NEWPORT CORP
Form 10-Q
November 08, 2007

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 29, 2007

OR

o **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	**94-0849175**
(State or other jurisdiction of incorporation or organization)	*(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 þ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o

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

Yes o No þ

As of October 27, 2007, 37,086,811 shares of the registrant s sole class of common stock were outstanding.

NEWPORT CORPORATION
FORM 10-Q
INDEX

	Page Number
PART I. FINANCIAL INFORMATION	
Item 1. Financial Statements:	
Consolidated Statements of Operations for the Three and Nine Months Ended September 29, 2007 and September 30, 2006	3
Consolidated Balance Sheets as of September 29, 2007 and December 30, 2006	4
Consolidated Statements of Cash Flows for the Nine Months Ended September 29, 2007 and September 30, 2006	5
Notes to Consolidated Financial Statements	6
Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3. Quantitative and Qualitative Disclosures About Market Risk	26
Item 4. Controls and Procedures	27
PART II. OTHER INFORMATION	
Item 1A. Risk Factors	28
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	28
Item 6. Exhibits	29
SIGNATURES	30

Table of Contents

PART I FINANCIAL INFORMATION

Item 1. Financial Statements

NEWPORT CORPORATION
Consolidated Statements of Operations
(In thousands, except per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Net sales	$109,001	$114,275	$327,169	$329,830
Cost of sales	65,409	63,200	187,885	185,551
Gross profit	43,592	51,075	139,284	144,279
Selling, general and administrative expense	28,729	29,415	87,535	84,548
Research and development expense	9,739	10,714	31,216	30,850
Operating income	5,124	10,946	20,533	28,881
Interest and other income (expense), net	132	(347)	349	(563)
Income from continuing operations before income taxes	5,256	10,599	20,882	28,318
Income tax provision (benefit), net	(286)	111	2,126	2,251
Income from continuing operations	5,542	10,488	18,756	26,067
Loss from discontinued operations, net of income tax (provision) benefit of $0, $(46), $0 and $73, respectively		(201)		(853)
Net income	$ 5,542	$ 10,287	$ 18,756	$ 25,214
Basic income (loss) per share:				
Income from continuing operations	$ 0.15	$ 0.26	$ 0.48	$ 0.64
Loss from discontinued operations, net of income taxes		(0.01)		(0.02)
Net income	$ 0.15	$ 0.25	$ 0.48	$ 0.62
Diluted income (loss) per share:				
Income from continuing operations	$ 0.15	$ 0.25	$ 0.47	$ 0.62
				(0.02)

Loss from discontinued operations, net of income taxes				
Net income	$ 0.15	$ 0.25	$ 0.47	$ 0.60
Shares used in the computation of income (loss) per share:				
Basic	37,723	40,740	38,994	40,555
Diluted	38,109	41,798	39,678	41,738

See accompanying notes.

Table of Contents

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

	September 29, 2007	December 30, 2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 90,050	$ 35,930
Marketable securities	49,624	49,483
Accounts receivable, net of allowance for doubtful accounts of $1,228 and $1,503 as of September 29, 2007 and December 30, 2006, respectively	86,862	94,325
Notes receivable, net	3,649	4,868
Inventories	112,277	94,899
Deferred income taxes	2,120	2,031
Prepaid expenses and other current assets	11,911	11,639
Total current assets	356,493	293,175
Property and equipment, net	58,885	57,400
Goodwill	174,863	175,281
Deferred income taxes	1,882	781
Intangible assets, net	47,189	50,234
Investments and other assets	21,572	16,144
	$660,884	$593,015
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term obligations	$ 11,483	$ 9,481
Accounts payable	30,420	31,376
Accrued payroll and related expenses	24,947	27,443
Accrued expenses and other current liabilities	22,049	22,765
Other liabilities	482	1,302
Total current liabilities	89,381	92,367
Long-term debt	175,000	50,688
Obligations under capital leases, less current portion	1,372	1,346
Accrued pension liabilities	12,324	11,430
Accrued restructuring costs and other liabilities	4,677	2,231
Commitments and contingencies		
Stockholders equity:		

Common stock, par value $0.1167 per share, 200,000,000 shares authorized; 37,066,459 and 41,457,632 shares issued and outstanding as of September 29, 2007 and December 30, 2006, respectively	4,325	4,838
Capital in excess of par value	391,614	467,235
Accumulated other comprehensive income	6,750	4,410
Accumulated deficit	(24,559)	(41,530)
Total stockholders equity	378,130	434,953
	$660,884	$593,015

See accompanying notes.

Table of Contents

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

	Nine Months Ended	
	September 29, 2007	September 30, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 18,756	$ 25,214
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,662	14,537
Stock-based compensation expense	3,222	4,485
Loss on disposal of business		958
Provision for losses on inventories	2,241	1,709
Provision for doubtful accounts, net	44	681
Loss (gain) on disposal of property and equipment	81	(66)
Gain on sale of patents		(1,425)
Realized foreign exchange translation gain		(915)
Deferred income taxes, net		(121)
Increase (decrease) in cash due to changes in:		
Accounts and notes receivable	9,897	(4,898)
Inventories	(19,009)	(15,478)
Prepaid expenses and other current assets	(87)	(1,746)
Other assets and liabilities	83	510
Accounts payable	(2,377)	2,296
Accrued payroll and related expenses	(3,611)	2,238
Accrued expenses and other current liabilities	(1,927)	(4,408)
Accrued restructuring costs	(611)	(902)
Net cash provided by operating activities	22,364	22,669
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(6,252)	(7,438)
Purchase of property and equipment related to information systems implementation	(5,757)	(6,781)
Proceeds from the sale of property and equipment		215
Purchase of marketable securities	(44,398)	(37,304)
Proceeds from the sale of marketable securities	45,395	39,003
Proceeds from the sale of patents		1,425
Net cash used in investing activities	(11,012)	(10,880)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from the issuance of convertible debt	175,000	
Debt issuance costs	(5,563)	
Repayment of long-term debt and obligations under capital leases	(50,869)	(63)

Short-term borrowings (repayments), net	2,226	(2,501)
Proceeds from the issuance of common stock under employee plans	2,820	6,878
Purchases of the Company s common stock and restricted stock units	(82,005)	(1,387)
Net cash provided by financing activities	41,609	2,927
Impact of foreign exchange rate changes on cash balances	1,159	961
Net increase in cash and cash equivalents	54,120	15,677
Cash and cash equivalents at beginning of period	35,930	30,112
Cash and cash equivalents at end of period	$ 90,050	$ 45,789
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 3,423	$ 2,221
Income taxes, net	$ 2,579	$ 4,345

See accompanying notes.

5

Table of Contents

NEWPORT CORPORATION
Notes to Consolidated Financial Statements
September 29, 2007

NOTE 1 BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. These financial statements are unaudited and have been prepared in accordance with the instructions to Form 10-Q and Article 10 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 significant 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 for the year ended December 30, 2006. The results for the interim periods are not necessarily indicative of results for the full year ending December 29, 2007. The December 30, 2006 balances reported herein are derived from the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended December 30, 2006.

Certain prior period amounts have been reclassified to conform to the current period presentation.

NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 157, *Fair Value Measurement.* SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands required disclosures regarding fair value measurements. SFAS No. 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company is currently evaluating the expected impact of the provisions of SFAS No. 157 but does not believe that its adoption will have a material impact on its financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of SFAS No. 115.* SFAS No. 159 expands the use of fair value accounting but does not affect existing standards which require assets and liabilities to be carried at fair value. Under SFAS No. 159, a company may elect to use fair value to measure certain financial assets and liabilities. The fair value election is irrevocable and generally made on an instrument-by-instrument basis, even if a company has similar instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to adoption of SFAS No. 159, changes in fair value are recognized in earnings. SFAS No. 159 will be effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the expected impact of the provisions of SFAS No. 159, but does not believe that the adoption of SFAS No. 159 will have a material impact on its financial position or results of operations.

NOTE 3 DISCONTINUED OPERATIONS

Following the Company s acquisition of Spectra-Physics, Inc. and certain related entities (Spectra-Physics), the Company conducted a strategic review of all of its businesses and concluded that its robotic systems operations in Richmond, California, which served the front-end semiconductor equipment industry with product lines including wafer-handling robots, load ports and equipment front-end modules, were no longer core to the Company s overall strategy. Consequently, in the first quarter of 2005, the Company s Board of Directors approved a plan to sell these operations, and the sale was completed in the fourth quarter of 2005. These operations have been reflected in discontinued operations for all periods presented. In the three and nine months ended September 30, 2006, the Company adjusted the loss on the sale of these operations and recorded losses of approximately $0.2 million, net of income taxes and $0.9 million, net of income taxes, respectively.

Table of Contents

NEWPORT CORPORATION
Notes to Consolidated Financial Statements
September 29, 2007

NOTE 4 DERIVATIVE INSTRUMENTS

The Company recognizes all derivative financial instruments in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. The Company does not engage in currency speculation; however, the Company uses forward exchange contracts to mitigate the risks associated with certain foreign currency transactions entered into in the ordinary course of business, primarily foreign currency denominated receivables and payables. Such contracts do not qualify for hedge accounting and, accordingly, changes in fair values are reported in the statements of operations. The forward exchange contracts generally require the Company to exchange U.S. dollars for foreign currencies at maturity, at rates agreed to at the inception of the contracts. If the counterparties to the exchange contracts (AA or A+ rated banks) do not fulfill their obligations to deliver the contracted currencies, the Company could be at risk for any currency-related fluctuations. Transaction gains and losses are included in *interest and other income (expense), net* in the accompanying consolidated statements of operations.

There were no foreign exchange contracts outstanding as of September 29, 2007 or December 30, 2006.

NOTE 5 ACCOUNTS AND NOTES RECEIVABLE

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

Certain of the Company s Japanese customers provide the Company with promissory notes on the due date of the receivable. The payment dates of the promissory notes range between 60 and 150 days from the original receivable due date. For balance sheet presentation purposes, amounts due to the Company under such promissory notes are reclassified from accounts receivable to current notes receivable. At September 29, 2007 and December 30, 2006, *notes receivable, net* totaled $3.6 million and $4.9 million, respectively. Subsequently, certain of these promissory notes are sold with recourse under line of credit agreements to one of two banks in Japan with which the Company does business. Such transactions are conducted in the ordinary course of business. The principal amount of promissory notes sold with recourse is included in both *notes receivable, net* and *short-term obligations* until the underlying note obligations are ultimately satisfied by payment by the customers to the banks. At September 29, 2007 and December 30, 2006, the principal amount of such promissory notes included in *notes receivable, net* and *short-term obligations* in the accompanying consolidated balance sheets totaled $1.9 million and $2.4 million, respectively.

NOTE 6 REVENUE RECOGNITION

The Company recognizes revenue after title to and risk of loss of products have passed to the customer (which typically occurs upon shipment from the Company s facilities), or delivery of the service has been completed, provided that persuasive evidence of an arrangement exists, the fee is fixed or determinable and collectibility is reasonably assured. The Company recognizes revenue and related costs for arrangements with multiple deliverables, such as equipment and installation, as each element is delivered or completed based upon its relative fair value, determined based upon the price that would be charged on a standalone basis. If a portion of the total contract price is not payable until installation is complete, the Company does not recognize such portion as revenue until completion of installation; however, the Company does record the full cost of the product at the time of shipment. Revenue for training is deferred until the service is completed. Revenue for extended service contracts is recognized over the related contract periods.

Customers generally have 30 days from the original invoice date (generally 60 days for international customers) to return a standard catalog product purchase for exchange or credit. Catalog products must be returned in the original condition and meet certain other criteria. Product returns of catalog items have historically been insignificant and are charged against revenue in the period returned. Custom, option-configured and certain other products as defined in the terms and conditions of sale cannot be returned without the Company s consent. For certain of these products, the

Company establishes a sales return reserve based on the historical product returns.

NEWPORT CORPORATION
Notes to Consolidated Financial Statements
September 29, 2007

The Company presents all taxes collected from customers and remitted to government authorities on a net basis in *accrued expenses and other current liabilities* and does not include such taxes in net sales.

NOTE 7 STOCK-BASED COMPENSATION

The Company maintains the 2006 Performance-Based Stock Incentive Plan (2006 Plan), under which stock appreciation rights, restricted stock, restricted stock units, incentive and non-qualified stock options may be granted to directors, officers, employees, consultants and other service providers. The vesting of substantially all awards granted to officers and employees under the 2006 Plan will occur over a period of three years, conditioned on the achievement of annual performance goals established by the Compensation Committee of the Company s Board of Directors. All awards are subject to forfeiture if employment or other service terminates prior to the vesting of the awards. Any stock options or stock appreciation rights granted under the 2006 Plan will have exercise prices or base values not less than the fair market value of the Company s common stock on the date of grant and terms of not more than seven years.

The Company accounts for stock-based compensation in accordance with SFAS No. 123 (Revised 2004), *Share-Based Payment,* (SFAS No. 123R). Under the fair value recognition provision of SFAS No. 123R, stock-based compensation cost is estimated at the grant date based on the fair value of the award. The Company estimates the fair value of stock options granted using the Black-Scholes-Merton option pricing model and a single option award approach. The fair value of restricted stock and restricted stock unit awards is based on the closing market price of the Company s common stock on the date of grant. As required by SFAS No. 123R, the Company estimates the expected future forfeitures of stock awards and recognizes compensation expense for only those awards expected to vest, excluding the expected future forfeitures. If actual forfeitures differ from the Company s estimates, the amount of compensation expense recognized for the applicable period is cumulatively adjusted. In addition, the majority of the Company s awards vest based upon the achievement of certain annual financial performance goals established by the Compensation Committee of the Company s Board of Directors. The Company estimates the achievement of such goals in each reporting period. The fair value of an award, adjusted for estimated forfeitures and estimated achievement of performance goals, is amortized on a straight-line basis over the requisite service period of the award, which is generally the vesting period.

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

	Three Months Ended		Nine Months Ended	
(In thousands)	**September 29, 2007**	**September 30, 2006**	**September 29, 2007**	**September 30, 2006**
Cost of sales	$ 152	$ 187	$ 396	$ 284
Selling, general and administrative expense	(322)	2,084	2,603	3,881
Research and development expense	(100)	144	223	320
	$(270)	$ 2,415	$3,222	$ 4,485

Stock-based compensation expense associated with personnel engaged in manufacturing is capitalized and reflected in inventories, when applicable. At September 29, 2007 and September 30, 2006, such amounts were not material.

In recognizing stock-based compensation expense for both the three and nine months ended September 29, 2007 and September 30, 2006, the Company has assumed a forfeiture rate of 12.4% based on experience and current expectations and has recognized compensation expense for only those stock awards expected to vest. The forfeiture rate will be subject to periodic recalculation based on any changes in experience or expectations.

Table of Contents

NEWPORT CORPORATION
Notes to Consolidated Financial Statements
September 29, 2007

For stock-based awards which vest subject to the achievement of financial performance goals for the Company s fiscal year 2007, the Company has determined that such performance goals will not be achieved and such awards will not vest, and, therefore, has cumulatively adjusted the stock-based compensation expense previously recognized through September 29, 2007 to exclude any expense associated with such awards.

At September 29, 2007, the total compensation expense 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 approximately $16.2 million, including approximately $14.8 million in compensation expense related to stock-based awards subject to performance conditions. Such amounts exclude compensation expense associated with awards which the Company has determined will not vest. This future compensation expense will be amortized on a straight-line basis over a weighted-average period of approximately 1.2 years. The actual compensation expense that will be recognized by the Company in the future relating to stock-based awards will be adjusted for subsequent forfeitures and will be adjusted in the event that the Company determines that the performance conditions applicable to any stock-based awards will not be achieved in whole or in part.

NOTE 8 INCOME TAXES

The Company provides for income taxes in interim periods based on the estimated effective income tax rate for the complete fiscal year. The income tax provision is computed on the pretax income of the consolidated entities located within each taxing jurisdiction based on current tax law. Deferred tax assets and liabilities are determined based on the future tax consequences associated with temporary differences between income and expenses reported for financial accounting and tax reporting purposes. In accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes*, a valuation allowance for deferred tax assets is recorded to the extent that 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. The Company s judgment regarding future profitability may change due to many factors, including future market conditions and the Company s ability to successfully execute its business plans and/or tax planning strategies. These changes, if any, may require material adjustments to these deferred tax asset balances. Due to uncertainties surrounding the realization of the Company s cumulative federal and state net operating losses, the Company has recorded a valuation allowance against a portion of its gross deferred tax assets. As a result, until such valuation allowance is fully reversed, the Federal tax provision relating to future earnings will be offset substantially by a reduction in the valuation allowance. Accordingly, current and future tax expense will consist of certain required state income taxes, taxes in certain foreign jurisdictions, the federal alternative minimum tax and the impact of discrete items.

Acquired tax liabilities related to prior tax returns of acquired entities at the date of purchase are recognized based on the Company s estimate of the ultimate settlement that may be accepted by the tax authorities. The Company continually evaluates these tax-related matters. At the date of any material change in the Company s estimate of items relating to an acquired entity s prior tax returns, and at the date that the items are settled with the tax authorities, any liabilities previously recognized are adjusted to increase or decrease the remaining balance of goodwill attributable to that acquisition.

Adoption of FIN 48

In July 2006, the FASB issued Interpretation No. 48, *Accounting For Uncertain Tax Positions* (FIN 48). FIN 48 clarifies how uncertainty in income taxes should be accounted for in a company s financial statements in accordance with SFAS No. 109. It prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition and classification of tax positions, accounting for interest and penalties, accounting for tax positions in interim periods, and disclosure and transition requirements.

The Company adopted the provisions of FIN 48 on December 31, 2006, the first day of the first quarter of 2007. As a result of the implementation of FIN 48, the Company recognized a $2.9 million reserve for uncertain tax positions, of which $1.8 million was accounted for as an increase to the beginning balance of *accumulated deficit* and $1.1 million was accounted for as an increase to deferred tax assets. At the adoption date of FIN 48, the Company had approximately $8.4 million of unrecognized tax benefits, and if recognized, approximately $5.3 million of such tax benefits would affect the Company s effective tax rate.

Table of Contents

NEWPORT CORPORATION
Notes to Consolidated Financial Statements
September 29, 2007

As of September 29, 2007, the Company had approximately $8.6 million of unrecognized tax benefits, and if recognized, approximately $5.5 million of such tax benefits would affect the Company s effective tax rate.

The Company s policy is to record interest and penalties associated with income tax obligations as income tax expense. Such amounts were not significant at the date of adoption or for the three and nine months ended September 29, 2007.

The Company is subject to audit by federal, state, local and foreign tax authorities in the ordinary course of business. In the third quarter of 2007, the Company s subsidiary in France concluded an income tax audit for the years 2003 to 2005. Based on the favorable conclusion of this audit, the company recognized an income tax benefit of approximately $0.6 million.

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

U.S. Federal	2003 through current periods
California	2002 through current periods
France	2006 through current periods
Germany	2001 through current periods
Japan	2000 through current periods

However, the use of domestic net operating losses in future periods could trigger a review of attributes and other tax matters in years that are not otherwise subject to examination, beginning with the 2000 tax year.

NOTE 9 INVENTORIES

Inventories are stated at the lower of cost (determined on either a first-in, first-out (FIFO) or average cost basis) or fair market value and include materials, labor and manufacturing overhead. The Company writes down excess and obsolete inventory to net realizable value. In assessing the ultimate realization of inventories, the Company makes judgments as to future demand requirements and compares those requirements with the current or committed inventory levels. Amounts required to reduce the carrying value of inventory to net realizable value are recorded as a charge to cost of sales.

Inventories were as follows:

(In thousands)	**September 29, 2007**	**December 30, 2006**
Raw materials and purchased parts	$ 80,222	$ 67,437
Work in process	13,633	15,888
Finished goods	41,935	34,944
	135,790	118,269
Allowance for excess and obsolete inventory	(23,513)	(23,370)
	$ 112,277	$ 94,899

Table of Contents

NEWPORT CORPORATION
Notes to Consolidated Financial Statements
September 29, 2007

NOTE 10 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities were as follows:

(In thousands)	September 29, 2007	December 30, 2006
Deferred revenue	$ 7,717	$ 7,986
Accrued warranty obligations	5,495	5,159
Other	8,837	9,620
	$ 22,049	$ 22,765

NOTE 11 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 Precision Technologies (PPT) Division generally carry a one-year warranty from the original invoice date on all product materials and workmanship. Products of this division sold to original equipment manufacturer (OEM) customers generally carry longer warranties, typically 15 to 24 months. Products sold by the Company s Lasers Division typically 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 calendar period or a maximum amount of 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 at the time revenue for that product is recognized.

The activity in accrued warranty obligations was as follows:

(In thousands)	Nine Months Ended September 29, 2007	September 30, 2006
Balance at beginning of year	$ 5,159	$ 5,255
Additions charged to cost of sales	6,612	4,804
Warranty claims	(6,276)	(5,094)
Balance at end of period	$ 5,495	$ 4,965

Such amounts are included in *accrued expenses and other current liabilities* in the accompanying consolidated balance sheets.

NOTE 12 ACCRUED RESTRUCTURING COSTS

2004 Restructuring Plan

In connection with the acquisition of Spectra-Physics, the Company s Board of Directors approved a restructuring plan to consolidate certain locations. This plan included $3.3 million for employee relocation and employee severance and related termination costs and $2.2 million related to facility consolidation costs.

Table of Contents

NEWPORT CORPORATION
Notes to Consolidated Financial Statements
September 29, 2007

The following table summarizes the activity in accrued restructuring costs related to the purchase of Spectra-Physics, which consisted solely of facility consolidation costs at September 29, 2007 and December 30, 2006:

(In thousands)	**Facility Consolidation**
Accrued restructuring at December 30, 2006	$ 1,560
Cash payments	(198)
Accrued restructuring at September 29, 2007	$ 1,362

The facility consolidation costs will be paid over the term of the lease for the closed facility, which expires in 2011. At both September 29, 2007 and December 30, 2006, $0.3 million of these accrued restructuring costs were expected to be paid within one year and are included in current liabilities in *other liabilities*, and $1.1 million and $1.2 million, respectively, of accrued restructuring costs are included in long-term liabilities in *accrued restructuring costs and other liabilities,* in the accompanying consolidated balance sheets.

NOTE 13 DEBT AND LINES OF CREDIT

In February 2007, the Company issued $175 million of convertible subordinated notes. The notes were offered to qualified institutional buyers, as defined in, and in reliance on, Rule 144A of the Securities Act of 1933, as amended. The sale of the notes generated net proceeds of approximately $169.4 million after deducting offering fees and expenses of approximately $5.6 million. The notes are subordinated to all of the Company s existing and future senior indebtedness. The notes mature on February 15, 2012 and bear interest at a rate of 2.5% per year, payable in cash semiannually in arrears on February 15 and August 15 of each year. The notes are included in *long-term debt*. The offering fees and expenses are included in other long-term assets in *investments and other assets*, and are being amortized through February 15, 2012 using the effective interest method.

Holders may convert their notes based on a conversion rate of 41.5861 shares of the Company s common stock per $1,000 principal amount of notes (equal to an initial conversion price of approximately $24.05 per share), only under the following circumstances: (i) if the closing price of the Company s common stock reaches, or the trading price of the notes fall below, specified thresholds for a specified number of trading days, (ii) if specified distributions to holders of the Company s common stock occur, (iii) if a fundamental change occurs or (iv) during the period from and including January 15, 2012 to, but excluding the maturity date. Upon conversion, in lieu of shares of the common stock, for each $1,000 principal amount of notes, a holder will receive an amount in cash equal to the lesser of (i) $1,000 or (ii) the conversion value, determined in the manner set forth in the indenture governing the notes. If the conversion value exceeds $1,000, the Company will also deliver, at its election, cash or common stock or a combination of cash and common stock with respect to the remaining common stock deliverable upon conversion.

At December 30, 2006, the Company had a note payable with a principal amount of $50.0 million issued in connection with the Company s acquisition of Spectra-Physics in July 2004, which was due on July 16, 2009. The note payable was valued at approximately $46.4 million on the date of acquisition, based upon the present value of cash flows, using a discount rate of 6.75% in order to reflect a market rate of interest for similar debt with similar characteristics. In February 2007, the Company prepaid this note in full for $48.2 million with a portion of the proceeds from its issuance of convertible notes. As the prepayment price approximated the then current carrying value, the gain on such prepayment was not material.

At September 29, 2007 and December 30, 2006, the Company had a total of six lines of credit, including one domestic revolving line of credit, three revolving lines of credit with Japanese banks, and two other lines of credit with Japanese banks, which are used to sell trade notes receivable with recourse to the banks.

The Company s domestic revolving line of credit has a total credit limit of $5.0 million and expires December 1, 2007. Certain cash equivalents held by the lender under this line of credit collateralize this line of credit, which bears interest at either the prevailing prime rate, or the prevailing London Interbank Offered Rate (5.1% at September 29, 2007) plus 1.25%, at the Company s option, and carries an unused line fee of 0.25% per year. At September 29, 2007, there were no balances outstanding under this line of credit, with $4.0 million available, after considering outstanding letters of credit totaling $1.0 million.

Table of Contents

NEWPORT CORPORATION
Notes to Consolidated Financial Statements
September 29, 2007

The Company s three revolving lines of credit with Japanese banks totaled 1.7 billion yen ($14.7 million at September 29, 2007) and expire as follows: $6.9 million on November 30, 2007, $5.2 million on March 31, 2008 and $2.6 million on June 30, 2008. These lines are not secured and bear interest at the prevailing bank rate. At September 29, 2007, the Company had $9.6 million outstanding and $5.1 million available for borrowing under these lines of credit. All amounts outstanding under these revolving lines of credit at September 29, 2007 are due prior to September 28, 2008 and are included in *short-term obligations* in the accompanying consolidated balance sheets. The two other lines of credit with Japanese banks, which are used to sell trade notes receivable with recourse to the banks, totaled 550 million yen ($4.8 million at September 29, 2007), have no expiration dates and bear interest at the bank s prevailing rate. At September 29, 2007, the Company had $1.9 million outstanding and $2.9 million available for the sale of notes receivable under these lines of credit. Amounts outstanding under these lines of credit are included in *short-term obligations* in the accompanying consolidated balance sheets. As of September 29, 2007, the weighted average interest rate on all borrowings on the five Japanese lines of credit was 1.9%.

Total long-term debt was as follows:

(In thousands)	September 29, 2007	December 30, 2006
Convertible subordinated notes due February 2012, interest at 2.5% per year, payable semiannually	$ 175,000	$
Line of credit due June 2008, interest at bank s prevailing rate (1.3% at December 30, 2006)		2,525
Note payable due July 2009, interest at 5% per year, payable quarterly		50,000
Subtotal	175,000	52,525
Less: unamortized discount on note payable		(1,837)
	$ 175,000	$ 50,688

NOTE 14 INTEREST AND OTHER INCOME (EXPENSE), NET

Interest and other income (expense), net, was as follows:

	Three Months Ended		Nine Months Ended	
(In thousands)	September 29, 2007	September 30, 2006	September 29, 2007	September 30, 2006
Interest and dividend income	$ 1,642	$ 773	$ 5,124	$ 2,108
Interest expense	(1,323)			