compensation expense	2,214	2,019
Provision for doubtful accounts	35	272
Loss on disposal of property and equipment	58	73
Deferred income taxes	(1,326)	(55)
Increase (decrease) in cash, net of acquisition, due to changes in:		
Accounts and notes receivable	(1,415)	(839)
Inventories	(1,278)	(9,792)
Prepaid expenses and other assets	(1,270)	(646)
Accounts payable	1,053	(4,670)
Accrued payroll and related expenses	(5,979)	(9,380)
Accrued expenses and other liabilities	1,112	593
Other long-term liabilities	295	(110)
Net cash provided by (used in) operating activities	13,215	(2,342)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(3,732)	(2,033)
Restricted cash	11,460	
Business acquisition, net of cash acquired	(8,939)	
Refundable amounts related to acquisition of business	(317)	
Purchase of marketable securities	(1,293)	(35,959)
Proceeds from the sale of marketable securities	878	49,972
Net cash provided by (used in) investing activities	(1,943)	11,980
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of long-term debt and obligations under capital leases	(10,408)	(44)
Proceeds from short-term borrowings	4,312	7,055
Repayment of short-term borrowings	(14,853)	(5,697)
Proceeds from the issuance of common stock under employee plans	2,001	1,298
Tax withholding payments related to net share settlement of equity awards	(3,053)	(3,435)
Net cash used in financing activities	(22,001)	(823)
Impact of foreign exchange rate changes on cash balances	298	1,459
Net increase (decrease) in cash and cash equivalents	(10,431)	10,274
Cash and cash equivalents at beginning of period	55,701	90,992



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Cash and cash equivalents at end of period	\$ 45,270	\$ 101,266
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 1,873	\$ 1,699
Income taxes, net	\$ 1,299	\$ 170
Property and equipment accrued in accounts payable	\$ 20	\$ 338

See accompanying notes.

**Table of Contents****NEWPORT CORPORATION****Notes to Consolidated Financial Statements****March 31, 2012****NOTE 1 BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements include the accounts of Newport Corporation and its wholly owned 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 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/A for the year ended December 31, 2011. The results for the interim periods are not necessarily indicative of the results the Company will have for the full year ending December 29, 2012. The December 31, 2011 balances reported herein are derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2011.

**NOTE 2 MARKETABLE SECURITIES**

All marketable securities of the Company were classified as available for sale and were recorded at market value using the specific identification method, and unrealized gains and losses are reflected in *accumulated other comprehensive loss* in the accompanying consolidated balance sheets. The aggregate fair value of available for sale securities and aggregate amount of unrealized gains and losses for available for sale securities at March 31, 2012 were as follows:

(In thousands)	Aggregate Fair Value	Aggregate Amount of Unrealized	
		Gains	Losses
Equity securities	\$ 857	\$ 92	\$
Certificates of deposit	4,323		
	\$ 5,180	\$ 92	\$

The aggregate fair value of available for sale securities and aggregate amount of unrealized gains and losses for available for sale securities at December 31, 2011 were as follows:

(In thousands)	Aggregate Fair Value	Aggregate Amount of Unrealized	
		Gains	Losses
Equity securities	\$ 542	\$ 93	\$
Certificates of deposit	4,245		
	\$ 4,787	\$ 93	\$



**Table of Contents****NEWPORT CORPORATION****Notes to Consolidated Financial Statements****March 31, 2012**

The contractual maturities of certificates of deposit were as follows:

(In thousands)	March 31, 2012
0 1 Year	\$ 4,323
1 2 Years	
2 3 Years	
3 5 Years	
5 10 Years	
More than 10 years	
	\$ 4,323

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

(In thousands)	Three Months Ended	
	March 31, 2012	April 2, 2011
Gross realized gains	\$	\$ 27
Gross realized losses		
	\$	\$ 27

**NOTE 3 FAIR VALUE MEASUREMENTS**

Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements and Disclosures*, requires that for any assets and liabilities stated at fair value on a recurring basis in the Company's financial statements, the fair value of such assets and liabilities be measured based on the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Level 1 asset and liability values are derived from quoted prices in active markets for identical assets and liabilities and Level 2 asset and liability values are derived from quoted prices in inactive markets or based on other observable inputs. The Company's assets 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 March 31, 2012.

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(In thousands)

Description	March 31, 2012	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)
<b>Assets:</b>				
Restricted Cash	\$ 925	\$ 925	\$	\$
<b>Marketable securities:</b>				
Equity securities	857	857		
Certificates of deposit	4,323		4,323	
	5,180	857	4,323	
<b>Derivative assets:</b>				
Forward contracts	51		51	
Option contracts	183		183	
	234		234	
Pension assets not owned by plan	6,958		6,958	
	\$ 13,297	\$ 1,782	\$ 11,515	\$
<b>Liabilities:</b>				
<b>Derivative liabilities:</b>				
Forward contracts	\$ 34	\$	\$ 34	\$
Option contracts	182		182	
	\$ 216	\$	\$ 216	\$

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 as of December 31, 2011.

(In thousands)

Description	December 31, 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)
<b>Assets:</b>				
Restricted Cash	\$ 12,367	\$ 12,367	\$	\$
<b>Marketable securities:</b>				
Equity securities	542	542		
Certificates of deposit	4,245		4,245	
	4,787	542	4,245	
<b>Derivative assets:</b>				

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Option contracts	117		117	
Pension assets not owned by plan	6,572		6,572	
	\$ 23,843	\$ 12,909	\$ 10,934	\$
<b>Liabilities:</b>				
Derivative liabilities:				
Forward contracts	388		388	
Option contracts	440		440	
	\$ 828	\$	\$ 828	\$

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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)	March 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Short-term borrowings	\$ 35,402	\$ 34,367	\$ 45,149	\$ 44,063
Long-term debt	\$ 166,229	\$ 158,520	\$ 178,043	\$ 166,600

**NOTE 4 ACQUISITION**

On January 13, 2012, the Company acquired all of the outstanding capital stock of ILX Lightwave Corporation (ILX) by means of a merger of a wholly owned subsidiary of the Company with and into ILX. The total purchase price for the acquisition was \$9.0 million. An initial purchase price of \$9.3 million was paid in cash at closing, of which \$1.2 million was deposited at closing into escrow until July 12, 2013, to secure certain indemnification and other obligations of the ILX securityholders. The purchase price was subsequently reduced by \$0.3 million, based on a calculation of ILX's net assets at closing, which amount will be repaid to the Company from the escrow funds in the second quarter of 2012. The Company incurred \$0.1 million in transaction costs, which have been expensed as incurred and are included in *selling, general and administrative expenses* in the accompanying consolidated statements of income and comprehensive income. This acquisition expands the Company's optical power meter and fiber optic source product offerings, and adds laser diode instrumentation and laser diode and light emitting diode (LED) burn-in, test and characterization systems to its product portfolio. ILX is now a part of the Company's Photonics and Precision Technologies (PPT) Division.

The consideration paid by the Company for the acquisition of ILX 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. Below is a summary of the purchase price, assets acquired and liabilities assumed:

(In thousands)	
Assets acquired and liabilities assumed:	
Cash	\$ 44
Other assets	2,672
Goodwill	3,762
Developed technology	2,800
Customer relationships	1,100
Other intangible assets	1,090
Liabilities	(2,485)
	\$ 8,983

The \$3.8 million in goodwill has been allocated to the Company's PPT Division and will not be deductible for tax purposes, as this was a merger.





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The actual net sales and net income (loss) of ILX from January 13, 2012, the closing date of the acquisition, that were included in the Company's consolidated statements of income and comprehensive income for the three months ended March 31, 2012 and April 2, 2011 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 such periods, including the results of ILX as though the acquisition had occurred at the beginning of 2011. 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 each reporting period.

(In thousands)	Three Months Ended	
	March 31, 2012	April 2, 2011
Actual:		
Net sales	\$ 1,785	\$
Net loss attributable to Newport Corporation	\$ (19)	\$
Supplemental pro forma information:		
Net sales	\$ 157,206	\$ 129,945
Net income attributable to Newport Corporation	\$ 6,976	\$ 20,328

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 amortization of acquired intangible assets began at the beginning of 2011 rather than on January 13, 2012. The result is a net decrease in amortization expense of \$0.2 million for the three months ended March 31, 2012 and an increase in amortization expense of \$0.4 million for the three months ended April 2, 2011. In addition, \$0.1 million in charges to cost of sales related to inventory that was marked up to fair value for purchase accounting were added back to pro forma net income for the three months ended March 31, 2012 and subtracted from pro forma net income for the three months ended April 2, 2011. Transaction costs totaling \$0.4 million, which were incurred prior to the closing of the acquisition, are also excluded from pro forma net income.

**NOTE 5 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:

(In thousands)	March 31, 2012	December 31, 2011
Raw materials and purchased parts	\$ 65,340	\$ 65,054
Work in process	18,194	19,257
Finished goods	29,501	28,657
	\$ 113,035	\$ 112,968

*Accrued Warranty Obligations*

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Unless otherwise stated in the Company's product literature or in its agreements with customers, products sold by the Company's 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 maximum amount of usage of the product, whichever occurs first. Products sold by the Company's Ophir Division generally carry a one-year warranty, except for laser beam profilers and dental CAD/CAM scanners, which generally carry a two-year

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warranty. Defective products will be either repaired or replaced, generally at the Company's option, upon meeting certain criteria. The Company accrues a provision for the estimated costs that may be incurred for warranties relating to a product (based on historical experience) as a component of cost of sales. Short-term accrued warranty obligations, which expire within one year, are included in *accrued expenses and other current liabilities* and long-term warranty obligations are included in *deferred income taxes and other liabilities* in the accompanying consolidated balance sheets. Short-term warranty obligations were \$3.8 million and \$4.3 million as of March 31, 2012 and December 31, 2011, respectively. As of March 31, 2012 and December 31, 2011, the amounts accrued for long-term warranty obligations were not material.

The activity in accrued warranty obligations was as follows:

(In thousands)	Three Months Ended	
	March 31, 2012	April 2, 2011
Balance at beginning of year	\$ 4,466	\$ 4,105
Additions charged to cost of sales	629	956
Additions from acquisitions	21	
Warranty claims	(1,195)	(1,156)
Balance at end of period	\$ 3,921	\$ 3,905

*Accrued Expenses and Other Current Liabilities*

Accrued expenses and other current liabilities were as follows:

(In thousands)	March 31, 2012	December 31, 2011
Deferred revenue	\$ 12,837	\$ 12,383
Accrued and deferred tax liabilities	7,724	4,379
Deferred lease liability	5,173	5,201
Short-term accrued warranty obligations	3,777	4,342
Other	11,644	13,495
	\$ 41,155	\$ 39,800

*Accumulated Other Comprehensive Loss*

Accumulated other comprehensive loss consisted of the following:

(In thousands)	March 31, 2012	December 31, 2011
Cumulative foreign currency translation losses	\$ (4,175)	\$ (5,804)
Unrecognized net pension losses	(1,021)	(1,005)

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Unrealized gains on marketable securities	853	820
	\$ (4,343)	\$ (5,989)

**Table of Contents****NEWPORT CORPORATION****Notes to Consolidated Financial Statements****March 31, 2012****NOTE 6 INTANGIBLE ASSETS**

Intangible assets were as follows:

(In thousands)	March 31, 2012	December 31, 2011
Intangible assets subject to amortization:		
Developed technology, net of accumulated amortization of \$7,696 and \$6,903 as of March 31, 2012 and December 31, 2011, respectively	\$ 53,059	\$ 51,159
Customer relationships, net of accumulated amortization of \$19,281 and \$16,500 as of March 31, 2012 and December 31, 2011, respectively	59,964	61,609
In-process research and development, net of accumulated amortization of \$0 as of March 31, 2012 and December 31, 2011	10,072	10,057
Other, net of accumulated amortization of \$3,377 and \$1,996 as of March 31, 2012 and December 31, 2011, respectively	4,712	5,507
	127,807	128,332
Intangible assets not subject to amortization:		
Trademarks and trade names	22,840	22,240
<b>Intangible assets, net</b>	<b>\$ 150,647</b>	<b>\$ 150,572</b>

Developed technology is amortized on a straight line basis over 10 to 20 years, depending on the life of the product technology. Intangible assets related to customer relationships are primarily amortized over a period of up to ten years on an accelerated basis. In-process research and development is amortized on a straight line basis over the product's estimated useful life upon completion of the technology. Other intangible assets include acquired backlog, product trademarks and trade names, non-competition agreements and defensible assets. With the exception of product trademarks and trade names, such assets are amortized on a straight line basis over a period of three months to 10 years, depending on the asset. Trademarks and trade names associated with products are amortized on a straight line basis over the estimated remaining life of the product technology, which ranges from 10 to 20 years. Trademarks and trade names associated with a business have indefinite lives and are not amortized.

Amortization expense related to intangible assets totaled \$5.2 million for the three months ended March 31, 2012 and \$0.8 million for the three months ended April 2, 2011.

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

(In thousands)	Estimated Aggregate Amortization Expense
2012 (remaining)	\$ 14,195
2013	15,904
2014	15,552
2015	14,030
2016	11,671

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Thereafter	47,125
	\$ 118,477

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The Company has excluded \$9.3 million of amortization expense related to certain in-process research and development projects from the table above, as it was uncertain as of March 31, 2012 when the technology will be completed and when the amortization will begin.

**NOTE 7 INTEREST AND OTHER EXPENSE, NET**

Interest and other expense, net, was as follows:

(In thousands)	Three Months Ended	
	March 31, 2012	April 2, 2011
Interest expense	\$ (2,201)	\$ (2,100)
Interest and dividend income	61	166
Derivative gain (loss)	671	(132)
Bank and portfolio asset management fees	(164)	(233)
Other expense, net	(554)	(106)
	\$ (2,187)	\$ (2,405)

**NOTE 8 STOCK-BASED COMPENSATION**

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	
	March 31, 2012	April 2, 2011
Cost of sales	\$ 117	\$ 122
Selling, general and administrative expenses	1,839	1,668
Research and development expense	258	229
	\$ 2,214	\$ 2,019

At March 31, 2012, 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 \$5.4 million (net of estimated forfeitures of \$1.3 million). This future compensation expense will be amortized over a weighted-average period of 1.3 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 March 31, 2012 will be adjusted for subsequent forfeitures.

At March 31, 2012, 1.1 million stock options with a weighted-average exercise price of \$13.35 per share, intrinsic value of \$4.9 million and remaining contractual term of 1.9 years were vested or expected to vest and were exercisable. At March 31, 2012, 1.2 million stock-settled stock appreciation rights with a weighted-average base value of \$8.42 per share, intrinsic value of \$10.9 million and remaining contractual term of 4.6

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years were vested or expected to vest, and 1.0 million stock-settled stock appreciation rights with a weighted-average base value of \$6.99 per share, intrinsic value of \$10.4 million and remaining contractual term of 4.4 years were exercisable.

### **NOTE 9 DEBT AND LINES OF CREDIT**

#### *Convertible Notes*

In February 2007, the Company issued \$175 million in convertible subordinated notes. The notes were subordinated to all of the Company's existing and future senior indebtedness, matured on February 15, 2012 and bore interest at a rate of 2.5% per year, payable in cash semiannually in arrears on February 15 and August 15 of each year.



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At December 31, 2011, the Company had \$12.4 million in convertible subordinated notes outstanding with a carrying value of \$12.4 million, net of a nominal amount of remaining unamortized debt discount, which was included in *short-term borrowings* in the accompanying consolidated balance sheets. These notes matured on February 15, 2012 and have been fully repaid.

*Lines of Credit and Loans*

At March 31, 2012, the Company had three 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.

The three revolving lines of credit with Japanese banks totaled 1.0 billion yen (\$12.1 million at March 31, 2012) and expire as follows: \$7.3 million on November 30, 2012, \$3.6 million on July 27, 2012, and \$1.2 million on July 31, 2012. The \$7.3 million and \$1.2 million lines of credit bear interest at the prevailing bank rate at each institution, which was 2.475% and 2.20%, respectively, at March 31, 2012, and the \$3.6 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 \$3.6 million line of credit. At March 31, 2012, the Company had \$6.2 million outstanding and \$5.9 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 (\$6.6 million at March 31, 2012), have no expiration dates and bear interest at the prevailing bank rate, which was 1.475% at March 31, 2012. At March 31, 2012, the Company had \$1.1 million outstanding and \$5.5 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 860-30, *Transfers and Servicing - Secured Borrowing and Collateral*.

As part of the acquisition of Ophir Optronics Ltd. (Ophir), the Company assumed certain loans with Israeli and Japanese banks. In Israel, there were seven loans with an aggregate principal balance of \$10.4 million outstanding as of March 31, 2012. Such loans bear interest at rates ranging from 2.90% to 4.50% and mature at various dates through October 2015. In Japan, there are eight loans with an aggregate principal balance of \$1.6 million outstanding as of March 31, 2012. Such loans bear interest at rates ranging from 1.25% to 1.45% and mature at various dates through November 2016. In addition, Ophir's loans in Japan are generally unsecured, and Ophir's loans in Israel are generally secured by pledges of and liens on certain of Ophir's assets.

As part of the acquisition of High Q Laser GmbH, the Company assumed certain loans and lines of credit, which had an aggregate balance of \$4.2 million as of December 31, 2011. Such loans were repaid during the first quarter of 2012.

*Secured Credit Facility*

In October 2011, the Company entered into a credit agreement with certain lenders (Credit Agreement). The Credit Agreement and related security agreement provide for a senior secured credit facility consisting of a \$185 million term loan and a \$65 million revolving line of credit, each with a term of five years, which is secured by substantially all of the Company's domestic assets as well as a pledge of certain shares of its foreign subsidiaries. The initial interest rates per annum applicable to amounts outstanding under the term loan and the revolving line of credit are, at the Company's option, either (a) the base rate as defined in the Credit Agreement (Base Rate) plus 1.75%, or (b) the Eurodollar Rate as defined in the Credit Agreement (Eurodollar Rate) plus 2.75%. The margins over the Base Rate and Eurodollar Rate applicable to the term loan and loans outstanding under the revolving line of credit are subject to adjustment in future periods based on the Company's consolidated leverage ratio, as defined in and calculated pursuant to the Credit Agreement; provided, that the maximum applicable margins are 2.00% for Base Rate loans and 3.00% for Eurodollar Rate loans, and the minimum applicable margins are 1.25% for Base Rate loans and 2.25% for Eurodollar Rate loans. Principal amortization and interest payments on the term loan are due quarterly. At March 31, 2012, the Company had a remaining balance of \$180.4 million outstanding on the term loan with an effective interest rate of 2.99%. At March 31, 2012, there was no balance outstanding under the revolving line of credit, with \$63.6 million available after considering outstanding letters of credit totaling \$1.4 million.

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The Company's ability to borrow funds under the revolving line of credit is subject to certain conditions, including compliance with certain covenants and making certain representations and warranties.

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In June 2011, the Company issued 200 million yen (\$2.4 million at March 31, 2012) in private placement bonds through a Japanese bank. These bonds bear interest at a rate of 0.62% per year, payable in cash semiannually in arrears on June 30 and December 31 of each year, and mature on June 30, 2014. The bonds are included in *long-term debt* in the accompanying consolidated balance sheet as of March 31, 2012.

Total short-term debt was as follows:

<b>(In thousands)</b>	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Short-term lines of credit	\$ 7,241	\$ 6,801
Convertible notes due February 2012, interest at 2.5%		12,356
Israeli loan, due through April 2012, interest at 2.90%	5,000	
Current portion of long-term debt	23,161	25,992
<b>Total short-term borrowings</b>	<b>\$ 35,402</b>	<b>\$ 45,149</b>

Total long-term debt was as follows:

<b>(In thousands)</b>	<b>March 31, 2012</b>	<b>December 31, 2011</b>
Japanese private placement bonds due June 2014, interest at 0.62%	\$ 2,416	\$ 2,576
Japanese amortizing loans due through November 2016, interest rates from 1.25% to 1.45%	984	954
Austrian amortizing loans due through December 2020, interest rates from 2.23% to 3.25%		270
Austrian lines of credit, interest at 2.90%		3,888
Israeli amortizing loans due through October 2015, interest rates from 2.90% to 4.50%	3,242	3,785
Israeli loans, due through July 2013, interest at 4.00%	24	70
Term loan due October 2016, interest at 2.99%	159,563	166,500
<b>Total long-term debt</b>	<b>\$ 166,229</b>	<b>\$ 178,043</b>

Maturities of the Company's debt obligations as of March 31, 2012 were as follows:

<b>(In thousands)</b>	
2012 (remaining)	\$ 27,954
2013	29,663
2014	32,101
2015	28,545

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2016	83,368
Thereafter	
	\$ 201,631

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

(In thousands, except per share data)	Three Months Ended	
	March 31, 2012	April 2, 2011
Net income attributable to Newport Corporation	\$ 6,592	\$ 20,759
Shares:		
Weighted average shares outstanding - basic	37,731	37,005
Dilutive potential common shares, using treasury stock method	1,200	1,832
Weighted average shares outstanding - diluted	38,931	38,837
Net income per share attributable to Newport Corporation:		
Basic	\$ 0.17	\$ 0.56
Diluted	\$ 0.17	\$ 0.53

For the three months ended April 2, 2011, an aggregate of 0.1 million stock options and stock appreciation rights were excluded from the computations of diluted net income per share, as their exercise prices (or base values) exceeded the average market price of the Company's common stock during such periods, and their inclusion would have been antidilutive.

**NOTE 11 INCOME TAXES**

Under ASC 740-270, *Income Taxes - Interim Reporting*, the Company is required to evaluate and make any necessary adjustments to its effective tax rate each quarter as new information is obtained that may affect the assumptions used to estimate its annual effective tax rate. The Company's assumptions relate to factors such as the projected level and mix of pre-tax earnings in the various tax jurisdictions in which it operates, valuation allowances against deferred tax assets, the recognition or derecognition of tax benefits related to uncertain tax positions, expected utilization of tax credits and changes in or the interpretation of tax laws in jurisdictions in which the Company conducts business. In addition, jurisdictions for which the Company has projected losses for the year, or a year-to-date loss, where no tax benefit can be recognized, are excluded from the calculation of the estimated annual effective tax rate. Changes in the assumptions and the inclusion or exclusion of certain jurisdictions could result in a higher or lower effective tax rate during a particular quarter.

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 the Company 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. During the first quarter of 2012, the Company released \$1.4 million of its valuation allowance related to certain deferred tax assets due to the expected recovery of certain investments and capital loss carryovers. As of March 31, 2012, the Company could not determine that it is more likely than not that deferred tax assets related to domestic unrealized losses, foreign net operating loss carryforwards and other miscellaneous foreign deferred tax

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assets would be realized. Therefore, the Company has maintained a valuation allowance of \$1.6 million against its domestic and certain foreign subsidiaries' deferred tax assets.

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The Company utilizes 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, the Company is subject to taxation in many jurisdictions, and the calculation of its tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If the Company ultimately determines that the payment of these liabilities will be unnecessary, it reverses the liability and recognizes a tax benefit during the period in which it determines the liability no longer applies. Conversely, the Company records additional tax charges in a period in which it determines that a recorded tax liability is less than it expects the ultimate assessment to be. As a result of these adjustments, the Company's effective tax rate in a given financial statement period could be materially affected. As of March 31, 2012, the Company had \$17.6 million of gross unrecognized tax benefits and a total of \$14.4 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 March 31, 2012.

**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. No purchases were made under this program during the three months ended March 31, 2012. As of March 31, 2012, 3.9 million shares remained available for purchase under the program. However, the terms of the Company's senior secured credit facility, as described in Note 9, restrict the Company's ability to purchase additional shares under this program during the term of such facility.

In March 2012, the Company cancelled 0.2 million 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 \$3.1 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 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	
	March 31, 2012	April 2, 2011
Service cost	\$ 589	\$ 168
Interest cost on benefit obligations	185	202
Expected return on plan assets	(57)	(58)

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Amortization of net loss	27	9
	\$ 744	\$ 321



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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 PPT Division, its Lasers Division and its Ophir Division.

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

(In thousands)	Photonics and Precision Technologies	Lasers	Ophir	Total
Three months ended March 31, 2012:				
Sales to external customers	\$ 79,054	\$ 49,227	\$ 28,886	\$ 157,167
Segment income	\$ 15,995	\$ 6,656	\$ 2,265	\$ 24,916
Three months ended April 2, 2011:				
Sales to external customers	\$ 82,164	\$ 46,247	\$	\$ 128,411
Segment income	\$ 19,665	\$ 4,804	\$	\$ 24,469

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

(In thousands)	Three Months Ended March 31, 2012	April 2, 2011
Segment income	\$ 24,916	\$ 24,469
Foreign currency translation gain from dissolution of subsidiary		7,198
Unallocated operating expenses	(14,706)	(7,503)
Interest and other expense, net	(2,187)	(2,405)
	\$ 8,023	\$ 21,759

**NOTE 15 SUBSEQUENT EVENT**

The Company has held an investment in the preferred stock of a U.S. corporation, which was accounted for using the cost method. The Company had written down the value of this investment to \$0 during 2008 due to the investee's financial condition at that time. On May 1, 2012, the investee was acquired in a merger transaction, and the Company subsequently received approximately \$5.3 million for its shares.

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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/A for the year ended December 31, 2011 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 elsewhere in this Quarterly Report on Form 10-Q and 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/A for the year ended December 31, 2011. 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**