

NEWPORT CORP
Form 10-K
March 02, 2016
[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended January 2, 2016

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)

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value \$0.1167 per share	The NASDAQ Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

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

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

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Edgar Filing: NEWPORT CORP - Form 10-K

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

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

Large accelerated filer

Accelerated filer

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

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of July 2, 2015, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$730.6 million, calculated based upon the closing price of the registrant's common stock as reported by the NASDAQ Global Select Market on such date.

As of February 19, 2016, 38,627,839 shares of the registrant's sole class of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information that is required to be included in Part III of this Annual Report on Form 10-K is incorporated by reference to either a definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed by the registrant within 120 days of January 2, 2016. Only those portions of any such definitive proxy statement that are specifically incorporated by reference herein shall constitute a part of this Annual Report on Form 10-K.

Table of Contents

TABLE OF CONTENTS

PART I

<u>ITEM 1.</u>	<u>BUSINESS</u>	1
<u>ITEM 1A.</u>	<u>RISK FACTORS</u>	18
<u>ITEM 1B.</u>	<u>UNRESOLVED STAFF COMMENTS</u>	33
<u>ITEM 2.</u>	<u>PROPERTIES</u>	33
<u>ITEM 3.</u>	<u>LEGAL PROCEEDINGS</u>	33
<u>ITEM 4.</u>	<u>MINE SAFETY DISCLOSURES</u>	33

PART II

<u>ITEM 5.</u>	<u>MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES</u>	34
<u>ITEM 6.</u>	<u>SELECTED FINANCIAL DATA</u>	36
<u>ITEM 7.</u>	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	39
<u>ITEM 7A.</u>	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	55
<u>ITEM 8.</u>	<u>FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA</u>	56
<u>ITEM 9.</u>	<u>CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE</u>	56
<u>ITEM 9A.</u>	<u>CONTROLS AND PROCEDURES</u>	56
<u>ITEM 9B.</u>	<u>OTHER INFORMATION</u>	58

PART III

<u>ITEM 10.</u>	<u>DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE</u>	59
<u>ITEM 11.</u>	<u>EXECUTIVE COMPENSATION</u>	59
<u>ITEM 12.</u>	<u>SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS</u>	59
<u>ITEM 13.</u>	<u>CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE</u>	59
<u>ITEM 14.</u>	<u>PRINCIPAL ACCOUNTING FEES AND SERVICES</u>	59

PART IV

<u>ITEM 15.</u>	<u>EXHIBITS, FINANCIAL STATEMENT SCHEDULES</u>	60
<u>SIGNATURES</u>		64
<u>INDEX TO FINANCIAL STATEMENTS AND SCHEDULE</u>		F-1

Table of Contents

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

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

PART I

ITEM 1. BUSINESS

General Description of Business

Newport Corporation (collectively with our subsidiaries, referred to as Newport, we, our and us) is a global supplier of advanced technology products and systems to a wide range of industries, including scientific research, microelectronics, defense and security, life and health sciences, and industrial markets. We provide a broad portfolio of products to customers in these end markets, allowing us to offer them an end-to-end resource for photonics solutions.

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

Edgar Filing: NEWPORT CORP - Form 10-K

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

- lasers and laser technology, including solid-state lasers, ultrafast lasers and laser systems, tunable lasers and fiber lasers;
- optical components and subassemblies, including precision laser optics and opto-mechanical subassemblies, optics and lens assemblies for thermal imaging, thin-film optical filters, and ruled and holographic diffraction gratings;
- photonics instruments, systems and components, including optical power and energy meters, light sources, optical detectors and modulators, laser beam profilers, monochromators, spectroscopy instrumentation, laser diode controllers and drivers, and laser diode burn-in and life test systems;
- high-precision positioning products and systems;
- vibration isolation products and systems; and
- three-dimensional non-contact measurement sensors and equipment.

Table of Contents

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

For more than fifty years, we have serviced the needs of research laboratories for precision equipment. We have made a number of acquisitions, which have contributed to the expansion of our product offerings, technology base and geographic presence and have allowed us to evolve from a provider of discrete components and instruments primarily for research applications to a company that manufactures both components and integrated solutions for research and commercial applications. Through our own product development and our acquisitions and integration of companies and businesses, including our most recent acquisitions discussed below, we have built a family of industry-leading product brands, including our ILX Lightwave®, New Focus, Newport, Ophir®, Optimet, Oriel® Instruments, Richardson Gratings, Spiricon®, and Spectra-Physics® brands.

Acquisitions and Divestitures

In July 2011, we acquired High Q Technologies GmbH and its subsidiaries (High Q). This acquisition broadened our ultrafast laser capabilities, particularly for applications in the life and health sciences and industrial markets, and has expanded our presence in European laser markets.

In October 2011, we acquired Ophir Optronics Ltd. and its subsidiaries (Ophir). This acquisition significantly expanded our capabilities in infrared optics and photonics instrumentation, adding to our product offerings Ophir's precision infrared optics and lens assemblies; laser measurement instrumentation, including laser beam profilers and laser power and energy meters and sensors; and three-dimensional non-contact measurement sensors and equipment.

In January 2012, we acquired ILX Lightwave Corporation (ILX). This acquisition further expanded our photonics instrumentation and systems offerings, adding to our product portfolio ILX's diode laser controllers and drivers, temperature controllers, current sources, optical power and wavelength meters, semiconductor laser/LED burn-in, test and characterization systems, and fiber optic sources.

In September 2014, we acquired V-Gen, Ltd. and its subsidiary (V-Gen). This acquisition has enhanced our fiber laser products and technology and has further expanded our reach into application areas such as precision micromachining, marking and LIDAR applications.

In February 2015, we acquired FEMTOLASERS Produktions GmbH and its subsidiary (FEMTOLASERS). FEMTOLASERS is a leading developer and manufacturer of high-precision ultrafast laser systems used extensively in scientific and biomedical research applications. This acquisition has expanded our offering of ultrafast laser products and added to our expertise in this important technology area.

In the third quarter of 2013, we determined that our advanced packaging systems business, which develops and manufactures automated packaging, die bonding, dispensing and laser-based systems used in the manufacture of solar panels and communications and electronics devices, no longer fit within our long-term strategy. As such, we developed a plan to sell the business, and we completed the sale of this

business in January 2014.

We will continue to pursue acquisitions of companies, technologies and complementary product lines that we believe will further our strategic objectives. Conversely, from time to time, we review our businesses to ensure that they are key to our strategic plans, and close or divest businesses that we determine are no longer of strategic importance. See Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations - Overview) beginning on page 39, and Note 2 of the Notes to Consolidated Financial Statements beginning on page F-14, of this Annual Report on Form 10-K for additional information.

Recent Events

On February 22, 2016, we entered into an agreement and plan of merger (Merger Agreement) with MKS Instruments, Inc. (MKS) and its wholly owned subsidiary, PSI Equipment, Inc. (Merger Sub), pursuant to which Merger Sub will merge with and into Newport, with Newport surviving the merger as a wholly owned subsidiary of MKS (Merger), subject to the terms and conditions of the Merger Agreement. Pursuant to the Merger Agreement, Newport is required to solicit

Table of Contents

stockholder approval of the Merger Agreement and to file a proxy statement relating to such solicitation with the Securities and Exchange Commission (SEC) within a specified time period.

If the Merger is consummated, (i) each share of our common stock that is issued and outstanding immediately prior to the effective time of the Merger will be converted into the right to receive \$23.00 in cash, without interest; (ii) each restricted stock unit that is outstanding immediately prior to the effective time of the Merger and as to which shares have not been fully distributed in connection with the closing of the Merger will be assumed by MKS and converted into a restricted stock unit of MKS having an equivalent value based on the consideration paid by MKS in connection with the Merger; and (iii) each stock appreciation right that is outstanding immediately prior to the effective time of the Merger will be assumed by MKS and converted into a stock appreciation right of MKS having an equivalent value based on the consideration paid by MKS in connection with the Merger, on the terms and subject to the conditions set forth in the Merger Agreement. All assumed and converted restricted stock units and stock appreciation rights will continue to be subject to the same terms and conditions (including vesting schedule) as in effect immediately prior to the Merger.

The Company expects that the Merger will be completed during the second quarter of 2016, subject to the satisfaction of all closing conditions. See Note 16 to the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K beginning on page F-40 for more information.

Our Markets

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

- *Scientific Research.* We are one of the world's leading suppliers of lasers and other photonics products to scientific researchers. For more than fifty years, we have worked closely with the scientific community to pioneer new applications and technologies. Today, we continue to help researchers extend the frontiers of science in a variety of research areas, including spectroscopy, ultrafast phenomena, terahertz imaging, laser-induced fluorescence, chemical analysis, materials science, light detection and ranging (LIDAR) and nonlinear optics.
- *Microelectronics.* Photonics technology addresses a number of vital applications in the microelectronics market. It is a key technology used in the manufacture of semiconductors, flat panel displays and printed circuit boards, enabling the increased functionality, shrinking device dimensions and increased component density needed for next-generation electronic products, including smartphones, tablet computers, e-readers, personal media players, digital cameras and connected devices related to the internet of things. It is also a key technology deployed in the manufacture of light emitting diodes (LEDs) to help increase brightness and reduce manufacturing costs. In addition, photonics technology enables the manufacture of solar panels with higher efficiency and at a lower cost per watt as that industry strives to make solar power more cost competitive. Our products are used in several key applications in the microelectronics market, including semiconductor lithography, wafer inspection and metrology, reticle inspection, wafer dicing and scribing, wafer and component marking, glass processing, printed circuit board drilling and cutting,

resistor trimming, flat panel display manufacturing, LED scribing, solar panel scribing and structuring, solar cell testing and characterization, and solar cell efficiency enhancement.

- *Life and Health Sciences.* Photonics is increasingly becoming an enabling technology in the life and health sciences market. We provide products for diagnostic and analytical instrumentation, bioimaging and medical procedures. Our products are used in applications such as optical coherence tomography, multiphoton and confocal microscopy, flow cytometry, matrix-assisted laser desorption/ionization time-of-flight mass spectrometry, laser microdissection, DNA microarrays and blood analysis to enable advancements in the fields of molecular biology, proteomics and drug discovery. Our products are also used in medical applications, including precision laser surgery, dental computer-aided design/computer-aided manufacturing (CAD/CAM) scanning and medical device manufacturing.
- *Industrial.* Our lasers, optics and other photonics products are used in applications across a wide range of industries, including precision manufacturing applications, automotive safety, industrial lasers, image recording and telecommunications. The precision manufacturing applications served by our products include rapid prototyping (3D printing), micromachining, heat-treating, welding and soldering, cutting, illumination, drilling, LIDAR, fiber optic device testing and high-precision marking and engraving.

Table of Contents

- *Defense and Security.* The drive for more technologically advanced weapons and surveillance techniques is producing increased investment in photonics-based technologies that can remotely, rapidly and non-invasively detect threats, improve intelligence gathering, provide secure communications systems and improve the performance of weapons and countermeasures. In addition, innovative optical sensors are augmenting human vision on the battlefield, providing remote sensing, ranging and observation capabilities that offer high-resolution imaging and night vision. Our optical components and lenses are used in a wide range of advanced applications in this market, including infrared observation systems, imaging systems for manned and unmanned aircraft, driver vision enhancement (DVE) systems and targeting systems. Our photonics products are also used by aerospace and defense industry engineers to develop, assemble, test and calibrate equipment for applications including target recognition and acquisition, LIDAR, range finding, missile guidance, and advanced weapons development.

Our Operating Groups

We operate our business in three operating groups: our Photonics Group, our Lasers Group and our Optics Group, which are organized to support our primary product categories.

Photonics Group

Our Photonics Group's products and systems are sold to end users in all of our target end markets. We also sell products and subassemblies to OEM customers for integration into their systems, particularly for microelectronics applications. The products sold by this group include photonics instruments and systems, vibration isolation systems and subsystems, precision positioning systems and subsystems, optical components for research applications, optical hardware, and three-dimensional non-contact measurement sensors and equipment.

Products

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

Category	Products	Representative Applications
Photonics Instruments and Systems	<ul style="list-style-type: none"> • Electro-optic modulators • Laser beam profilers 	<ul style="list-style-type: none"> • Analysis of optical power, energy profile and wavelength of laser beams

- | | |
|---|---|
| <ul style="list-style-type: none">• Laser diode controllers• Laser diode burn-in and life-test systems• Light sources• Monochromators and spectrographs• Optical power and energy detectors• Optical power and energy meters• Optical wavemeters• Photonics test systems• Solar simulators• Solar cell test instruments• Spectrometers• Tunable external cavity diode lasers | <ul style="list-style-type: none">• Atom trapping and cooling, including Bose-Einstein Condensates• Characterization of cosmetic and pharmaceutical products• Characterization of light emitted by lasers, light emitting diodes and broadband light sources• Chemical composition analysis• Colorimetry• Lifetime testing of laser diodes• Solar cell characterization and measurements• Spectroscopy• Testing and characterization of optical fibers and passive fiber optical components |
|---|---|

- | | | |
|--|---|--|
| | <ul style="list-style-type: none">• Ultrafast laser pulse measurement systems | |
|--|---|--|

Table of Contents

Category	Products	Representative Applications
Vibration Isolation Systems and Subsystems	<ul style="list-style-type: none"> • Active vibration damping systems • Elastomeric mounts • Honeycomb and granite structures • Optical tables, support systems and accessories • Vibration isolation systems • Workstations 	<ul style="list-style-type: none"> • Foundation platforms for laser systems • Isolated platforms for semiconductor equipment • Reduction of impact of external vibration sources on high-precision research applications and manufacturing test and assembly systems • Scanning electron microscope, atomic force microscope, and optical microscope base isolation • Vibration damping and isolation for electronic device test systems • Workstation platforms for fiber optic device fabrication and assembly • Workstation platforms for microscopy and other advanced imaging applications
Precision Positioning Devices, Systems and Subsystems	<ul style="list-style-type: none"> • Autocollimators • Custom multi-axis positioning systems 	<ul style="list-style-type: none"> • High-precision positioning for manufacturing, inspection, metrology and final test applications • High-precision positioning of semiconductor wafers for metrology

	<ul style="list-style-type: none"> • Fast steering mirrors • Fiber alignment stages and accessories • Hexapod positioning systems • Manual linear and rotation stages • Micrometers and adjustment screws • Motion controllers and drivers • Motorized linear and rotation stages • Motorized actuators and optical mounts • Nano-positioning and nano-focusing stages • Piezo motor actuators and stages • Precision air-bearing motion systems 	<p>and fabrication</p> <ul style="list-style-type: none"> • High resolution non-contact metrology for angular measurements • Laser beam stabilization and pointing • Laser micro/nano-machining • Laser system alignment and beam steering for inspection, laser processing and communications • Precision alignment in fiber optic, telecommunication and laser device assembly • Sample or sensor manipulation for imaging and microscopy • Sample sorting and sequencing for DNA research • Solar cell test and characterization • Tracking and targeting test systems for defense and security applications
--	---	--

Table of Contents

Category	Products	Representative Applications
Optics and Opto-Mechanical Components	<ul style="list-style-type: none"> • Beam routing and enclosing systems • Beamsplitters and polarization optics • Collimators • Filters and attenuators • Laser-to-fiber couplers • Laser optics and optical components • Optical hardware including bases, brackets, posts and rod systems • Optical mounts • Prisms and windows • Refractive beam shaper assemblies 	<ul style="list-style-type: none"> • Analytical instrumentation for life and health sciences applications • Cell sorting for genomic research • Development and manufacturing of laser systems • Electro-optic sensors and imaging systems for defense and security applications • High-precision alignment of optical instruments • Optical measurement and communications systems • Research in physical and biological sciences • Spectroscopy • Ultrafast laser, terahertz imaging and laser fusion research
Three-Dimensional Non-Contact Measurement Equipment	<ul style="list-style-type: none"> • 3D sensors • 3D scanning systems 	<ul style="list-style-type: none"> • Dental CAD/CAM scanning for computerized design and manufacturing of crowns, bridges and other dental restorations

- | | | |
|--|--|--|
| | | <ul style="list-style-type: none">• High-precision three-dimensional non-contact measurements• In process inspection and testing in manufacturing processes |
|--|--|--|

Table of Contents

Lasers Group

Our Lasers Group offers a broad portfolio of laser technology products and services to OEM and end-user customers in all of our target end markets. Our lasers and laser-based systems include ultrafast lasers and amplifiers, fiber lasers, diode-pumped solid-state lasers, high-energy pulsed lasers and tunable lasers. In addition to providing a wide range of standard and configured laser products and accessories to our end-user customers, we also work closely with our OEM customers to develop laser and laser system designs optimized for their product and technology roadmaps.

Products

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

Category	Products	Representative Applications
Ultrafast Lasers and Systems	<ul style="list-style-type: none"> • InSight® DS+ tunable ultrafast lasers • Spirit® high repetition rate ultrafast lasers • Mai Tai® and Mai Tai DeepSee tunable ultrafast lasers • Tsunami® ultrafast lasers • Spitfire® Ace ultrafast amplifiers • Solstice® Ace one-box ultrafast amplifiers 	<ul style="list-style-type: none"> • Attoscience • Femtosecond spectroscopy • Medical device manufacturing • Micro-machining and other high-precision materials processing applications • Multiphoton microscopy • Supercontinuum and high harmonic generation • Terahertz imaging

	<ul style="list-style-type: none">• Femtopower high-precision ultrafast amplifiers• Inspire femtosecond optical parametric oscillators (OPOs)• TOPAS Prime, Spirit-OPA and Spirit-NOPA automated ultrafast optical parametric amplifiers (OPAs)• HighQ-2 and femtoTrain ultra compact femtosecond oscillators• Femtosource XL high-energy femtosecond oscillators• Rainbow and Rainbow 2 ultrafast Ti:Sapphire oscillators• Element ultrafast Ti:Sapphire oscillators	<ul style="list-style-type: none">• Time-resolved photoluminescence• Two-photon polymerization• Ultrafast laser surgery
--	---	---

Table of Contents

Category	Products	Representative Applications
Fiber Lasers	<ul style="list-style-type: none"> • Quasar® high power UV and green hybrid fiber lasers • VGEN-ISP infrared MOPA (master oscillator power amplifier) fiber lasers • VGEN-QS infrared Q-switched fiber lasers • VGEN-G green fiber lasers • VGEN-SP and VGEN-ESP pulsed fiber lasers for LIDAR • VGEN-C and VGEN-T continuous wave (CW) fiber lasers 	<ul style="list-style-type: none"> • Ceramic processing • Diamond processing • Flat panel display manufacturing • Glass processing • Laser marking • Laser engraving • LED manufacturing • LIDAR remote sensing and mapping • Printed circuit board, flexible circuits, flip chips and high density interconnect manufacturing • Silicon wafer processing • Solar cell and panel manufacturing
Diode-Pumped Solid State Q-Switched Lasers	<ul style="list-style-type: none"> • Talon® all-in-one lasers 	<ul style="list-style-type: none"> • Disk texturing

	<ul style="list-style-type: none"> • Navigator lasers • HIPPO lasers • Pulseo® lasers • Explorer® compact lasers • Explorer One all-in-one compact lasers • Explorer XP all-in-one compact lasers • Ascend and Empower® high pulse energy lasers 	<ul style="list-style-type: none"> • Electronics and semiconductor packaging manufacturing • Flat panel display manufacturing • Laser microdissection • LED wafer scribing • Matrix-assisted laser desorption/ionization • Printed circuit board (PCB) manufacturing • Pump source for ultrafast lasers • Rapid prototyping (3D printing) • Resistor trimming • Semiconductor wafer and flat panel display marking • Semiconductor wafer inspection • Silicon micromachining • Solar cell and panel manufacturing
--	---	--

Table of Contents

Category	Products	Representative Applications
Diode-Pumped Solid State Continuous Wave (CW) and Quasi-CW Lasers	<ul style="list-style-type: none"> • Millennia® eV and Millennia Edge high power CW green lasers • MG series CW green lasers • Excelsior® One low power CW lasers • Vanguard quasi-CW lasers • 3900S and Matisse® CW tunable lasers and WaveTrain® 2 frequency doubler 	<ul style="list-style-type: none"> • Confocal microscopy • DNA sequencing • Flow cytometry • Image recording • Laser cooling • Materials processing • Optical trapping • Raman imaging • Semiconductor wafer inspection and metrology • Solar cell manufacturing • Ti:Sapphire laser pumping
High Energy Pulsed Nd:YAG and Tunable Lasers	<ul style="list-style-type: none"> • Quanta-Ray® pulsed Nd:YAG lasers 	<ul style="list-style-type: none"> • Flat-panel display manufacturing • Laser ablation

	<ul style="list-style-type: none">• Scan Series high energy optical parametric oscillators (OPOs)• Precision Scan, Cobra Stretch and Cobra tunable dye lasers• Credo high-repetition rate dye lasers	<ul style="list-style-type: none">• Laser cleaning• Laser shock processing• LIDAR• Mass spectrometry• Particle imaging velocimetry combustion diagnostics• Plastic and ceramic component marking• Remote sensing• Spectroscopy
--	--	---

Table of Contents

Optics Group

Our Optics Group offers precision optics and lens assemblies, thin-film filters and coatings, replicated mirrors and ruled and holographic diffraction gratings to OEM and end-user customers in all of our target end markets.

The Optics Group also designs, develops and manufactures subsystems and subassemblies that integrate our broad portfolio of products and technologies into solutions that meet the specific application requirements of our OEM and select end-user customers. With our expertise in the design, development and manufacture of these integrated solutions, we help our customers reduce time to market and enhance the performance of their equipment or products. We have a business team comprised of technical and operations specialists, who collaborate across our business groups to develop and provide these integrated solutions to our customers. We have used our capabilities in this area for customers in a number of industries and applications, most notably in microelectronics applications such as semiconductor equipment manufacturing, and in life and health sciences applications such as flow cytometry, DNA sequencing and bioimaging.

Products

The following table summarizes our Optics Group's product offerings by product category, and includes representative applications for each category:

Category	Products	Representative Applications
Optics and Optical Components	<ul style="list-style-type: none"> • CO₂ and fiber laser optics • Precision laser optics for infrared, visible and ultraviolet wavelengths • Replicated mirrors • Ruled and holographic diffraction gratings • Thin-film filters and coatings 	<ul style="list-style-type: none"> • Analytical instrumentation for industrial and life and health sciences applications • CO₂ and fiber laser cutting, drilling and welding systems • Development and manufacturing of laser systems • Electro-optic sensors and imaging systems for defense and security applications

		<ul style="list-style-type: none"> • Environmental measuring and monitoring instrumentation • Food safety and quality assurance instrumentation • Optical measurement and communications systems • Semiconductor lithography, wafer and reticle inspection and wafer processing • Spectroscopy
<p>Optical Lens Assemblies</p>	<ul style="list-style-type: none"> • Optical lens assemblies and elements for cooled infrared cameras • Optical lens assemblies and elements for uncooled infrared cameras • Optical lenses for infrared radiometric/thermograph systems 	<ul style="list-style-type: none"> • Automotive safety systems • Commercial security cameras • Targeting and fire control systems • Thermal imaging and observation systems

Table of Contents

Category	Products	Representative Applications
Opto-Mechanical Subassemblies and Subsystems	<ul style="list-style-type: none"> • Integrated electro-opto-mechanical subsystems • Laser beam attenuators • Laser beam delivery and imaging assemblies • Objective lens systems 	<ul style="list-style-type: none"> • Analytical instrumentation for life and health sciences applications • Laser beam stabilization for industrial metrology • Light detection and ranging • Semiconductor mask patterning • Semiconductor lithography, wafer and reticle inspection and wafer processing • Thin-film measurement of semiconductor wafers

Financial information regarding our business segments and our operations by geographic area is included in Note 14 of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K beginning on page F-37. A discussion of our net sales by end market and geographic area is included in Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) beginning on page 39. We discuss certain risks associated with doing business internationally in Risk Factors. We face significant risks from doing business internationally on page 20.

Sales and Marketing

We market and sell our products and services through our global direct sales organization, an international network of independent distributors and sales representatives, our websites and our product catalogs. Our global direct sales organization is comprised of teams of field sales persons, key account managers and business development managers, who work closely with product and applications specialists and other internal sales support personnel based primarily at our U.S. locations in California, Massachusetts, Montana, New York and Utah, and at our locations in Austria, China, France, Germany, Israel, Japan, Singapore, South Korea, Taiwan and the United Kingdom. We have organized our field sales personnel, together with internal sales support personnel, into teams within each business group based on their specialized knowledge and expertise relating to specific product areas, geographies and customer groups. These sales teams are closely aligned with their respective product management, engineering and operations organizations. In addition, to support our strategic growth initiatives in the Asia-Pacific region, we have established a dedicated team of field sales personnel and internal sales support personnel, who are responsible for sales of

products of all of our operating groups in that region.

We sell our products and services to end-users, OEM customers and capital equipment customers. These categories of customers require very different selling approaches and support requirements, and we have organized our sales teams to address these different requirements. Our business groups generally have certain sales personnel who are focused on serving the needs of end-user customers (primarily in the scientific research market) and other sales personnel who serve our OEM and capital equipment customers. Our OEM and capital equipment customers often have unique technical requirements and manufacturing processes, and may request specific system, subsystem or component designs. Sales of our subsystem and capital equipment products often involve complex program management and long sales cycles, and require close cooperation between sales, operations and engineering personnel as well as collaboration across many of our product lines and areas of knowledge and expertise. As such, we have developed teams of key account managers and business development managers to serve the unique requirements of these OEM and capital equipment customers.

We also actively market and sell our products in certain markets through independent sales representatives and distributors. We have written agreements with substantially all of our representatives and distributors. In some cases we have granted representatives and distributors exclusive authorization to sell certain of our products in a specific geographic area. These agreements generally have terms of one year which automatically renew on an annual basis, and are generally terminable by either party for convenience following a specified notice period. Most distributor agreements are structured to provide distributors with sales discounts below the list price. Representatives are generally paid commissions for sales of products. No single independent representative or distributor accounted for more than 5% of our net sales in 2015, 2014 or 2013.

Table of Contents

We also market our standard products and custom capabilities through our comprehensive websites. Our websites provide customers with access to the latest information regarding our products, technical/tutorial and application related materials, sales information and information request forms, and our Newport.com website also features an online store, giving customers the ability to purchase a majority of our standard products. Our websites are widely used by our customers to review information about our technologies, products and services. We also publish and distribute a variety of sales literature, product brochures and catalogs, which focus on specific products, applications and end markets. The information contained on our websites shall not be deemed to be incorporated into this Annual Report on Form 10-K.

We operate a Technology and Applications Center (TAC) at our Irvine, California headquarters. The TAC is staffed with experienced photonics researchers who develop innovative ways to utilize our lasers and other photonics products together in leading-edge research applications such as multiphoton microscopy, ultrafast spectroscopy and laser micro-fabrication. The TAC produces application notes, kits and complete systems for these applications, publishes technical papers in scientific and technical journals, and provides our research and development teams with ideas for new products and product enhancements. We also operate Industrial Laser Applications Laboratories at our facilities in Santa Clara, California; Rankweil, Austria; Wuxi, China; Stahnsdorf, Germany; Tel Aviv, Israel; and Anyang-si, South Korea, which provide support to our global sales and marketing team by conducting feasibility studies with prospective customers' material processing applications using our lasers and photonics products. These laboratories are staffed with experienced laser material processing engineers, and demonstrate the performance of our products and integrated solutions in a wide range of advanced industrial laser applications. Our Industrial Laser Applications Laboratories also produce application notes, present technical papers at conferences, and publish articles in journals and trade magazines focused on laser material processing. We believe that our TAC and our Industrial Laser Applications Laboratories reinforce our position as a technology leader in the photonics industry, and that they serve as important sales tools by performing actual experiments to demonstrate how our products will perform in our customers' applications.

Research and Product Development

We continually seek to improve our technological leadership position through internal research, product development and licensing, and acquisitions of complementary technologies. As of January 31, 2016, we had approximately 325 employees engaged in research and development. We continually work to enhance our existing products and to develop and introduce innovative new products to satisfy the needs of our customers. In addition, we regularly investigate new ways to combine components manufactured by our various operations to produce innovative technological solutions for the markets we serve.

Total research and development expenses were \$58.5 million, or 9.7% of net sales, in 2015; \$58.4 million, or 9.6% of net sales, in 2014; and \$52.5 million, or 9.4% of net sales, in 2013. Research and development expenses attributable to our Photonics Group were \$23.0 million, or 9.2% of net sales by that group, in 2015; \$24.3 million, or 9.9% of net sales by that group, in 2014; and \$21.0 million, or 9.1% of net sales by that group, in 2013. Research and development expenses attributable to our Lasers Group were \$21.9 million, or 11.4% of net sales by that group, in 2015; \$20.4 million, or 10.6% of net sales by that group, in 2014; and \$17.8 million, or 10.7% of net sales by that group, in 2013. Research and development expenses attributable to our Optics Group were \$13.6 million, or 8.5% of net sales by that group, in 2015; \$13.7 million, or 8.3% of net sales by that group, in 2014; and \$13.7 million, or 8.4% of net sales by that group, in 2013.

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

Customers

We sell our products to thousands of customers worldwide, in a wide range of end markets, primarily scientific research, microelectronics (which is comprised primarily of semiconductor capital equipment customers), defense and security, life and health sciences, and industrial manufacturing and other commercial markets. We believe that our customer diversification minimizes our dependence on any single industry or group of customers. In 2015, 2014 and 2013 no single customer represented 10% or more of our consolidated net sales. In certain of our end markets, particularly the microelectronics market, a limited number of customers account for a significant portion of our sales to those markets. We believe that our relationships with these customers and our other key customers are good. However, if our key customers discontinue or reduce their business with us, or suffer downturns in their businesses, it could have a significant negative impact on our financial results on a short-term basis. If we lose business from key customers and we are unable to

Table of Contents

sufficiently expand our customer base to replace the lost business or to reduce our cost structure accordingly, it would have a long-term negative impact on our business, financial condition and results of operations.

Competition

The markets we serve are intensely competitive and characterized by rapidly changing technology. A small number of competitors have strong positions in certain of these markets. The products and systems developed and manufactured by each of our operating groups serve all of our targeted end markets. The following table summarizes our primary competitors for our principal product categories:

Product Category	Primary Competitors		
Diffraction Gratings	Headwall Photonics, Inc. Horiba, Ltd. (Horiba Jobin Yvon)		Dynasil Corporation (Optometrics) Spectrogon AB
Lasers	Coherent, Inc. IDEX Corporation (Melles Griot) IPG Photonics, Inc. Jenoptik AG Lumentum Operations LLC		Rofin-Sinar Technologies, Inc. Sacher Lasertechnik GmbH Toptica Photonics AG Trumpf Group
Laser Optics	II-VI Incorporated AMETEK, Inc. (Zygo Corporation) Corning Incorporated (Tropel) Edmund Optics, Inc. Excelitas Technologies (Qioptiq) IDEX Corporation (CVI Laser Optics)		Jenoptik AG Sigma Koki Co., Ltd. Sumitomo Electric Industries, Ltd. Thorlabs, Inc.
Light Sources and Spectroscopy Instrumentation	Abet Technologies, Inc. Horiba, Ltd. (Horiba Jobin Yvon) Halma plc (Ocean Optics) Oxford Instruments (Andor Technology) Photon Technology International, Inc.		Roper Industries (Princeton Instruments/Acton Research) Sciencetech, Inc. Solar Light Company, Inc. Spectral Products Thorlabs, Inc.
Optical Filters	II-VI Incorporated Chroma Technology Corp. Ferroperm Optics A/S IDEX Corporation (Semrock)		Materion Corporation (Barr Precision Optics) Omega Optical, Inc. Viavi Solutions, Inc.
Optical Hardware and Opto-Mechanical Subassemblies and Subsystems	AMETEK, Inc. (Zygo Corporation) Corning Incorporated (Tropel) Edmund Optics, Inc. IDEX Corporation (Melles Griot)		Jenoptik AG Excelitas Technologies (Qioptiq) Sigma Koki Co., Ltd. Thorlabs, Inc.
Optics for Thermal Imaging	II-VI Incorporated Corning Netoptix BAE Systems OASYS Danaher Corporation (Janos Technology)		General Dynamics (Axsys) Raytheon ELCAN Optical Technologies Temek Optics, Ltd. Umicore

Edgar Filing: NEWPORT CORP - Form 10-K

Photonics Instruments	Excelitas Technologies (Qioptiq) CINOGY Technologies GmbH Coherent, Inc. DataRay Inc. Duma Optronics Ltd. Gentec Electro Optics, Inc. Halma plc (Labsphere) IDEX Corporation (Melles Griot)		Metrolux GmbH Picometrix, LLC PRIMES GmbH Sciencetech, Inc. Thorlabs, Inc. Yelo Limited
-----------------------	--	--	--

Table of Contents

Product Category	Primary Competitors		
Precision Positioning Devices, Systems and Subsystems	Aerotech Inc. Haag-Streit AB (Möller-Wedel) HIWIN Corporation Parker Hannifin Corporation PI miCos GmbH		Rockwell Automation, Inc. (Anorad) Schneeberger AG Sigma Koki Co., Ltd. Thorlabs, Inc.
Three-Dimensional Non-Contact Measurement Equipment	3M Company (ESPE) 3 Shape A/S Align Technology, Inc. (Cadent) Dental Wings, Inc. Faro Technologies, Inc. Institut Straumann AG		Keyence Corporation Micro-Epsilon Renishaw plc Sirona Dental Systems, Inc. STIL S.A.
Vibration Isolation Systems and Subsystems	AMETEK, Inc. (TMC) Herzan, LLC		Kinetic Systems, Inc. Thorlabs, Inc.

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

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

- product features and performance;
- quality and reliability of products;
- pricing and availability;
- customer service and support;
- breadth of product portfolio;
- customer relationships;
- understanding of customer applications;

- ability to manufacture and deliver products on a timely basis;
- ability to customize products to customer requirements; and
- ability to offer complete integrated solutions to OEM customers.

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

We compete in various markets against a number of companies, some of which have longer operating histories, greater name recognition and significantly greater technical, financial, manufacturing and marketing resources than we do, and some of which may have lower material costs than ours due to their greater purchasing power or their control over sources of components and raw materials. In addition, some of these companies have long established relationships with our customers and potential customers in our markets. In addition to current competitors, we believe that new competitors, some of whom may have substantially greater financial, technical and marketing resources than we do, will seek to provide products to one or more of our markets in the future. Such future competition could harm our business, financial condition and results of operations.

Intellectual Property and Proprietary Rights

Our success and competitiveness depends to an extent upon our ability to protect our proprietary technology. We protect our technology by controlling access to our proprietary information and by maintaining confidentiality agreements with our employees, consultants, customers and suppliers, and, in some cases, through the use of patents, trademark registrations and licenses. We currently maintain approximately 380 patents worldwide, and we have approximately 140 additional patent applications pending. These patents and patent applications cover various aspects of products in many of

Table of Contents

our key product categories, particularly our laser products. We also have trademarks registered worldwide. We will continue to actively pursue applications for new patents and trademarks as we deem appropriate.

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

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

Manufacturing

We manufacture instruments, components, subassemblies and systems at U.S. facilities located in Irvine and Santa Clara, California; Bozeman, Montana; and North Logan, Utah; and at facilities in Wuxi, China; Beaune-la Rolande, France; Brigueuil, France; and Jerusalem, Israel. We manufacture lasers and laser systems at our facilities in Santa Clara, California; Rankweil, Austria; Vienna, Austria; Stahnsdorf, Germany; and Tel Aviv, Israel. We manufacture optical components in Irvine, California; Franklin, Massachusetts; Rochester, New York; Jerusalem, Israel; and Bucharest, Romania. In addition, we subcontract all or a portion of the manufacture of various products and components, such as laser power supplies, optics, optical meters and certain lower-complexity laser systems, to a number of third-party subcontractors and contract manufacturers located worldwide.

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

We currently procure various components and materials, such as the sheet steel used in some of our vibration isolation tables, the laser diodes and laser crystals used in certain of our laser products, and raw materials used in some of our infrared optics, from single or limited sources, due to unique component designs or materials characteristics as well as certain quality and performance requirements needed to manufacture our products. In some of these cases, the number of available suppliers is limited by the existence of patents covering the components or materials.

Edgar Filing: NEWPORT CORP - Form 10-K

In addition, we manufacture certain components internally, and there are no readily available third-party suppliers of these components. If single-sourced components were to become unavailable in adequate amounts at acceptable quality levels or were to become unavailable on terms satisfactory to us, we would be required to purchase comparable components from other sources. While we believe that we would be able to obtain comparable replacement components from other sources in a timely manner, if we were unable to do so, our business, results of operations or financial condition could be adversely affected.

In addition, we obtain some of the critical capital equipment we use to manufacture certain of our products from sole or limited sources due to the unique nature of the equipment. In some cases, such equipment can only be serviced by the manufacturer or a very limited number of service providers due to the complex and specialized nature of the equipment. If service and/or spare parts for such equipment become unavailable, such equipment could be rendered inoperable, which

Table of Contents

could cause delays in the production of our products, and could require us to procure alternate equipment, if available, which would likely involve long lead times and significant additional cost and could harm our results of operations.

Backlog

Our consolidated backlog of orders totaled \$206.6 million at January 2, 2016, and \$240.4 million at January 3, 2015. As of January 2, 2016, \$162.9 million of our consolidated backlog was scheduled to be shipped on or before December 31, 2016. Orders for many of the products we sell to OEM customers, which comprise a significant portion of our sales, are often subject to rescheduling without penalty or cancellation without penalty other than reimbursement of certain labor and material costs. In addition, because we manufacture a significant portion of our standard catalog products for inventory, we often make shipments of these products upon or within a short time period following receipt of an order. As a result, our backlog of orders at any particular date may not be an accurate indicator of our sales for succeeding periods.

Employees

As of January 31, 2016, we had approximately 2,480 employees worldwide. We believe that our relationships with our employees are good.

Government Regulation

Product Safety Regulation

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

Environmental Regulation

Our operations are subject to various federal, state and local regulations relating to the protection of the environment, including those governing discharges of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of

Edgar Filing: NEWPORT CORP - Form 10-K

contaminated sites. In the United States, we are subject to the federal regulation and control of the Environmental Protection Agency (EPA), and comparable authorities exist in other countries. Some of our operations require environmental permits and controls to prevent and reduce air and water pollution, and these permits are subject to modification, renewal and revocation by issuing authorities. Future developments, administrative actions or liabilities relating to environmental matters could have a material adverse effect on our business, results of operations or financial condition.

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

Certain portions of the soil at Spectra-Physics' former facility located in Mountain View, California, and certain portions of the aquifer surrounding the facility, through which contaminated groundwater flowed, are part of an EPA-designated Superfund site and are subject to a cleanup and abatement order from the California Regional Water Quality Control Board. Spectra-Physics, which we acquired in 2004 and merged into Newport in 2007, along with several other entities with facilities located near the Mountain View, California facility, were identified as Responsible Parties with respect to this Superfund site, due to releases of hazardous substances during the 1960s, 1970s and 1980s. Spectra-Physics and the other Responsible Parties entered into a cost-sharing agreement covering the costs of remediating the off-site

Table of Contents

groundwater impact. The site is mature, and investigation, monitoring and remediation efforts by the Responsible Parties have been ongoing for approximately 30 years. However, we may be subject to additional remediation obligations in the future if the EPA and the California Regional Water Quality Control Board determine that the site has generated additional environmental contamination, or if more rigorous standards for environmental contamination are enacted or approved. In addition to our investigation, monitoring and remediation obligations, we may be liable for property damage or personal injury claims relating to this site. While we are not aware of any material claims at this time, such claims could be made against us in the future. We have certain ongoing costs related to investigation, monitoring and remediation of the site that have been fairly consistent and not material in the recent past. However, our ultimate costs of investigation, monitoring, remediation and other potential liability are difficult to predict. If significant costs or other liabilities relating to this site arise in the future, our business, financial condition and results of operations could be adversely affected.

Governmental entities at all levels are continuously enacting new environmental regulations, and it may initially be difficult to anticipate how such regulations will be implemented and enforced. We continue to evaluate the requirements for compliance with such regulations as they are enacted. For example, the European Union has enacted the Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Directive (RoHS) and the Waste Electrical and Electronic Equipment Directive (WEEE) for implementation in each European Union member country. RoHS regulates the use of certain hazardous substances in certain products, and WEEE requires the collection, reuse and recycling of waste from certain products. Effective January 2013, RoHS was recast to expand the scope of equipment subject to the directive and impose new compliance requirements, and most European Union member states implemented the recast directive during 2013. WEEE was also recast to expand the scope of equipment subject to the directive and impose increased combined reuse/recycling and collection targets, among other revisions, and European Union member states began to implement the recast directive in 2014. While many of our products are not subject to RoHS and WEEE requirements at this time, certain of our products sold in these countries are or will become subject to these requirements. We will continue to monitor RoHS and WEEE guidance in individual jurisdictions to determine our responsibilities. In some instances, we are not directly responsible for compliance with RoHS and WEEE because certain of our products are currently outside the scope of the directives. However, because the scope of the directives continues to expand, we will likely be directly or contractually subject to certain provisions of such regulations in the case of many of our products. In addition, certain of our customers, particularly OEM customers whose end products may be subject to these directives, may require that the products we supply to them comply with these directives. Further, final legislation from individual jurisdictions that have not yet implemented the directives may impose different or additional responsibilities upon us. We are also aware of similar legislation that is currently in force or being considered in various states within the United States, as well as other countries, such as Japan, China and South Korea. These regulations may require us to redesign our products or source alternative components to ensure compliance with applicable requirements, for example by mandating the use of different types of materials in certain components. Any such redesign or alternative sourcing may increase the cost of our products, adversely impact the performance of our products, add greater testing lead-times for product introductions, or in some cases limit the markets for certain products.

Our failure to comply with any such regulatory requirements or related contractual obligations could result in our being directly or indirectly liable for costs, fines or penalties and third-party claims, and could jeopardize our ability to conduct business in certain countries.

Availability of Reports

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

Table of Contents

ITEM 1A. RISK FACTORS

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

The proposed acquisition by MKS Instruments, Inc. (MKS) may disrupt our business and, if this transaction is not completed, our stock price may decline, we will have incurred significant expenses, and we may need to pay a termination fee to MKS in certain circumstances.

On February 22, 2016, we entered into an agreement and plan of merger (Merger Agreement) with MKS and its wholly owned subsidiary, PSI Equipment, Inc. (Merger Sub), pursuant to which Merger Sub will merge with and into Newport, with Newport surviving the merger as a wholly owned subsidiary of MKS (the Merger), subject to the terms and conditions of the Merger Agreement. The Merger, whether or not consummated, may result in a loss of key personnel of Newport and may disrupt our sales and marketing or other key business activities, including our relationships with customers, suppliers and other third parties, which may have an adverse impact on our financial performance. The Merger Agreement generally requires us to operate our business in the ordinary course pending consummation of the Merger and places certain contractual restrictions on the conduct of our business that may affect our ability to execute on our business strategy and attain our financial objectives. Additionally, we have incurred and will continue to incur substantial financial advisory, legal, and other professional fees and expenses in connection with the Merger, which we must pay regardless of whether the Merger is completed.

The obligations of the parties to complete the Merger are subject to customary closing conditions, including the adoption and approval of the Merger Agreement by an affirmative vote of the holders of at least a majority of the outstanding shares of our common stock, the receipt of certain regulatory approvals, including the expiration or early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1974, as amended, and certain foreign antitrust approvals, and other customary closing conditions. These conditions are described in more detail in the Merger Agreement, which has been filed as Exhibit 2.1 to our Current Report on Form 8-K filed with the SEC on February 23, 2016. There is no assurance that all of the conditions set forth in the Merger Agreement will be satisfied or waived to the extent permitted by applicable law or that the Merger will occur when or as expected. If the Merger is not completed, the share price of our common stock could decline, for reasons including the loss of the premium over the pre-announcement market price of our common stock that was to be paid upon consummation of the Merger.

Under certain circumstances, if the Merger Agreement is terminated and the Merger is not completed, we may be required to pay MKS a termination fee of \$32.6 million, which would have a material adverse effect on our results of operations.

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

Edgar Filing: NEWPORT CORP - Form 10-K

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

- fluctuations in our customers' capital spending, industry cyclicality (particularly in the semiconductor equipment industry), market seasonality (particularly in the scientific research market), levels of government funding available to our customers (particularly in the scientific research, defense and life and health sciences markets) and other economic conditions within the markets we serve;
- demand for our products and the products sold by our customers;
- the level of orders within a given quarter and preceding quarters;
- the timing and level of cancellations and delays of orders in backlog for our products;
- the timing of product shipments and revenue recognition within a given quarter;

Table of Contents

- variations in the mix of products we sell;
- changes in our pricing practices or in the pricing practices of our competitors or suppliers;
- our timing in introducing new products;
- market acceptance of any new or enhanced versions of our products;
- timing of new product introductions by our competitors;
- timing and level of scrap and warranty expenses;
- the availability, quality and cost of components and raw materials we use to manufacture our products;
- our ability to manage capacity in response to customer demand;
- changes in our effective tax rates;
- changes in our capital structure, including cash, marketable securities and debt balances, and changes in interest rates;
- changes in bad debt expense based on the collectability of our accounts receivable;
- timing, type, and size of acquisitions and divestitures, and related expenses and charges;

- fluctuations in currency exchange rates, particularly the euro and Japanese yen as compared with the U.S. dollar;
- gains and losses related to derivative instruments;
- our expense levels;
- impairment of goodwill and amortization of intangible assets; and
- fees, expenses and settlement costs or judgments against us relating to litigation.

We are continually evaluating and adjusting our business, including changing prices, increasing or decreasing spending, or adding or eliminating products in response to actions by competitors or in an effort to pursue new market opportunities. These actions may also adversely affect our business and operating results and may cause our results in a given period to be lower than our results in previous periods.

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

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

Table of Contents

Our business, financial condition and operating results may be adversely affected by unfavorable economic and market conditions.

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

Our worldwide sales to customers in the scientific research, defense and life and health sciences markets rely to a large extent on government funding for research and defense-related programs. Any decline in government funding as a result of reduced budgets in connection with fiscal austerity measures or other causes would likely result in reduced sales of our products that are purchased either directly or indirectly with government funding, which would have an adverse impact on our results of operations.

Additionally, uncertainty in government fiscal policy may have a similar adverse impact on the demand for our products. For example, the difficulties faced by the U.S. Congress in recent years in agreeing on comprehensive, long-term solutions for the country's budget concerns created national and global uncertainty over the magnitude and impact of spending cuts or tax increases that might be enacted. Any future spending cuts or tax increases in the United States, and any future uncertainty over U.S. fiscal policy, will likely negatively impact U.S. economic activity as a whole, which would likely reduce the demand for our products in the United States. In addition, such factors could also impact the economic health of other regions and reduce the demand for our products in our other global markets.

Further, we are dependent upon the European market as a significant revenue source. In the event the economies of European Union countries decline as a result of turmoil in the European financial markets over the uncertain repayment of debt obligations by various European Union members, or for any other reason, this decline could have a material adverse effect on our business, financial condition and results of operations.

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

We face significant risks from doing business internationally.

Our business is subject to risks inherent in conducting business globally. For the years ended January 2, 2016, January 3, 2015, and December 28, 2013, our international revenues accounted for approximately 61.6%, 61.9% and 61.0%, respectively, of total net sales, with a substantial portion of such sales originating in Europe, Japan and China. We expect that international revenues will continue to account for a significant percentage of total net sales for the foreseeable future, and that in particular, the proportion of our sales to Asian customers will continue to increase. Additionally, we have substantial international manufacturing, sales and administrative operations, with significant facilities and employee populations in Austria, China, France, Germany, Israel, Japan and Romania. Our international operations expose us to various risks, which include:

- adverse changes or instability in the political or economic conditions in countries or regions where we manufacture or sell our products;
- challenges of administering our diverse business and product lines globally;
- the actions of government regulatory authorities, including embargoes, import and export restrictions, tariffs, currency controls, trade restrictions and trade barriers, license requirements, environmental and other regulatory requirements and other rules and regulations applicable to the manufacture, import and export of our products, all of which are complicated and potentially conflicting, often require significant investments in cost, time and resources for compliance, and may impose strict and severe penalties for noncompliance;
- greater risk of violations of applicable U.S. and international anti-corruption laws by our employees, sales representatives, distributors or other agents;
- longer accounts receivable collection periods;

Table of Contents

- overlapping, differing or more burdensome tax structures;
- adverse currency exchange rate fluctuations;
- reduced or inconsistent protection of intellectual property;
- shipping and other logistics complications;
- more complex and burdensome labor laws and practices in countries where we have employees;
- cultural and management style differences;
- preference for locally-produced products;
- difficulties in staffing and managing each of our individual international operations; and
- increased risk of exposure to civil unrest, terrorist and military activities.

In particular, we have significant facilities and operations and a considerable number of employees in Israel. A number of our products are manufactured in facilities located in Israel. The Middle East remains a volatile region, and the future of peace efforts between Israel and neighboring countries remains extremely uncertain. Any armed conflicts or significant political instability in the region is likely to negatively affect business conditions and could significantly disrupt our operations in Israel, which would negatively impact our business. Further, many of our employees in Israel are subject to being called for active duty under emergency circumstances. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time, and our operations in Israel could be disrupted by the absence of one or more key employees or a significant number of other employees for a significant period of time. Any such disruption could adversely affect our business.

Further, fluctuations in currency exchange rates could result in declining profit margins for our products in international markets when the sales are translated into U.S. dollars, unless we act to increase the sales price in local currencies of our products in these markets, potentially making our products less price competitive. Such exchange rate fluctuations could also increase the costs and expenses of our non-U.S. operations when

translated into U.S. dollars or require us to modify our current business practices. If we experience any of the risks associated with international business, our business, financial condition and results of operations could be significantly harmed.

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

A significant portion of our current and expected future business comes from sales of products and subsystems to manufacturers of semiconductor fabrication, inspection and metrology equipment. The semiconductor capital equipment market has historically been characterized by sudden and severe cyclical variations in product supply and demand. The timing, severity and duration of these market cycles are difficult to predict, and we may not be able to respond effectively to these cycles. For example, this market experienced a severe down-cycle from mid-year 2007 to mid-year 2009 and again from mid-2011 to late 2013, which in each case had a significant negative impact on our operating results. The continued cyclical nature of this market limits our ability to predict our business prospects or financial results in this market.

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

Table of Contents

A limited number of customers account for a significant portion of our overall sales to the microelectronics market and our sales of optics and lens assemblies to the defense market, and if we lose any of these customers or they significantly curtail their purchases of our products, our business, financial condition and results of operations would be harmed significantly.

Our sales to the microelectronics market (which is comprised primarily of semiconductor capital equipment customers) constituted 24.9%, 25.4% and 23.4% of our consolidated net sales for the years 2015, 2014 and 2013, respectively. We rely on a limited number of customers for a significant portion of our sales to this market. Our top five customers in this market comprised approximately 58.6%, 60.7% and 55.5% of our sales to this market for the years 2015, 2014 and 2013, respectively, with two customers making up a substantial portion of such percentage in each of these years. No single customer in this market comprised 10% or more of our consolidated net sales in 2015, 2014 or 2013. If any of our principal customers discontinues its relationship with us, replaces us as a vendor for certain products or suffers downturns in its business, our business and results of operations would be harmed significantly. In addition, because a relatively small number of companies dominate the semiconductor equipment portion of this market, and because those companies rarely change vendors in the middle of a product's life cycle, it may be particularly difficult for us to replace these customers if we lose their business.

The microelectronics market is characterized by rapid technological change, frequent product introductions, changing customer requirements and evolving industry standards. Because our customers face uncertainties with regard to the growth and requirements of these markets, their products and components may not achieve, or continue to achieve, anticipated levels of market acceptance. If our customers are unable to deliver products that gain market acceptance, it is likely that these customers will not purchase our products or will purchase smaller quantities of our products. We often invest substantial resources in developing our products and subsystems in advance of significant sales of these products and subsystems to such customers. A failure on the part of our customers' products to gain market acceptance, or a failure of the microelectronics market to grow would have a significant negative effect on our business, financial condition and results of operations.

Additionally, we generate a significant amount of revenue from sales of infrared optics and lens assemblies to a limited number of customers in the defense market. Typically, these customers purchase products utilizing prime contracts or subcontracts under large, long-term government defense programs. Although long-term, these programs and subcontracts will ultimately expire or may be terminated prior to expiration under certain circumstances. Upon expiration or termination, our customers may not elect to enter into additional contracts with us, or the government programs under which these contracts were issued may also end. In the event that any of these contracts terminates or expires and is not renewed and we fail to replace it with a comparable revenue source, our business, financial condition and results of operations will be harmed significantly.

Difficulties in finding suitable acquisition targets and in successfully completing and integrating our acquisitions could harm our business, results of operations and cash flows.

We have acquired and will continue to acquire businesses, and our ability to successfully identify suitable acquisition targets, complete acquisitions on acceptable terms, and efficiently and effectively integrate our acquired businesses into our organization is critical to our growth. We may not be able to identify target companies that meet our strategic objectives or successfully negotiate and complete acquisitions with companies we have identified on acceptable terms. Additionally, the credit agreement we entered into in connection with our secured credit facility only permits us to make acquisitions under certain circumstances, and restricts our ability to incur additional indebtedness, which limits to some extent our ability to make such acquisitions and investments. Further, the process of integrating acquired companies into our operations requires significant resources and is time consuming, expensive and disruptive to our business. We may not realize the benefits we anticipate from these acquisitions because of the following significant challenges:

- potentially incompatible cultural differences between the two companies;
- incorporating the acquired company's technology and products into our current and future product lines, and successfully generating market demand for these expanded product lines;
- potential additional geographic dispersion of operations;
- the diversion of our management's attention from other business concerns;
- the difficulty in achieving anticipated synergies and efficiencies;

Table of Contents

- the difficulty in integrating disparate operational and information systems;
- unanticipated liabilities associated with the acquired company;
- the difficulty in leveraging the acquired company's and our combined technologies and capabilities across our product lines and customer base;
- potential sales disruptions as a result of integrating the acquired company's sales channels with our sales channels; and
- our ability to retain key customers, suppliers and employees of an acquired company.

Our failure to successfully identify suitable target companies, negotiate and complete acquisitions, or achieve the anticipated benefits of any past or future acquisition or to successfully integrate and/or manage the operations of the companies we acquire could harm our business, results of operations and cash flows.

We may incur significant charges in future periods to reflect additional costs associated with past acquisitions.

We may incur significant charges in future periods to reflect additional costs associated with past acquisitions, including asset impairment charges and other costs related to divestiture of acquired assets or businesses. Such charges could also include impairment of goodwill associated with past acquisitions. For example, 2012 sales by our former Ophir Division were below the levels that we had originally forecasted. As a result of those sales levels and other factors, in the course of our annual evaluation of the goodwill and other intangible assets associated with our reporting units in the fourth quarter of 2012, we determined that goodwill and certain intangible and other assets associated with our former Ophir Division were impaired. We therefore recorded an impairment charge of \$130.9 million to write down the goodwill and certain intangible and other assets associated with that division. We believe that the assumptions we use in evaluating the goodwill associated with our business are reasonable; however, we may be required to recognize goodwill impairment charges in the future as a result of subsequent changes to the factors underlying such assumptions, and as a result of the criteria we are required to utilize in assessing whether impairment has occurred.

The terms of our secured credit facility impose significant financial obligations and risks upon us, limit our ability to take certain actions, and could discourage a change in control.

Edgar Filing: NEWPORT CORP - Form 10-K

On July 18, 2013, we entered into a credit agreement with certain lenders, pursuant to which we obtained a new secured credit facility (credit facility) to refinance our prior credit facility. The credit facility consists of a revolving credit facility of \$275 million with a term of five years. The credit agreement also provides us with the option to increase the aggregate principal amount of our loans in the form of additional revolving loans or a separate tranche of term loans, in an aggregate amount that does not exceed \$50 million, in each case subject to certain terms and conditions contained in the credit agreement. Our ability to borrow funds under the credit facility is subject to certain conditions, including compliance with certain covenants and the continued accuracy of certain representations and warranties. Our obligations under the credit facility are collateralized by a security interest in substantially all of our assets and the assets of our U.S. subsidiaries, as well as a pledge of certain shares we hold in our non-U.S. subsidiaries.

The credit agreement requires compliance with certain financial covenants, including maintaining specific financial ratios. These ratios are based in part on our Consolidated Adjusted EBITDA, as defined in the credit agreement. Our ability to continue to meet these financial ratios and tests will be dependent upon our future performance, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control. In the event that we are unable to generate the levels of Consolidated Adjusted EBITDA required to maintain compliance with such financial covenants, our borrowing capacity under the credit facility will be reduced, and we may be required to dedicate a significant portion of our cash flow from operations and other capital resources to reduce our indebtedness under the credit facility, thereby reducing our ability to fund working capital, capital expenditures, research and development and other cash requirements.

The credit agreement and related documents also contain covenants that limit our ability to take certain actions, including, among other things, our ability to:

- materially change the nature of our business;
- enter into transactions with affiliates;
- incur or guarantee indebtedness;

Table of Contents

- pay dividends or repurchase stock;
- merge, dissolve, liquidate or consolidate with or into another entity;
- consummate asset sales, acquisitions or mergers;
- prepay certain other indebtedness; or
- make investments.

These covenants restrict our ability to engage in or benefit from these actions, thereby limiting our flexibility in planning for, or reacting to, changes and opportunities in the markets in which we compete, such as limiting our ability to engage in mergers and acquisitions. This could place us at a competitive disadvantage.

The credit agreement contains customary events of default, including:

- failure to make required payments;
- failure to comply with certain agreements or covenants;
- failure to pay, or default permitting acceleration of, certain other indebtedness;
- certain events of bankruptcy and insolvency; and
- failure to pay certain judgments.

Our ability to repay any amounts owed under the credit facility will depend upon our future cash balances. The amount of cash available for repayment of these amounts will depend on our usage of our existing cash balances and our operating performance and ability to generate cash flow from operations in future periods, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control. We cannot provide any assurances that we will generate sufficient cash flow from operations to service our debt obligations. Any failure to repay these obligations as they become due would result in an event of default under the credit agreement.

If an event of default occurs, the lenders may end their obligation to make loans to us under the credit facility, and the lenders may declare any outstanding indebtedness under the credit agreement immediately due and payable. In such case, we would need to obtain additional financing or significantly deplete our available cash, or both, in order to repay this indebtedness. Any additional financing may not be available on reasonable terms or at all, and significant depletion of our available cash could harm our ability to fund our operations or execute our broader corporate objectives.

Further, if we were unable to repay outstanding indebtedness following an event of default, then in addition to other available rights and remedies, the lenders could initiate foreclosure proceedings on substantially all of our assets. Any such foreclosure proceedings or other rights and remedies successfully implemented by the lenders in an event of default would have a material adverse effect on our business, financial condition and results of operations.

Many of the markets and industries that we serve are subject to rapid technological change, and if we fail to introduce new and innovative products or improve our existing products, our business, financial condition and results of operations will be harmed.

Many of our markets are characterized by rapid technological advances, evolving industry standards, shifting customer needs, new product introductions and enhancements, and the periodic introduction of disruptive technology that displaces current technology due to a combination of price, performance and reliability. As a result, many of the products in our markets can become outdated quickly and without warning. We depend, to a significant extent, upon our ability to enhance our existing products, to anticipate and address the demands of the marketplace for new and improved and disruptive technologies, either through internal development or by acquisitions, and to be price competitive. If we or our competitors introduce new or enhanced products, it may cause our customers to defer or cancel orders for our existing products. If we or our competitors introduce disruptive technology that displaces current technology, existing product platforms or lines of business from which we generate significant revenue may be rendered obsolete. In addition, because certain of our markets experience severe cyclicity in capital spending, if we fail to introduce new products in a timely manner we may miss market upturns, or may fail to have our products or subsystems designed into our customers' products. We may not be successful in acquiring, developing, manufacturing or marketing new products and technologies on a timely or cost-effective basis. If we fail to adequately introduce new, competitive products and technologies on a timely basis, our business, financial condition and results of operations will be harmed.

Table of Contents

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

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

Uncertainty in the adoption or growth of emerging applications could reduce the revenue growth we expect to generate from these applications.

We are constantly investing in products for emerging applications, and we expect to generate increasingly significant revenue levels from sales of products for these applications. For example, we have developed ultrafast lasers for ophthalmic surgery, infrared optics for thermal imaging cameras and automobile night vision systems, precision motion subsystems for equipment used to manufacture and inspect 450 mm semiconductor wafers, and three-dimensional dental CAD/CAM scanners for manufacturing dental restorations. These applications are evolving, and the extent to which they achieve widespread adoption or significant growth is uncertain. Many factors may affect the viability of widespread adoption or growth of these applications, including their cost-effectiveness, performance and reliability compared to alternatives. If these applications or our products for these applications are not widely adopted or fail to grow as we project, we will not generate the revenue growth we anticipate from sales of our products for these emerging applications, and our results of operations could be harmed.

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

Many of our products are complex, and customers for these products require substantial time to qualify our products and make purchase decisions. In addition, some of our sales to defense and security customers are under major defense programs that involve lengthy competitive bidding and qualification processes. These customers often perform, or require us to perform, extensive configuration, testing and evaluation of our products before committing to purchasing them, which can require a significant upfront investment by us. The sales cycle for these products from initial contact through shipment varies significantly, is difficult to predict and can last more than one year. If we fail to anticipate the likelihood, costs, or timing associated with sales of these products, our business and results of operations would be harmed.

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

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

Because many of our products are sophisticated and complex, they can be difficult to design and manufacture, and we may experience delays in introducing new products or enhancements to our existing products. If we do not introduce our new products or enhancements into the marketplace in a timely fashion, our customers may choose to purchase our competitors' products. In addition, because certain of our OEM customers rarely change vendors during a product life cycle, if we fail to timely introduce new products and have them designed into our customers' new products at the beginning of such cycle, we may be foreclosed from selling those products until their introduction of a next-generation product. As such, our inability to introduce new or enhanced products in a timely manner could have a material adverse effect on our business, results of operations and financial condition.

Table of Contents

We face substantial competition, and if we fail to compete effectively, our business, financial condition and operating results will be harmed.

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

If we fail to protect our intellectual property and proprietary technology, we may lose our competitive advantage and our business, financial condition and results of operations could be harmed.

Our success and ability to compete depend in large part upon protecting our proprietary technology. We rely on a combination of patent, trademark and trade secret protection and nondisclosure agreements to protect our proprietary rights. The steps we have taken may not be sufficient to prevent the misappropriation of our intellectual property, particularly in countries outside the United States, where the laws may not protect our proprietary rights as fully as in the United States. Patent and trademark laws and trade secret protection may not be adequate to deter third party infringement or misappropriation of our patents, trademarks and similar proprietary rights. In addition, patents issued to us may be challenged, invalidated or circumvented. Our rights granted under those patents may not provide competitive advantages to us, and the claims under our patent applications may not be allowed. We have in the past and may in the future be subject to or may initiate interference proceedings in the United States Patent and Trademark Office, which can demand significant financial and management resources. The process of seeking patent protection can be time consuming and expensive and patents may not be issued from currently pending or future applications. Moreover, our existing patents or any new patents that may be issued may not be sufficient in scope or strength to provide meaningful protection or any commercial advantage to us. We may initiate claims or litigation against third parties for infringement of our proprietary rights in order to determine the scope and validity of our proprietary rights or the proprietary rights of our competitors, which claims could result in costly litigation, the diversion of our technical and management personnel and the assertion of counterclaims by the defendants, including counterclaims asserting invalidity of our patents. We will take such actions where we believe that they are of sufficient strategic or economic importance to us to justify the cost. For example, in 2012 we filed a lawsuit against Lighthouse Photonics Incorporated asserting infringement of certain of our patents by that company's laser products, which we settled on confidential terms in August 2014. If we are unsuccessful at effectively protecting our intellectual property, our business, financial condition and results of operations could be harmed.

On September 16, 2011, the Leahy-Smith America Invents Act (the Leahy-Smith Act) was signed into law. The Leahy-Smith Act includes a number of significant changes to the U.S. patent laws, such as changing from a first to invent to a first inventor to file system, establishing new procedures for challenging patents and establishing different methods for invalidating patents. The U.S. Patent and Trademark Office is still in the process of implementing regulations relating to these changes, and the courts have yet to address many of the new provisions of the Leahy-Smith Act. Some of these changes or potential changes may not be advantageous to us, and it may become more difficult to obtain adequate patent protection or to enforce our patents against third parties. While we cannot predict the impact of the Leahy-Smith Act at this time, these changes or potential changes could increase the costs and uncertainties surrounding the prosecution of our patent applications and adversely affect our ability to protect our intellectual property and proprietary technology.

We have experienced, and may in the future experience, intellectual property infringement claims, which could be costly and time consuming to defend and may produce outcomes that could have a material adverse effect on our business, financial condition or results of operations.

We have from time to time received claims from third parties alleging that we are infringing certain trademarks, patents or other intellectual property rights held by them. Such infringement claims have in the past and may in the future result in litigation. For example, in 2008, Graywire, LLC filed a patent infringement case against us and other companies

Table of Contents

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

Our failure to successfully manage the transition of certain of our manufacturing operations to other locations and/or to contract manufacturers could harm our business, financial condition and results of operations.

As part of our ongoing cost-reduction efforts, we continue to relocate the manufacture of certain of our existing product lines and subassemblies to, and initiate the manufacture of certain new products in, our facilities in Wuxi, China, Jerusalem, Israel and Bucharest, Romania and selected contract manufacturers in Asia. We also recently completed the relocation of the manufacture of certain infrared optics and lens assemblies from our facility in North Andover, Massachusetts to our facility in Irvine, California. If we are unable to successfully manage the relocation or initiation of the manufacture of these products, our business, financial condition and results of operations could be harmed.

In particular, transferring product lines to other manufacturing locations and/or to our contract manufacturers' facilities often requires us to transplant complex manufacturing equipment and processes across a large geographical distance and to train a completely new workforce concerning the use of this equipment and these processes. In addition, certain of our customers may require the requalification of products supplied to them in connection with the relocation of manufacturing operations. If we are unable to manage this transfer and training smoothly and comprehensively, or if we are unable to complete the requalification of products in a timely manner, we could suffer manufacturing and supply chain delays, excessive product defects, harm to our results of operations and our reputation with our customers, and loss of customers. We also may not realize the cost and tax advantages that we currently anticipate from locating operations in China, Israel and Romania. For example, we are experiencing rising material, labor and shipping costs and rapidly changing regulations in China.

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

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

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

Our products and technology are subject to international export regulations in the various countries where they are manufactured or developed. For example, exports of our products and technology developed or manufactured in the U.S. are subject to export controls imposed by the U.S. Government and administered by the U.S. Departments of Commerce, State and Treasury. Similar export regulations govern exports of our products and technology developed or manufactured in certain other countries, including Austria, France, Germany, Israel and Romania. In certain instances, these regulations may require obtaining licenses from the administering agency prior to exporting products or technology to international locations or foreign nationals, including foreign nationals employed by us in the United States and abroad. For products and technology subject to the U.S. Export Administration Regulations administered by the U.S. Department of Commerce s

Table of Contents

Bureau of Industry and Security, the requirement for a license is dependent on the type and end use of the product and technology, the final destination and the identity and nationality of the end user. Virtually all exports from the United States of defense articles subject to the International Traffic in Arms Regulations, administered by the Department of State's Directorate of Defense Trade Controls, require a license. The Israeli Ministry of Economy and the Defense Export Control Agency of the Israeli Ministry of Defense administer similar export regulations and license requirements, which apply to many of our products and technology developed or manufactured in Israel. Obtaining export licenses can be difficult and time-consuming, and we may not be successful in obtaining them. Failure to obtain export licenses to enable product and technology exports could reduce our revenue, harm our relationships with our customers and could adversely affect our business, financial condition and results of operations. Compliance with export regulations may also subject us to additional fees and costs. The absence of comparable export restrictions on competitors in other countries may adversely affect our competitive position. In addition, if we or our international representatives or distributors fail to comply with any of these export regulations, we or they could be subject to civil and criminal, monetary and non-monetary penalties, disruptions to our business, restrictions on our ability to export products and technology and damage to our reputation, and our business and results of operations could be harmed.

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

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

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

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

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

Our products could contain defects, which would increase our costs and seriously harm our business, operating results, financial condition and customer relationships.

Many of our products, especially our laser products, opto-mechanical subassemblies and precision positioning systems, are inherently complex in design and, in some cases, require ongoing regular maintenance. Further, the manufacture of these products often involves a highly complex and precise process and the utilization of specially qualified components that conform to stringent specifications. As a result of the technical complexity of these products, design defects, changes in our or our suppliers' manufacturing processes or the inadvertent use of defective or nonconforming materials by us or

Table of Contents

our suppliers could adversely affect our manufacturing yields and product reliability. This could in turn harm our business, operating results, financial condition and customer relationships.

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

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

- loss of customers;
- increased costs of product returns and warranty expenses;
- increased costs required to analyze and mitigate the defects or problems;
- damage to our reputation;
- failure to attract new customers or achieve market acceptance;
- diversion of development and engineering resources; and/or
- legal action by our customers.

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

Our products are subject to potential product liability claims which, if successful, could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

If we are unable to assert each year that our internal control over financial reporting is effective, or if our auditors are unable to attest that our internal control over financial reporting is effective, we could lose investor confidence in the

Table of Contents

accuracy and completeness of our financial reports, and we may be unable to file such reports in a timely manner, which would have an adverse effect on our stock price. In addition, if any unidentified material weaknesses were to result in fraudulent activity and/or a material misstatement or omission in our financial statements, we could suffer losses and be subject to civil and criminal penalties and litigation, all of which could have a material adverse effect on our business, financial condition and results of operations.

Compliance with environmental regulations and potential environmental liabilities could have a material adverse effect on our business, financial condition or results of operations.

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

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

Certain portions of the soil at Spectra-Physics' former facility located in Mountain View, California, and certain portions of the aquifer surrounding the facility, through which contaminated groundwater flowed, are part of an EPA-designated Superfund site and are subject to a cleanup and abatement order from the California Regional Water Quality Control Board. Spectra-Physics, which we acquired in 2004 and merged into Newport in 2007, along with several other entities with facilities located near the Mountain View, California facility, were identified as Responsible Parties with respect to this Superfund site, due to releases of hazardous substances during the 1960s, 1970s and 1980s. Spectra-Physics and the other Responsible Parties entered into a cost-sharing agreement covering the costs of remediating the off-site groundwater impact. The site is mature, and investigations, monitoring and remediation efforts by the Responsible Parties have been ongoing for approximately 30 years. However, we may be subject to additional remediation obligations in the future if the EPA and the California Regional Water Quality Control Board determine that the site has generated additional environmental contamination, or if more rigorous standards for environmental contamination are enacted or approved. In addition to our investigation, monitoring and remediation obligations, we may be liable for property damage or personal injury claims relating to this site. While we are not aware of any material claims at this time, such claims could be made against us in the future. We have certain ongoing costs related to investigation, monitoring and remediation of the site that have been fairly consistent and not material in the recent past. However, our ultimate costs of remediation and other potential liabilities are difficult to predict. If significant costs or other liability relating to this site arise in the future, our business, financial condition and results of operations could be adversely affected.

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

Governmental entities at all levels are continuously enacting new environmental regulations, and it is initially difficult to anticipate how such regulations will be implemented and enforced. We continue to evaluate the requirements for compliance with such regulations as they are enacted. For example, the European Union has enacted the Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Directive (RoHS) and the Waste Electrical and Electronic Equipment Directive (WEEE) for implementation in each European Union member country. RoHS regulates the use of certain hazardous substances in certain products, and WEEE requires the collection, reuse and recycling of waste from certain products. Effective January 2013, RoHS was recast to expand the scope of equipment subject to the directive and impose new compliance requirements, and most European Union member states implemented the recast

Table of Contents

directive during 2013. WEEE was also recast to expand the scope of equipment subject to the directive and impose increased combined reuse/recycling and collection targets, among other revisions, and European Union member states began to implement the recast directive in 2014. Certain of our products sold in these countries are or will become subject to RoHS and WEEE requirements. We will continue to monitor RoHS and WEEE guidance in individual jurisdictions to determine our responsibilities. In some instances, we are not directly responsible for compliance with RoHS and WEEE because certain of our products are currently outside the scope of the directives. However, because the scope of the directives continues to expand, we will likely be directly or contractually subject to certain provisions of such regulations in the case of many of our products. In addition, certain of our customers, particularly OEM customers whose end products may be subject to these directives, may require that the products we supply to them comply with these directives. Further, final legislation from individual jurisdictions that have not yet implemented the directives may impose different or additional responsibilities upon us. We are also aware of similar legislation that is currently in force or being considered in various states within the United States, as well as other countries, such as Japan, China and South Korea. These regulations may require us to redesign our products or source alternative components to ensure compliance with applicable requirements, for example by mandating the use of different types of materials in certain components. Any such redesign or alternative sourcing may increase the cost of our products, adversely impact the performance of our products, add greater testing lead-times for product introductions, or in some cases limit the markets for certain products. Our failure to comply with any of such regulatory requirements or contractual obligations could result in our being directly or indirectly liable for costs, fines or penalties and third-party claims, and could jeopardize our ability to conduct business in certain countries.

Difficulties with our global information technology systems, and/or unauthorized access to such systems, could harm our business.

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

In connection with our daily business transactions, we store data about our business, including certain customer and employee data, on our global information technology systems. While our systems are designed with security measures to prevent unauthorized access, third parties may gain unauthorized access to our systems. This unauthorized access could take the form of intentional misconduct by computer hackers, employee error, employee malfeasance or otherwise. Additionally, third parties may attempt to fraudulently induce employees or customers into disclosing sensitive information such as user names, passwords or other information, in order to gain access to our information technology system for the purpose of sabotage, or to access our data, including our and our customers' intellectual property and other confidential business and employee information. Because the techniques used to obtain unauthorized access to information technology systems evolve frequently and generally are not recognized until successful, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any security breach could result in disruption to our business, misappropriation or loss of data, loss of confidence in us by our customers, damage to our reputation, legal liability and a negative impact on our business and results of operations.

Regulations related to conflict minerals may cause us to incur additional expenses and could limit the supply and increase the cost of certain metals used in manufacturing our products.

Edgar Filing: NEWPORT CORP - Form 10-K

In August 2012, the SEC adopted a rule requiring disclosures of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured by public companies. The rule requires companies to verify and disclose whether or not such minerals originate from the Democratic Republic of Congo or an adjoining country. To comply with this rule, we are required to conduct a reasonable country of origin inquiry each year and, depending on the results of that inquiry, we may be required to exercise due diligence on the source and chain of custody of conflict minerals contained in our products. Such due diligence must conform to a nationally or internationally recognized due diligence framework. We are required to file a disclosure report with the SEC in May of each year relating to the preceding calendar year. In addition, in the future, to the extent that we are required to

Table of Contents

exercise due diligence on the source and chain of custody of conflict minerals, we may be required to obtain an independent private sector audit of our disclosure report and underlying due diligence measures.

The due diligence activities required to determine the source and chain of custody of minerals contained in our products are time consuming and may result in significant costs. Due to the size and complexity of our supply chain, we face significant challenges in verifying the origins of the minerals used in our products. Further, this rule could affect the availability in sufficient quantities and at competitive prices of certain minerals used in the manufacture of our products, including tantalum, tin, gold and tungsten. There may be only a limited number of sources of conflict-free minerals, which could result in increased material and component costs, as well as additional costs associated with potential changes to our products, processes or sources of supply.

If we are unable to sufficiently verify the origin of the minerals used in our products through the due diligence measures that we implement, or if, when required, we are unable to obtain an audit report each year that concludes that our due diligence measures are in conformity with the criteria set forth in the relevant due diligence framework, our reputation could be harmed. In addition, we may not be able to satisfy customers who require that our products be certified as conflict-free, which could place us at a competitive disadvantage.

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

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

Table of Contents**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.

ITEM 2. PROPERTIES

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

Operating Group	Primary Facility Locations	Approximate Facility Size
Photonics	Irvine, California	148,000 square feet
	Bozeman, Montana	21,000 square feet
	North Logan, Utah	18,000 square feet
	Santa Clara, California	13,000 square feet
	Beaune-la Rolande, France	86,000 square feet
	Jerusalem, Israel	45,000 square feet
	Brigueuil, France	44,000 square feet
	Wuxi, China	30,000 square feet
Lasers	Santa Clara, California	126,000 square feet
	Rankweil, Austria	29,000 square feet
	Vienna, Austria	17,000 square feet
	Stahnsdorf, Germany	12,000 square feet
	Tel Aviv, Israel	11,000 square feet
Optics	Irvine, California	85,000 square feet
	Rochester, New York	58,000 square feet
	Franklin, Massachusetts	56,000 square feet
	Jerusalem, Israel	36,000 square feet
	Bucharest, Romania	30,000 square feet
	Wuxi, China	12,000 square feet

Certain of the facilities shown in the table above are shared by our operating groups and corporate functions. We own portions of our Rochester, New York and Jerusalem, Israel facilities, and we own our Beaune-la Rolande and Brigueuil, France facilities. We lease all of our other primary manufacturing facilities, as well as a number of other facilities worldwide for administration, sales and/or service, under leases with expiration dates ranging from 2016 to 2026. We believe that our facilities are adequate for our current needs and that, if required, we will be able to extend or renew our leases, or locate suitable substitute space, on commercially reasonable terms as our leases expire. We also believe that suitable additional space will be available on commercially reasonable terms in the future to accommodate expansion of our operations.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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

Our common stock is traded on the NASDAQ Global Select Market under the symbol NEWP. As of February 19, 2016, we had 739 common stockholders of record based upon the records of our transfer agent, which do not include beneficial owners of common stock whose shares are held in the names of various securities brokers, dealers and registered clearing agencies. The following table reflects the high and low sales prices of our common stock for each quarterly period during the last two fiscal years:

Quarter Ended		High		Low
January 2, 2016	\$	17.08	\$	13.40
October 3, 2015		18.88		13.23
July 4, 2015		20.85		18.14
April 4, 2015		20.48		17.54
January 3, 2015		19.65		16.06
September 27, 2014		19.39		16.93
June 28, 2014		21.51		17.39
March 29, 2014		21.80		17.10

Dividends

We did not declare any dividends on our common stock during 2015 or 2014. We do not have any present plans to pay cash dividends in the foreseeable future; however, our Board of Directors will periodically review this issue in the future based on our financial position, operating results, cash needs and investment opportunities, as well as any changes in the tax treatment of dividends. The terms of the senior secured credit facility that we entered into in July 2013 permit us to pay dividends during the term of such facility, subject to certain conditions and limitations.

Purchases of Equity Securities

We made no purchases of our equity securities during the fourth quarter of the year ended January 2, 2016.

Table of Contents

Stock Performance Graph

The following graph compares the cumulative total stockholder return on \$100 invested in our common stock for the five years ended January 2, 2016, with the cumulative total return on \$100 invested in each of (i) the Nasdaq Market Index, and (ii) our peer group. The graph assumes all investments were made at market value on January 1, 2011 and the reinvestment of all dividends.

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

**COMPARISON OF FIVE-YEAR CUMULATIVE RETURN AMONG
NEWPORT CORPORATION, NASDAQ MARKET INDEX AND PEER GROUP**

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

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

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

(In thousands, except per share data and percentages)	For the Year Ended (1)				
	January 2, 2016 (2)	January 3, 2015 (3)	December 28, 2013	December 29, 2012 (4)	December 31, 2011 (5)
Net sales	\$ 602,691	\$ 605,150	\$ 560,054	\$ 595,346	\$ 545,054
Cost of sales	340,171	334,394	322,341	334,758	305,325
Gross profit	262,520	270,756	237,713	260,588	239,729
Selling, general and administrative expense	155,531	158,646	149,183	159,347	140,636
Research and development expense	58,512	58,432	52,524	52,714	45,270
Loss (gain) on sale or other disposal of assets, net (6)	1,088	1,913	4,725	(166)	
Impairment charges (7)				130,853	
Operating income (loss)	47,389	51,765	31,281	(82,160)	53,823
Recovery of note receivable and other amounts related to previously discontinued operations, net (8)					619
Foreign currency translation gain from dissolution of subsidiary (9)					7,198
Gain on sale of investments (10)				6,248	
Loss on extinguishment of debt (11)			(3,355)		(582)
Interest expense	(2,314)	(2,358)	(5,464)	(8,183)	(10,598)
Other (expense) income, net	(2,009)	(1,727)	(1,026)	(376)	48
Income (loss) before income taxes	43,066	47,680	21,436	(84,471)	50,508
Income tax provision (benefit) (12)	11,945	12,510	5,698	5,479	(29,154)
Net income (loss)	31,121	35,170	15,738	(89,950)	79,662
Net income (loss) attributable to non-controlling interest		112	137	(527)	(46)
Net income (loss) attributable to Newport Corporation	\$ 31,121	\$ 35,058	\$ 15,601	\$ (89,423)	\$ 79,708
<i>Net income (loss) per share attributable to Newport Corporation:</i>					
Basic	\$ 0.79	\$ 0.88	\$ 0.40	\$ (2.35)	\$ 2.13
Diluted	\$ 0.78	\$ 0.87	\$ 0.39	\$ (2.35)	\$ 2.06
<i>Shares used in computation of income (loss) per share:</i>					
Basic	39,221	39,750	39,010	38,133	37,407
Diluted	39,830	40,528	39,558	38,133	38,673
<i>Percentage of net sales:</i>					
Gross profit	43.6%	44.7%	42.4%	43.8%	44.0%
Selling, general and administrative expenses	25.8%	26.2%	26.6%	26.8%	25.8%
Research and development expense	9.7%	9.6%	9.4%	8.8%	8.3%
Operating income (loss)	7.9%	8.6%	5.6%	(13.8)%	9.9%
Net income (loss)	5.2%	5.8%	2.8%	(15.1)%	14.6%
Net income (loss) attributable to Newport Corporation	5.2%	5.8%	2.8%	(15.0)%	14.6%

Table of Contents

(In thousands, except employment figures and per share data)	As of or for the Year Ended				
	January 2, 2016	January 3, 2015	December 28, 2013	December 29, 2012	December 31, 2011
BALANCE SHEET INFORMATION:					
Cash and cash equivalents, restricted cash and marketable securities	\$ 42,399	\$ 48,644	\$ 64,234	\$ 100,372	\$ 72,855
Working capital	\$ 182,408	\$ 191,654	\$ 198,280	\$ 209,842	\$ 178,598
Total assets	\$ 576,643	\$ 579,927	\$ 565,229	\$ 620,961	\$ 764,069
Short-term borrowings	\$ 3,121	\$ 3,772	\$ 4,861	\$ 32,985	\$ 45,149
Long-term borrowings (includes borrowings under capital leases)	\$ 74,268	\$ 71,037	\$ 84,263	\$ 151,564	\$ 179,008
Stockholders' equity of Newport Corporation	\$ 367,513	\$ 356,704	\$ 326,968	\$ 289,432	\$ 370,258
MISCELLANEOUS STATISTICS:					
Common shares outstanding at year end	38,626	39,604	39,394	38,402	37,634
Average worldwide employment	2,523	2,498	2,441	2,468	2,116
Sales per employee	\$ 239	\$ 242	\$ 229	\$ 241	\$ 258
Total stockholders' equity per diluted share	\$ 9.23	\$ 8.80	\$ 8.27	\$ 7.59	\$ 9.57

(1) We use a 52/53-week accounting fiscal year. Our fiscal year ends on the Saturday closest to December 31, and our fiscal quarters end on the Saturday that is generally closest to the end of each corresponding calendar quarter. Fiscal year 2015 (referred to herein as 2015) ended on January 2, 2016, fiscal year 2014 (referred to herein as 2014) ended on January 3, 2015, fiscal year 2013 (referred to herein as 2013) ended on December 28, 2013, fiscal year 2012 (referred to herein as 2012) ended on December 29, 2012 and fiscal year 2011 (referred to herein as 2011) ended on December 31, 2011. Fiscal year 2014 consisted of 53 weeks. All other fiscal years presented consisted of 52 weeks.

(2) On February 11, 2015 we acquired all of the outstanding capital stock of FEMTOLASERS Produktions GmbH for an aggregate purchase price of 7.2 million (approximately \$8.2 million). Our results of operations for 2015 included the results of operations of this business from the closing date of the acquisition.

(3) On September 29, 2014, we acquired all of the outstanding capital stock of V-Gen Ltd. for an aggregate purchase price of \$36.4 million. Our results of operations for 2014 included the results of operations of this business from the closing date of the acquisition.

(4) On January 13, 2012, we acquired all of the outstanding capital stock of ILX Lightwave Corporation for an aggregate purchase price of \$9.0 million, and on October 10, 2012, we acquired substantially all of the assets of Advanced Vibration Technologies, Inc. (a corporation doing business under the trade name of Vistek) for an aggregate purchase price of \$2.5 million. Our results of operations for 2012 included the results of operations of these businesses from the respective closing dates of the acquisitions.

(5) On July 29, 2011, we acquired all of the capital stock of High Q Technologies GmbH for an aggregate purchase price of \$18.5 million, and on October 4, 2011, we acquired all of the outstanding capital stock of Ophir Optronics Ltd. for an aggregate purchase price of \$242.3 million. Our results of operations for 2011 included the results of operations of these businesses from the respective closing dates of the acquisitions.

(6) During the first quarter of 2015, we entered into a plan to transfer the operations of our North Andover, Massachusetts facility to certain of our other facilities and to shut down manufacturing operations at that facility. In connection with this plan, we determined that the carrying value of leasehold improvements for the facility was not recoverable and recorded a loss of \$1.1 million. During the third quarter of 2013, we developed a plan to sell our advanced packaging systems business, and we completed the sale of this business in January 2014 for a price of \$6.0 million. In 2013, we wrote down the assets of this business, which were considered held for sale, to their net realizable value, resulting in a loss of \$4.7 million. In 2014, we recorded a gain of \$0.4 million to reduce the loss on the sale to \$4.3 million, based on the final terms of the transaction and the net assets of the business on the closing date. See further discussion in Note 2 of the Notes to Consolidated Financial Statements regarding the sale of this business. Also during 2014, we determined that we will no longer utilize certain software applications for which we had capitalized the application development costs, and we recognized a loss of \$2.3 million associated with the disposal of such assets. In 2012, we recognized a gain of \$0.2 million related to an earn-out associated the sale of our Hilger Crystals Limited subsidiary in 2010.

Table of Contents

(7) In 2012, we determined that goodwill and other assets related to our former Ophir Division were impaired and recorded impairment charges of \$130.9 million. Of these charges, \$67.8 million related to goodwill, \$62.6 million related to other acquired intangible assets and \$0.5 million related to fixed assets.

(8) In 2005, we sold our robotic systems operations to Kensington Laboratories LLC (Kensington) for \$0.5 million in cash and a note receivable of \$5.7 million, after adjustments provided for in the purchase agreement, and subleased the facility relating to such operations to Kensington. In 2008, due to uncertainty regarding collectability of such note receivable and amounts owed under the sublease, we wrote off such note receivable and other amounts owed in full. In 2011, we recognized \$0.6 million as a recovery of amounts due from Kensington, net of certain costs.

(9) In 2001, we established a financing structure through which we loaned our French subsidiary 16.6 million. In 2011, such financing structure was dissolved and, as a result, \$7.2 million that had previously been included in other comprehensive income was recognized as a foreign currency translation gain.

(10) We hold equity interests in privately-held corporations, which are accounted for using the cost method. During previous years, we reduced the carrying value of these investments to zero due to the corporations' poor financial condition. In 2012, one of these corporations was acquired in a merger transaction and we received \$5.3 million for our interest as a result of the acquisition, and another of these corporations redeemed its shares from us for \$1.0 million.

(11) In 2013, we terminated the credit agreement that we had entered into in October 2011 and repaid all amounts outstanding under the associated term loan. In connection with terminating this agreement, we recorded a loss on extinguishment of debt of \$3.4 million to write off the remaining deferred debt issuance costs associated with this agreement. In 2011, we extinguished \$114.4 million of the convertible subordinated notes that we had issued in February 2007 for \$115.0 million. After allocating \$1.5 million of the extinguished amount to the equity component of the notes, we recorded a loss of \$0.1 million on extinguishment of the debt, net of unamortized fees and debt discount. In addition, in 2011, our Ophir Optronics Ltd. subsidiary extinguished \$9.1 million of its publicly traded bonds at a price equal to 105.76% of the principal amount of the bonds, or \$9.6 million, resulting in a loss of \$0.5 million.

(12) We have previously established a valuation allowance against our deferred tax assets due to uncertainty as to the timing and ultimate realization of those assets. In 2011, we reduced such valuation allowance by \$41.7 million, due primarily to achieving a cumulative three-year net income position in the United States and expected future profitability. See further discussion in Note 10 of the Notes to Consolidated Financial Statements regarding our valuation allowance.

Table of Contents

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

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

Overview

We are a global supplier of advanced-technology products and systems, including lasers, photonics instrumentation, precision positioning and vibration isolation products and systems, optical components, subassemblies and subsystems, and three-dimensional non-contact measurement equipment. Our products are used worldwide in industries including scientific research, microelectronics, defense and security, life and health sciences and industrial markets. We develop, manufacture and market our products within three distinct operating groups: our Photonics Group, our Lasers Group and our Optics Group.

On February 22, 2016, we entered into an agreement and plan of merger (Merger Agreement) with MKS Instruments, Inc. (MKS) and its wholly owned subsidiary, PSI Equipment, Inc. (Merger Sub), pursuant to which Merger Sub will merge with and into Newport, with Newport surviving the merger as a wholly owned subsidiary of MKS, subject to the terms and conditions of the Merger Agreement, as discussed in more detail under the heading "Recent Events" beginning on page 2 and in Note 16 to the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K beginning on page F-40.

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

Acquisitions and Divestitures

Acquisition of FEMTOLASERS

Edgar Filing: NEWPORT CORP - Form 10-K

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 \$1.9 million, resulting in a purchase price of \$7.2 million (approximately \$8.2 million). 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 has expanded our offering of ultrafast laser products and enhanced our technology base in this area. The results of FEMTOLASERS following the acquisition date are included in the results of our Lasers Group in the accompanying financial statements.

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.

Acquisition of V-Gen

On September 29, 2014, we acquired all of the capital stock of V-Gen, Ltd. (V-Gen). The purchase price was \$36.4 million, of which \$35.6 million was allocated to the purchase price and \$0.8 million was allocated to the fair value of unearned compensation related to unvested stock options. The purchase price was paid in cash and consisted of an initial purchase price of \$34.0 million, plus an adjustment of \$2.4 million based on a calculation of V-Gen's net working capital and cash balances at the closing date. We incurred \$0.3 million in transaction costs, which have been expensed as incurred and are included in *selling, general and administrative expense* in the accompanying statements of income and

Table of Contents

comprehensive income. V-Gen has expanded our fiber laser products and our technology in this area. The results of V-Gen are included in the results of our Lasers Group in the accompanying financial statements.

Divestiture of Advanced Packaging Systems Business

During the third quarter of 2013, we developed a plan to sell our advanced packaging systems business and, based on negotiations for the sale of this business that occurred during the second half of 2013, we considered the assets and liabilities of this business as held for sale as of December 28, 2013. We completed the sale of this business in January 2014 for \$5.7 million, consisting of an initial sales price of \$6.0 million, less an adjustment of \$0.3 million based on the net assets of the business at closing. The initial sales price consisted of \$5.35 million in cash and an unsecured note receivable of \$0.65 million, and the net asset adjustment was repaid to the purchaser in cash. 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 accompanying statements of income and comprehensive income.

The net book value of this business was \$9.5 million as of December 28, 2013; however, because these assets were held for sale at such time, we wrote them down to their net realizable value as of December 28, 2013 based on the terms that had been negotiated with the purchaser and expected transaction costs, resulting in a loss of \$4.7 million during 2013. During the first quarter of 2014, we recorded a gain of \$0.4 million to reduce the loss on the sale to \$4.3 million, based on the final terms of the transaction and the net assets of the business on the closing date.

Fiscal Year End

We use a 52/53-week accounting fiscal year. Our fiscal year ends on the Saturday closest to December 31, and our fiscal quarters end on the Saturday that is generally closest to the end of each corresponding calendar quarter. Fiscal year 2015 (referred to herein as 2015) ended on January 2, 2016, fiscal year 2014 (referred to herein as 2014) ended on January 3, 2015 and fiscal year 2013 (referred to herein as 2013) ended on December 28, 2013. Fiscal year 2014 consisted of 53 weeks and fiscal years 2015 and 2013 consisted of 52 weeks.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our consolidated financial statements included in this Annual Report on Form 10-K, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We evaluate these estimates and assumptions on an ongoing basis. We base our estimates on our historical experience and on various other factors which we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the amounts of certain expenses that are not readily apparent from other sources. Our significant accounting policies are discussed in Note 1 (Organization and Summary of Significant Accounting Policies) of the Notes to Consolidated Financial Statements, included in Item 15 (Exhibits, Financial Statement Schedules) of this Annual Report on Form 10-K. The accounting policies that involve the most significant judgments, assumptions and estimates used in the preparation of our financial statements are those related to revenue recognition, allowances for doubtful accounts, pension plans, inventory reserves, warranty obligations, impairment of certain assets, income taxes and stock-based compensation expense. The

judgments, assumptions and estimates used in these areas by their nature involve risks and uncertainties, and in the event that any of them prove to be inaccurate in any material respect, it could have a material adverse effect on our reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

Revenue Recognition

We recognize revenue after title to and risk of loss of products have passed to the customer, or delivery of the service has been completed, provided that persuasive evidence of an arrangement exists, the price is fixed or determinable and collectability is reasonably assured. Title to and risk of loss of products generally pass to the customer upon delivery (either at point of shipment or destination depending on the contractual delivery terms), but in certain cases pass upon acceptance. Under Accounting Standards Codification (ASC) 605-25, *Revenue Recognition Multiple Elements*, we recognize revenue and related costs for arrangements with multiple deliverables as each element is delivered or completed based upon the lesser of its relative selling price, determined based upon the price that would be charged on a standalone basis, or the amount contractually due upon delivery of each element. If a portion of the total contract price is not payable

Table of Contents

until installation is complete, we do not recognize such portion as revenue until completion of installation. Some services, such as installation, are not often sold by us or our competitors on a stand-alone basis. Therefore, we calculate the estimated selling price based on specific facts and circumstances for each service. For example, the relative selling price for installation is determined by estimating the installation hours for a particular product, using historical experience, multiplied by the standard service billing rate. Under ASC 605-20, *Revenue Recognition Services*, revenue for separately priced extended warranties and product maintenance contracts are excluded from the scope of ASC 605-25 and the selling price (without regard to the allocation methodology under ASC 605-25) is recognized over the related contract periods. Revenue for programs involving design and development services and delivery of product prototypes and/or other deliverables is recognized upon the completion of specified milestones, or over the term of the program based upon the percentage of completion of the program (using the cost-to-cost method), depending on the terms of the associated contract. Certain sales to international customers are made through third-party distributors and revenue is recognized upon the sale to the distributor. A discount below list price is generally provided at the time the product is sold to the distributor, and such discount is reflected as a reduction in net sales. Freight costs billed to customers are included in *net sales*, and freight costs incurred are included in *selling, general and administrative expense*. Sales taxes collected from customers are recorded on a net basis and any amounts not yet remitted to tax authorities are included in *accrued expenses and other current liabilities*.

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

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

Accounts Receivable

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

Pension Plans

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

We account for our Israeli pension plans using the shut-down method of accounting. Under the shut-down method, the liability is calculated as if it was payable as of each balance sheet date, on an undiscounted basis. In addition, the assets and liabilities of the plans are accounted for on a gross basis.

Inventories

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

Table of Contents

reduce the carrying value of inventory to net realizable value as a charge to cost of sales. Should actual demand requirements differ from our estimates, we may be required to reduce the carrying value of inventory to net realizable value, resulting in a charge to cost of sales which would adversely affect our operating results.

Warranty

Unless otherwise stated in our product literature or in our agreements with customers, products sold by our 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 our Lasers Group carry warranties that vary by product, customer type 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 our option, upon meeting certain criteria. We accrue a provision for the estimated costs that may be incurred for warranties relating to a product (based on historical experience) as a component of cost of sales at the time revenue for that product is recognized. 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.

While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, our warranty obligations are affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage and/or service delivery costs negatively differ from our estimates, revisions to the estimated warranty obligation would be required, which could adversely affect our operating results.

Impairment of Assets

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

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

Edgar Filing: NEWPORT CORP - Form 10-K

We determine our reporting units by identifying those operating segments, and those product and/or business groups one level below the operating segment level (also known as components), for which discrete financial information is available and regularly reviewed by the management of that unit. Based on the guidance under ASC 350, we have aggregated components with similar economic characteristics, such as similar product offerings and shared operations and resources, resulting in three reporting units, which are the same as our operating segments. For any acquisition, we allocate goodwill to the applicable reporting unit at the completion of the purchase price allocation through specific identification, based on which reporting unit is expected to benefit from the acquisition.

Fair value of each of our reporting units is determined using a combination of a comparative company analysis and a discounted cash flow analysis. The comparative company analysis establishes fair value by applying market multiples to our revenue and earnings before interest, income taxes, depreciation and amortization. Such multiples are determined by comparing our reporting units with other publicly traded companies within the respective industries that have similar economic characteristics. The discounted cash flow analysis establishes fair value by estimating the present value of the

Table of Contents

projected future cash flows of each reporting unit. The present value of estimated discounted future cash flows is determined using our estimates of revenue and costs for the reporting units, using a combination of historical results, industry data and competitor data, as well as appropriate discount rates. The discount rate is determined using a weighted-average cost of capital that incorporates market participant data and a risk premium applicable to each reporting unit.

Income Taxes

Our income tax expense, deferred tax assets and liabilities and reserves for unrecognized tax benefits reflect management's best assessment of estimated future taxes. We are subject to income taxes in the United States and numerous international jurisdictions. Significant judgments and estimates are required in determining our consolidated income tax expense.

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

Deferred income taxes are recognized for the future tax consequences of temporary differences using enacted statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Temporary differences include the difference between the financial statement carrying amounts, and the tax bases of existing assets and liabilities as well as 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, *Income Taxes*, a valuation allowance for deferred tax assets is recorded to the extent we cannot determine that the ultimate realization of the net deferred tax assets is more likely than not. Realization of deferred tax assets is principally dependent upon the achievement of future taxable income, the estimation of which requires significant management judgment.

We have maintained a valuation allowance against a portion of our gross deferred tax assets. We have monitored our actual results, forecast data and other available evidence, both positive and negative, and we have periodically increased or reduced the valuation allowance based on our determinations of whether it is more likely than not that we will realize our net deferred tax assets.

We utilize ASC 740-10-25, *Income Taxes - Recognition*, which requires income tax positions to meet a more-likely-than-not recognition threshold to be recognized in the financial statements. Under ASC 740-10-25, tax positions that previously failed to meet the more-likely-than-not threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. As a multi-national corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine the liability no longer applies. Conversely, we record additional tax charges in a period in which we determine that a recorded tax liability is less than the expected ultimate assessment. As a result of these adjustments, our effective tax rate in a given financial statement period could be materially affected.

Stock-Based Compensation

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

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

Table of Contents

A substantial portion of our restricted stock unit awards vest based upon the achievement of one or more financial performance thresholds established by the Compensation Committee of our Board of Directors. Currently, such performance thresholds relate to the fiscal year in which the award is granted, and if such performance thresholds are met, the awards vest in equal one-third (1/3) annual installments. Until we have determined that performance thresholds have been met, the amount of expense that we record relating to performance-based awards is estimated based on the likelihood of achieving the performance thresholds. Estimating the likelihood of achievement of performance thresholds requires significant judgment, as such estimates are based on forecasted results of operations. We also make certain judgments regarding expected forfeitures of all stock-based awards, which may vary significantly from actual forfeitures. If our actual results of operations or forfeitures differ from our estimates, we may need to increase or decrease the compensation expense related to stock-based awards, which could significantly impact the amount of stock-based compensation expense recorded in a given period.

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

Results of Operations for the Years Ended January 2, 2016, January 3, 2015 and December 28, 2013

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

	January 2, 2016	Percentage of Net Sales For the Year Ended January 3, 2015	December 28, 2013
Net sales	100.0%	100.0%	100.0%
Cost of sales	56.4	55.3	57.6
Gross profit	43.6	44.7	42.4
Selling, general and administrative expense	25.8	26.2	26.6
Research and development expense	9.7	9.6	9.4
Loss on sale or other disposal of assets, net	0.2	0.3	0.8
Operating income	7.9	8.6	5.6
Loss on extinguishment of debt			(0.6)
Interest expense	(0.4)	(0.4)	(1.0)
Other expense, net	(0.3)	(0.3)	(0.2)
Income before income taxes	7.2	7.9	3.8
Income tax provision	2.0	2.1	1.0
Net income	5.2	5.8	2.8
Net income attributable to non-controlling interest		0.0	0.0
Net income attributable to Newport Corporation	5.2%	5.8%	2.8%

Table of Contents*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 2015, 2014 and 2013, by operating group and by key end market.

Sales by Operating Group

(In thousands)	Year Ended		Increase (Decrease)	Percentage Increase (Decrease)
	January 2, 2016	January 3, 2015		
Photonics Group	\$ 249,277	\$ 245,710	\$ 3,567	1.5%
Lasers Group	192,832	193,032	(200)	(0.1)
Optics Group	160,582	166,408	(5,826)	(3.5)
Total sales	\$ 602,691	\$ 605,150	\$ (2,459)	(0.4)%

(In thousands)	Year Ended		Increase	Percentage Increase
	January 3, 2015	December 28, 2013		
Photonics Group	\$ 245,710	\$ 230,303	\$ 15,407	6.7%
Lasers Group	193,032	165,788	27,244	16.4
Optics Group	166,408	163,963	2,445	1.5
Total sales	\$ 605,150	\$ 560,054	\$ 45,096	8.1%

Sales by End Market

(In thousands, except percentages)	Year Ended		Increase (Decrease)	Percentage Increase (Decrease)
	January 2, 2016	January 3, 2015		
Scientific research	\$ 144,426	\$ 129,433	\$ 14,993	11.6%
Microelectronics	150,157	153,547	(3,390)	(2.2)
Life and health sciences	116,526	131,819	(15,293)	(11.6)
Defense and security	58,752	53,471	5,281	9.9
Industrial manufacturing and other	132,830	136,880	(4,050)	(3.0)
Total sales	\$ 602,691	\$ 605,150	\$ (2,459)	(0.4)%

(In thousands, except percentages)	Year Ended		Increase (Decrease)	Percentage Increase (Decrease)
	January 3, 2015	December 28, 2013		
Scientific research	\$ 129,433	\$ 123,105	\$ 6,328	5.1%
Microelectronics	153,547	131,076	22,471	17.1
Life and health sciences	131,819	124,515	7,304	5.9
Defense and security	53,471	58,620	(5,149)	(8.8)
Industrial manufacturing and other	136,880	122,738	14,142	11.5

Edgar Filing: NEWPORT CORP - Form 10-K

Total sales	\$	605,150	\$	560,054	\$	45,096	8.1%
-------------	----	---------	----	---------	----	--------	------

Table of Contents

Our sales in 2015 were negatively impacted by the stronger U.S. dollar compared with 2014, which resulted in the translation of foreign currency denominated sales into fewer U.S. dollars. Our sales in 2015 were positively impacted compared with 2014 by our acquisition of V-Gen, which we completed in the fourth quarter of 2014, and by our acquisition of FEMTOLASERS, which we completed in the first quarter of 2015. The aggregate sales of these acquired businesses, which are included in our Lasers Group, were \$14.5 million in 2015 and \$3.0 million in 2014.

The increases in our total net sales and in net sales by our Optics Group in 2014 compared with 2013 were offset in part by a reduction in sales resulting from the divestiture of our advanced packaging systems business, which was completed in January 2014. The advanced packaging systems business contributed \$13.0 million in sales in 2013, compared with only \$0.1 million in sales in 2014.

The increase in net sales to our scientific research market in 2015 compared with 2014 was due primarily to increased demand for products sold by our Lasers Group for research applications, and to our acquisition of FEMTOLASERS, which contributed net sales to this market of \$7.1 million for 2015 and for which there were no corresponding sales in 2014. The increase in net sales to our scientific research market in 2014 compared with 2013 was due primarily to an improvement in overall market conditions during 2014, compared with the depressed sales levels in 2013. 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 net sales to our microelectronics market in 2015 compared with 2014 was due primarily to lower sales by both our Lasers and Optics Groups to semiconductor equipment manufacturing customers, as well as large sales of laser products for a solar equipment manufacturing application in 2014 that did not recur in 2015. Such decreases were offset in part by higher sales by our Photonics Group to semiconductor equipment and mobile device manufacturing customers. The increase in net sales to our microelectronics end market in 2014 compared with 2013 was due primarily to increased sales to semiconductor equipment manufacturing customers relating to new development programs and to increased sales of laser products used for materials processing applications related to the manufacture of electronic products. This increase was offset in part by a reduction in sales of advanced packaging systems due to the divestiture of that business in January 2014. Our advanced packaging systems business contributed net sales to this market of \$5.4 million in 2013, for which there were no significant corresponding sales in 2014. 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.

The decreases in net sales to our life and health sciences market in 2015 compared with 2014 was due primarily to decreased sales of products used for surgical and dental imaging applications. The increase in net sales to our life and health sciences end market in 2014 compared with 2013 was due primarily to increased sales of products used for surgical and dental imaging applications, offset in part by decreased sales of products for analytical instrumentation 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, as we have experienced from 2013 to 2015.

The increase in net sales to our defense and security markets in 2015 compared with 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. The decrease in net sales to our defense and security end markets in 2014 compared with 2013 was due primarily to uncertainty in future defense spending levels, primarily in the United States and Israel, which led to decreased sales of optics products to OEM customers for existing programs, as well as delays of new programs. The decreases in 2014 compared with 2013 were also due to the divestiture of our advanced packaging systems

Edgar Filing: NEWPORT CORP - Form 10-K

business in January 2014. Our advanced packaging systems business contributed net sales to these markets of \$2.1 million in 2013, for which there were no corresponding sales in 2014. 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.

The decrease in net sales to our industrial manufacturing and other end markets in 2015 compared with 2014 was due primarily to lower sales of products used for fiber optic device manufacturing applications. These decreases were offset in part by the contribution by V-Gen of a full year of sales in 2015 compared with sales in only the fourth quarter of 2014.

Table of Contents

The increase in net sales to our industrial manufacturing and other end markets in 2014 compared with 2013 was due primarily to increased sales of products used for fiber optic device manufacturing, graphics and thermal imaging applications, as well as our acquisition of V-Gen, which contributed \$2.6 million in sales to these markets in 2014, for which there were no corresponding sales in 2013. This increase was offset in part by the divestiture of our advanced packaging systems business, which had contributed net sales to these markets of \$5.3 million in 2013, for which there were no corresponding sales in 2014.

The table below reflects our net sales by geographic region. Sales are attributed to each location based on the customer address to which the product is shipped.

(In thousands, except percentages)	Year Ended		Increase (Decrease)	Percentage Increase (Decrease)
	January 2, 2016	January 3, 2015		
United States	\$ 231,453	\$ 230,807	\$ 646	0.3%
Germany	66,246	81,859	(15,613)	(19.1)
Other European countries	90,853	87,404	3,449	3.9
Greater China	64,617	55,158	9,459	17.1
Other Pacific Rim countries	105,551	107,854	(2,303)	(2.1)
Rest of world	43,971	42,068	1,903	4.5
Total sales	\$ 602,691	\$ 605,150	\$ (2,459)	(0.4)%

(In thousands, except percentages)	Year Ended		Increase	Percentage Increase
	January 3, 2015	December 28, 2013		
United States	\$ 230,807	\$ 218,298	\$ 12,509	5.7%
Germany	81,859	75,119	6,740	9.0
Other European countries	87,404	81,178	6,226	7.7
Greater China	55,158	45,851	9,307	20.3
Other Pacific Rim countries	107,854	101,689	6,165	6.1
Rest of world	42,068	37,919	4,149	10.9
Total sales	\$ 605,150	\$ 560,054	\$ 45,096	8.1%

The slight increase in sales to customers in the United States in 2015 compared with 2014 was due primarily to increased sales to customers in our scientific research end market, offset in large part by decreased sales to customers in our microelectronics end market. The increase in sales to customers in the United States in 2014 compared with 2013 was due to increased sales to customers in our microelectronics, scientific research, and industrial manufacturing and other end markets, offset in part by lower sales to customers in our defense and security and life and health sciences end markets.

The decrease in sales to customers in Germany in 2015 compared with 2014 was due to lower sales to customers in all of our end markets. The increase in sales to customers in Germany in 2014 compared with 2013 was due primarily to higher sales to customers in our life and health sciences, scientific research and microelectronics end markets.

The increase in sales to customers in other countries in Europe in 2015 compared with 2014 was due primarily to higher sales to customers in our defense and security, scientific research and microelectronics end markets, offset in part by decreased sales to customers in our industrial manufacturing and other end markets and our life and health sciences end market. The increase in sales to customers in other countries in Europe in 2014 compared with 2013 was due primarily to higher sales to customers in our industrial manufacturing, microelectronics and

Edgar Filing: NEWPORT CORP - Form 10-K

defense and security end markets, offset in part by decreased sales to customers in our scientific research end market.

Sales to customers in Greater China increased in 2015 compared with 2014 due primarily to higher sales to customers in our scientific research and microelectronics end markets, offset in part by lower sales to customers in our life and health sciences end market. Sales to customers in Greater China increased in 2014 compared with 2013 as a result of higher sales to customers in all of our end markets.

The decrease in sales to customers in Pacific Rim countries other than Greater China in 2015 compared with 2014 was attributable primarily to lower sales to customers in our microelectronics and life and health sciences end markets, offset in

Table of Contents

part by higher sales to customers in our scientific research end market. The increase in sales to customers in Pacific Rim countries other than Greater China in 2014 compared with 2013 was attributable primarily to higher sales to customers in all of our end markets, except for lower sales to customers in our scientific research end market.

The increase in sales to customers in the rest of the world in 2015 compared with 2014 was due primarily to higher sales to customers in our defense and security end markets, offset in part by lower sales to customers in our life and health sciences end market. The increase in sales to customers in the rest of the world in 2014 compared with 2013 was due primarily to higher sales to customers in our industrial manufacturing and other end markets, as well as our scientific research and life and health sciences end markets, offset in part by lower sales to customers in our defense and security end markets.

Gross Margin

Gross margin was 43.6%, 44.7% and 42.4% for 2015, 2014 and 2013, respectively. The decrease in gross margin in 2015 compared with 2014 was due primarily to lower gross margins in our Lasers Group and Optics Group. The gross margin of our Lasers Group was negatively impacted by a higher proportion of sales of lower margin products, primarily from our recently acquired businesses; lower absorption of manufacturing overhead resulting from the lower production levels; and increased inventory charges. The gross margin of our Optics Group was negatively impacted by lower absorption of manufacturing overhead at our North Andover facility, as we transition the operations of that facility to other facilities, and by increased inventory charges. Our gross margins were also negatively impacted by the stronger U.S. dollar, which resulted in the translation of our foreign currency denominated sales into fewer U.S. dollars. This negative impact was offset in part by lower manufacturing costs in certain locations due to the stronger U.S. dollar.

The increase in gross margin in 2014 compared with 2013 was due primarily to increased absorption of manufacturing overhead, resulting from higher sales and production levels, and a higher proportion of sales of higher margin products by our Optics and Photonics Groups.

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

Selling, General and Administrative (SG&A) Expense

SG&A expense totaled \$155.5 million, or 25.8% of net sales, \$158.6 million, or 26.2% of net sales, and \$149.2 million, or 26.6% of net sales, during 2015, 2014 and 2013, respectively. The decrease in SG&A expense in 2015 compared with 2014 was due primarily to decreased personnel costs, resulting primarily from lower incentive compensation, and decreased professional fees and travel expenses. These decreases were offset in part by higher rental costs and software licensing fees, by the addition of a full year of SG&A expense for V-Gen, for which there was minimal expense in 2014 following the acquisition, and by the addition of SG&A expense for FEMTOLASERS, for which there was no corresponding expense in 2014.

Edgar Filing: NEWPORT CORP - Form 10-K

The increase in SG&A expense in absolute dollars in 2014 compared with 2013 was attributable primarily to an increase of \$10.2 million in personnel costs, resulting primarily from higher incentive compensation and stock-based compensation expenses. We recorded minimal cash incentive compensation expenses during the 2013 periods due to the lack of payouts under our 2013 incentive plans.

We implemented certain cost reduction actions during 2015, which have resulted in lower personnel costs; however, such decreases in personnel costs were offset in large part by increased severance costs related to such actions in 2015. We expect our SG&A expense to be more favorably impacted by our cost reduction actions in future periods once all actions have been completed.

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

Table of Contents

Research and Development (R&D) Expense

R&D expense totaled \$58.5 million, or 9.7% of net sales, \$58.4 million, or 9.6% of net sales, and \$52.5 million, or 9.4% of net sales, during 2015, 2014 and 2013, respectively. The slight increase in R&D expense in 2015 compared with 2014 was due primarily to the addition of R&D expenses of V-Gen and FEMTOLASERS, for which there were minimal expenses in the prior year, offset almost entirely by the impact of the stronger U.S. dollar in certain locations and the benefits of our cost reduction actions. The increase in R&D expense in 2014 compared with 2013 was due primarily to higher incentive compensation expenses and higher headcount related to new product development.

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

Loss on Sale or Other Disposal of Assets, Net

During 2015, we entered into a plan to transfer the operations of our North Andover, Massachusetts facility to certain of our other facilities and completed such transfer during the fourth quarter of 2015. In connection with this plan, we determined that the carrying value of leasehold improvements for this facility was not recoverable and recorded a loss of \$1.1 million.

During 2014, we determined that we would no longer utilize certain software applications for which we had capitalized the application development costs and recognized a loss of \$2.3 million on the disposal of such assets.

As discussed in more detail under the heading *Divestiture of Advanced Packaging Systems Business* on page 40, we completed the sale of our advanced packaging systems business in January 2014. Such assets were held for sale as of December 28, 2013, and therefore, in 2013, we recorded a loss of \$4.7 million relating to the anticipated sale of this business based on the terms that were being negotiated with the purchaser at that time. In 2014, we recorded a gain of \$0.4 million to reduce the loss on the sale to \$4.3 million, based on the final terms of the transaction and the net assets of the business on the closing date.

Loss on Extinguishment of Debt

In July 2013, we entered into a new Credit Agreement (as defined on page 51) and terminated our prior credit agreement, as discussed in more detail under *Liquidity and Capital Resources* beginning on page 50. In connection with terminating our prior credit agreement, we recorded a loss on extinguishment of debt of \$3.4 million to write off the remaining deferred debt issuance costs associated with that agreement.

Interest Expense

Interest expense was \$2.3 million, \$2.4 million and \$5.5 million in 2015, 2014 and 2013, respectively. The decrease in interest expense in 2014 compared with 2013 was due primarily to lower interest expense as a result of lower average interest rates and lower average outstanding balances under our Credit Facility (as defined on page 51) during 2014 and the second half of 2013 compared with the average interest rate and average outstanding balance of the term loan under our previous credit facility during the first half of 2013.

Other Expense, net

Other expense, net was \$2.0 million, \$1.7 million and \$1.0 million in 2015, 2014 and 2013, respectively. The increases in other expense, net in 2015 compared with 2014 was due primarily to foreign currency transaction losses, offset in part by the absence of losses from derivative instruments which we experienced during 2014. The increase in other expense, net in 2014 compared with 2013 was due primarily to such losses from derivative instruments.

Table of Contents

Income Taxes

Our effective income tax rate reflected a tax expense of 27.7% for 2015, 26.2% for 2014 and 26.6% for 2013. Our effective tax rates 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. The effective tax rate in 2015 was favorably impacted by the retroactive extension of the federal research credit on December 18, 2015, offset in part by the unfavorable impact of both 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 our Japanese locations, and the recording of additional tax contingency reserves for open audit years based on the results of an audit in Israel that was settled in December 2015.

In 2014, our income tax rate was favorably impacted by an extraterritorial income exclusion benefit and a reduction of the corresponding uncertain tax position, which were recorded as discrete items. In 2013, our income tax rate was favorably impacted by the extension of the federal research credit on January 2, 2013, which was retroactive for 2012, and the reversal of uncertain foreign tax positions related to our Japanese and French subsidiaries, due to the expiration of the applicable audit statute of limitations. This was offset in part by the unfavorable impact related to an adjustment to our Israeli deferred tax assets and liabilities, as a result of the adoption by the Israeli Parliament on July 30, 2013 of Budget Law 2013-2014 and the Economic Arrangements Law, which impacted the corporate tax rate applicable to our Israeli based operations.

As of January 2, 2016, we had \$18.4 million of gross unrecognized tax benefits and a total of \$14.6 million of net unrecognized tax benefits, which, if recognized, would affect our effective tax rate. We accrue interest and penalties related to unrecognized tax benefits in our provision for income taxes. Interest and penalties related to unrecognized tax benefits were not significant as of January 2, 2016. We believe it is reasonably possible that our gross unrecognized tax benefits may decrease by \$1.5 million over the next twelve months.

Liquidity and Capital Resources

Our cash and cash equivalents and restricted cash balances decreased to \$42.4 million as of January 2, 2016 from \$48.6 million as of January 3, 2015. This decrease was attributable primarily to cash used for repurchases of our common stock, purchases of property and equipment and our acquisition of FEMTOLASERS, offset in part by net cash provided by our operating activities and proceeds from the issuance of common stock through our employee stock plans.

Net cash provided by our operating activities of \$51.7 million for the year ended January 2, 2016 was attributable primarily to cash provided by our results of operations and to an increase in accrued expenses and other liabilities of \$2.4 million and a decrease in prepaid expenses and other assets of \$0.9 million, due to the timing of payments, offset in part by a decrease in accounts receivable of \$11.8 million, due to the timing of collections, an increase in gross inventory of \$11.6 million and increases in accounts payable of \$4.1 million and accrued payroll and related expenses of \$2.4 million, due to timing of payments.

Net cash used in investing activities of \$29.3 million for the year ended January 2, 2016 was attributable primarily to purchases of property and equipment of \$19.7 million and net cash used for our acquisition of FEMTOLASERS of \$10.2 million, including \$2.1 million that will be refunded.

Net cash used in financing activities of \$28.1 million for the year ended January 2, 2016 was attributable to payments of \$27.9 million to repurchase our common stock, payments of \$3.4 million in connection with the cancellation of shares of common stock underlying restricted stock units for taxes owed by employees upon vesting of restricted stock units issued under our stock incentive plans and net repayments of borrowings of \$1.7 million. These cash payments were offset in part by an excess tax benefit of \$3.1 million related to employee stock plans, and proceeds of \$1.9 million received from the issuance of common stock under employee stock plans.

As of January 2, 2016, we had cash and cash equivalents of \$41.7 million and restricted cash of \$0.7 million. We expect that our cash balances will fluctuate in the future based on factors such as cash used in or provided by ongoing operations, acquisitions or divestitures, investments in other companies, capital expenditures, debt payment requirements and other contractual obligations, and changes in interest rates.

Table of Contents

On July 18, 2013, we entered into a credit agreement with certain lenders (Credit Agreement), which replaced a prior credit agreement. The Credit Agreement consists of a senior secured revolving credit facility of \$275 million with a term of five years (Credit Facility). The Credit Agreement also provides us with the option to increase the aggregate principal amount of loans in the form of additional revolving loans or a separate tranche of term loans, in an aggregate amount that does not exceed \$50 million, in each case subject to certain terms and conditions contained in the Credit Agreement. Concurrently with the closing of the Credit Agreement, we terminated our prior credit agreement after repaying the entire outstanding principal amount of \$152.6 million and all accrued interest and fees thereon, utilizing \$120.0 million borrowed under the Credit Facility together with a portion of our then-existing cash balances.

At January 2, 2016, the outstanding balance under the Credit Facility was \$74.0 million. The interest rate per annum applicable to amounts outstanding under the Credit Facility is, at our option, either (a) the base rate as defined in the Credit Agreement (Base Rate) plus an applicable margin, or (b) the Eurodollar Rate as defined in the Credit Agreement (Eurodollar Rate) plus an applicable margin. A commitment fee is payable on the unused portion of the Credit Facility. The margins over the Base Rate and Eurodollar Rate applicable to the loans outstanding under the Credit Facility, and the commitment fee, are adjusted periodically based on our consolidated leverage ratio, as calculated pursuant to the Credit Agreement. The maximum applicable margins are 1.25% per annum for Base Rate loans and 2.25% per annum for Eurodollar Rate loans, and the minimum applicable margins are 0.5% per annum for Base Rate loans and 1.5% per annum for Eurodollar Rate loans. The maximum commitment fee is 0.40% per annum, and the minimum commitment fee is 0.25% per annum. As of January 2, 2016, the interest rate per annum applicable to amounts outstanding under the Credit Facility was 1.94%, and the commitment fee on the unused portion of the Credit Facility was 0.25%.

Our obligations under the Credit Agreement are secured by a lien on substantially all of the assets of Newport Corporation and certain of our U.S. subsidiaries, which are guarantors under the Credit Agreement, as well as by a pledge of certain shares of our international subsidiaries. Our ability to borrow funds under the Credit Facility is subject to certain conditions, including compliance with certain covenants and making certain representations and warranties. In particular, our borrowing capacity under the Credit Facility is limited by our Consolidated Adjusted EBITDA (as defined in the Credit Agreement) for the preceding four fiscal quarters. At January 2, 2016, based on our Consolidated Adjusted EBITDA, the \$74.0 million borrowed under the Credit Facility, additional indebtedness (including capital leases) of \$3.4 million and outstanding letters of credit of \$4.1 million, we had approximately \$152.0 million available for additional borrowing under the Credit Facility.

At January 2, 2016, we also had (i) Japanese revolving lines of credit; (ii) an agreement with a Japanese bank under which we sell trade notes receivable with recourse; and (iii) loans from the Austrian government, as follows:

Description	Principal Amount Outstanding (in millions)	Additional Amount Available for Borrowing (in millions)	Interest Rate(s)	Expiration Date(s)
Japanese lines of credit	\$ 2.8	\$ 7.3	1.28%	No expiration dates
Japanese agreements for sale of receivables	\$ 0.3	\$ 1.8	1.20%	No expiration dates
Austrian loans	\$ 0.3	\$	0.75% to 2.00%	September 2017 to March 2019

In May 2008, our Board of Directors approved a share repurchase program, authorizing the purchase of up to 4.0 million shares of our common stock. The terms of our Credit Agreement permit us to purchase shares under the repurchase program, subject to certain conditions and limitations. During 2015, we repurchased 1.7 million shares for a total of \$27.9 million, and during 2014, we repurchased 0.6 million shares for a total of \$10.3 million, under this program. No purchases were made under this program during 2013. As of January 2, 2016, 1.7 million shares remained available for purchase under the program.

We expect to use \$17 million to \$22 million of cash for capital expenditures during 2016.

We believe our current working capital position, together with our expected future cash flows from operations and the borrowing availability under our Credit Facility and other lines of credit, will be adequate to fund our operations in the ordinary course of business, anticipated capital expenditures, debt payment requirements and other contractual obligations for at least the next twelve months. While a substantial portion of our cash and cash equivalents and restricted cash is held outside of the United States, we currently do not intend or anticipate a need to repatriate such funds, as we expect that the cash and cash equivalents and/or restricted cash held in the United States, together with our cash flows from U.S.

Table of Contents

operations and the borrowing capacity under our Credit Facility, will be sufficient to fund our U.S. operations and cash commitments for investing and financing activities, including debt repayment and capital expenditures, for at least the next twelve months and thereafter for the foreseeable future. However, these expectations are based upon many assumptions and are subject to numerous risks, including those risks discussed under the heading **Risk Factors** on pages 18 to 32. In addition, under current tax laws and regulations, if cash and cash equivalents and investments held outside of the United States, which relate to undistributed earnings of certain of our foreign subsidiaries and are considered to be indefinitely reinvested, were to be distributed to the United States in the form of dividends or otherwise, we would be subject to additional U.S. income taxes (subject to an adjustment for foreign tax credits) and foreign withholding taxes. The potential tax liability related to any repatriation would depend on the tax laws of the United States and the respective foreign jurisdictions and on the facts and circumstances that exist at the time such repatriation is made.

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

Contractual Obligations

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

Our debt obligations, capital and operating lease obligations, purchase obligations and pension benefit obligations at January 2, 2016 were as follows:

(In thousands)	Payments due by period				Total
	Less than 1 year	1-3 years	3-5 years	More than 5 years	
Debt obligations	\$ 3,121	\$ 74,100	\$ 147	\$	\$ 77,368
Capital lease obligations	16	21			37
Operating lease obligations	10,550	16,871	13,344	6,518	47,283
Purchase obligations	4,923	1,855	646		7,424
Pension obligations	1,553	3,772	2,888	16,469	24,682
	\$ 20,163	\$ 96,619	\$ 17,025	\$ 22,987	\$ 156,794

Edgar Filing: NEWPORT CORP - Form 10-K

We have subleased one of our facilities under a non-cancelable sublease. Future minimum rentals to be received by us under such sublease as of January 2, 2016 were as follows:

(In thousands)	Operating Leases	
Payments Due By Period:		
2016	\$	345
2017		427
2018		488
2019		494
Total minimum sublease payments	\$	1,754

Table of Contents

Our gross unrecognized tax benefits at January 2, 2016 were \$18.4 million. However, we are not able to provide a detailed estimate of the timing of payments related to our gross unrecognized tax benefits due to the uncertainty of when the related tax settlements are due. We believe it is reasonably possible that our gross unrecognized tax benefits may decrease by \$1.5 million over the next twelve months.

New Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-2, *Leases*, which created Topic 842. ASU No. 2016-2 requires lessees to record the assets and liabilities arising from all leases in the statement of financial position. Under ASU 2016-2, lessees will recognize a liability for lease payments and a right-of-use asset. When measuring assets and liabilities, a lessee should include amounts related to option terms, such as the option of extending or terminating the lease or purchasing the underlying asset, that are reasonably certain to be exercised. For leases with a term of 12 months or less, lessees are permitted to make an accounting policy election to not recognize lease assets and liabilities. ASU 2016-2 retains the distinction between finance leases and operating leases and the classification criteria remains similar. For financing leases, a lessee will recognize the interest on a lease liability separate from amortization of the right of use asset. In addition, repayments of principal will be presented within financing activities and interest payments will be presented within operating activities in the statement of cash flows. For operating leases, a lessee will recognize a single lease cost on a straight-line basis and classify all cash payments within operating activities in the statement of cash flows. ASU No. 2016-2 will be effective for fiscal years and interim periods beginning after December 15, 2018 and is required to be applied using a modified retrospective approach. Early adoption is permitted but has not been elected. We are currently evaluating the expected impact of ASU No. 2016-2 on our financial position and results of operations.

In January 2016, the FASB issued ASU No. 2016-1, *Recognition and Measurement of Financial Assets and Liabilities*. ASU No. 2016-1 requires equity investments, except those accounted for under the equity method of accounting, to be measured at fair value with changes in fair value recognized in net income. Companies may elect to measure equity instruments that do not have readily determinable fair values at cost, less impairment (if any), plus or minus changes resulting from observable price changes. If a company has elected to measure a liability at fair value, any changes in fair value resulting from instrument specific credit risk are required to be recorded through other comprehensive income. Companies are also required to separately present financial assets and financial liabilities, by measurement category and form of financial asset, on the balance sheet or in the notes to the financial statements. ASU No. 2016-1 will be effective for fiscal years and interim periods beginning after December 15, 2017 and is required to be applied prospectively with a cumulative effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. Early adoption is not permitted, except for recognition of changes in fair value of a liability resulting from a change in instrument specific credit risk through other comprehensive income. Adoption of ASU No. 2016-1 would have resulted in a cumulative effect adjustment to other comprehensive income, related to unrealized gains on investments, of \$1.7 million as of January 2, 2016.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*. ASU No. 2015-17 removes the requirement to separate deferred income tax assets and liabilities into current and noncurrent amounts and instead requires such amounts to be classified as noncurrent. ASU No. 2015-17 will be effective for fiscal years and interim periods beginning after December 15, 2016, and can be applied either prospectively or retrospectively. Early adoption is permitted. We have elected to adopt ASU 2015-17 as of January 2, 2016, applying it prospectively, which resulted in \$21.6 million of current deferred tax assets being reclassified to noncurrent deferred tax assets and \$0.1 million of current deferred tax liabilities being reclassified to noncurrent deferred tax liabilities.

In September 2015, the FASB issued 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

Edgar Filing: NEWPORT CORP - Form 10-K

No. 2015-16 became 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 adoption of ASU No. 2015-16 will not have a material impact on our financial position or results of operations.

Table of Contents

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which created Topic 606. ASU No. 2014-09 establishes a core principle that a company should recognize revenue to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In order to achieve that core principle, companies are required to apply the following steps: (1) identify the contract with the customer; (2) identify performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the company satisfies a performance obligation. Upon adoption, ASU No. 2014-09 can be applied either (i) retrospectively to each prior reporting period or (ii) retrospectively with the cumulative effect of initial application recognized on the date of adoption. At the time of issuance, ASU No. 2014-09 was to become effective for interim and annual periods beginning after December 15, 2016, and early adoption was not permitted. However, in July 2015, the FASB deferred the effective date of ASU No. 2014-09 by one year to annual reporting periods beginning after December 15, 2017. In addition, early adoption of the standard will be permitted, but not before the original effective date of December 15, 2016. We are currently evaluating the expected impact of ASU No. 2014-09 on our financial position and results of operations.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*. ASU No. 2015-11 clarifies that inventory should be held at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling price, less the estimated costs to complete, dispose and transport such inventory. ASU No. 2015-11 will be effective for fiscal years and interim periods beginning after December 15, 2016. ASU No. 2015-11 is required to be applied prospectively and early adoption is permitted. The adoption of ASU No. 2015-11 is not expected to have a material impact on our financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. ASU No. 2015-03 requires debt issuance costs to be presented as a reduction from the carrying amount of the related debt rather than as a deferred charge (an asset). ASU No. 2015-03 became effective for fiscal years and interim periods beginning after December 15, 2015, and is required to be applied retrospectively. Early adoption was permitted but was not elected. In August 2015, the FASB issued ASU No. 2015-15, *Presentation and Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*. ASU No. 2015-15 clarified that debt issuance costs related to line-of-credit arrangements could be presented as an asset and subsequently amortized ratably over the term of the line-of-credit arrangement. The adoption of ASU No. 2015-03 and ASU No. 2015-15 will not have a material impact on our financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-04, *Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets*. ASU No. 2015-04 allows companies with a fiscal year-end that does not coincide with a month-end to measure defined benefit plan assets and obligations using the month-end date that is closest to the entity's fiscal year-end. This practical expedient is required to be applied consistently year to year and for all plans. However, if a contribution or significant event occurs between the month-end date and the entity's fiscal year-end, the defined benefit plan assets and obligations should be adjusted to capture such events. ASU No. 2015-04 became effective for fiscal years and interim periods beginning after December 15, 2015. Early adoption was permitted but was not elected. The adoption of ASU No. 2015-04 will not have a material impact on our financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. ASU No. 2015-05 provides guidance for determining whether a cloud computing arrangement includes a software license. A cloud computing arrangement is considered to contain a license if the customer has a contractual right to take possession of the software without significant penalty and it is feasible for the customer to run the software on its own or with an unrelated vendor. If the arrangement includes a software license, the customer should account for the purchase of the license consistent with the purchase of other licenses. If the arrangement does not include a license, the customer should account for the arrangement as a service contract. ASU No. 2015-05 became effective for fiscal years and interim periods beginning after December 15, 2015 and can be applied prospectively or retrospectively. Early adoption was permitted but was not elected. The adoption of ASU No. 2015-05 will not have a material impact on our financial position or results of operations.

Table of Contents**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

Foreign Currency Risk

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

We use foreign currency option and 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. These derivative instruments are used as an economic hedge. However, we have not elected hedge accounting treatment and therefore, all changes in value of these derivative instruments are reflected in *interest and other expense, net* in our consolidated statements of income and comprehensive income. We do not engage in currency speculation. All of our foreign currency option and forward exchange contracts are entered into to reduce the volatility of earnings, primarily related to Israeli Shekel based expenses. If the counterparties to these contracts (typically highly rated banks) do not fulfill their obligations to deliver the contracted currencies, we could be at risk for any currency related fluctuations.

As currency exchange rates change, translation of the statements of income and comprehensive income of international operations into U.S. dollars affects the year-over-year comparability of operating results, particularly in translating foreign currency denominated sales into U.S. dollars. However, because we have manufacturing facilities located globally, the impact of currency exchange rate fluctuations on our income is mitigated in part by the translation of foreign currency denominated expenses. We do not generally hedge translation risks because cash flows from international operations are generally reinvested locally. Changes in currency exchange rates that have the largest impact on translating our international operating income include changes to the exchange rates of the U.S. dollar to the euro and Japanese yen.

The following table provides information about our foreign currency derivative financial instruments outstanding as of January 2, 2016. The information is presented in U.S. dollars, as presented in our consolidated financial statements:

(In thousands)	January 2, 2016	
	Notional Amount	Average Strike Price
Foreign currency options		
Israeli Shekel - call options	\$ 16,646	4.03
Israeli Shekel - put options	(17,859)	3.75
	\$ (1,213)	
Fair value	\$ (17)	

Interest Rate Risk

Our investments in cash, cash equivalents and restricted cash, which totaled \$42.4 million at January 2, 2016, are sensitive to changes in the general level of interest rates. In addition, assets related to our pension plans are sensitive to interest rates and economic conditions in Europe and Asia.

We have a \$275 million revolving line of credit in the United States. We also have lines of credit and other loans in Austria and Japan. Our revolving line of credit in the United States, and most of our other borrowings, carry variable interest rates and therefore are subject to interest rate risk.

Table of Contents

The table below presents information about our debt obligations as of January 2, 2016:

(US\$ equivalent in thousands)	Expected Maturity Date							Total	Fair Value
	2016	2017	2018	2019	2020	Thereafter			
Debt obligations:									
Variable rate (US\$)	\$	\$	\$ 74,000	\$	\$	\$	\$	\$ 74,000	\$ 73,666
Weighted average interest rate	0.00%	0.00%	1.94%	0.00%	0.00%	0.00%	0.00%	1.94%	
Fixed rate (non-US\$)	\$	\$ 88	\$ 11	\$ 148	\$	\$	\$	\$ 247	\$ 242
Weighted average interest rate	0.00%	2.00%	2.00%	0.75%	0.00%	0.00%	0.00%	1.25%	
Variable rate (non-US\$)	\$ 3,121	\$	\$	\$	\$	\$	\$	\$ 3,121	\$ 3,121
Weighted average interest rate	1.27%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	1.27%	
Total debt obligations	\$ 3,121	\$ 88	\$ 74,011	\$ 148	\$	\$	\$	\$ 77,368	\$ 77,029
Weighted average interest rate	1.27%	2.00%	1.94%	0.75%	0.00%	0.00%	0.00%	1.91%	

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES**Evaluation of Disclosure Controls and Procedures**

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

Management's Annual Report on Internal Control Over Financial Reporting

Internal Control Over Financial Reporting

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

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

Table of Contents

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

Management has evaluated the effectiveness of our internal control over financial reporting as of January 2, 2016. In conducting its evaluation, management used the framework set forth in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under such framework, our management has concluded that our internal control over financial reporting was effective as of January 2, 2016.

Report of Independent Registered Public Accounting Firm

Deloitte & Touche LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K for our fiscal year ended January 2, 2016, has issued a report of independent registered public accounting firm on our internal control over financial reporting. Such report of independent registered public accounting firm is included below under the heading Report of Independent Registered Public Accounting Firm.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of the year ended January 2, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Newport Corporation

Irvine, California

We have audited the internal control over financial reporting of Newport Corporation and subsidiaries (the Company) as of January 2, 2016, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Assessment of the Effectiveness of our Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

Edgar Filing: NEWPORT CORP - Form 10-K

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

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

Table of Contents

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 2, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended January 2, 2016 of the Company and our report dated March 2, 2016 expressed an unqualified opinion on those consolidated financial statements and financial statement schedule and included an explanatory paragraph relating to the agreement and plan of merger dated February 22, 2016, pursuant to which MKS Instruments, Inc. will acquire the Company.

/s/ Deloitte & Touche LLP

Costa Mesa, California

March 2, 2016

ITEM 9B. OTHER INFORMATION

Not applicable.

Table of Contents

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required hereunder is incorporated herein by reference to either a definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed within 120 days of January 2, 2016.

ITEM 11. EXECUTIVE COMPENSATION

The information required hereunder is incorporated herein by reference to either a definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed within 120 days of January 2, 2016.

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

The information required hereunder is incorporated herein by reference to either a definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed within 120 days of January 2, 2016.

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

The information required hereunder is incorporated herein by reference to either a definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed within 120 days of January 2, 2016.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required hereunder is incorporated herein by reference to either a definitive proxy statement or an amendment to this Annual Report on Form 10-K to be filed within 120 days of January 2, 2016.

Table of Contents

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

(1) **Financial Statements.**

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

(2) **Financial Statement Schedules.**

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

(3) **Exhibits.**

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

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger, dated as of February 22, 2016, between the Registrant, MKS Instruments, Inc., and PSI Equipment, Inc. (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 23, 2016).
3.1	Restated Articles of Incorporation of the Registrant, as amended to date (incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2010).
3.2	Amended and Restated Bylaws of the Company, as adopted by the Board of Directors of the Company effective as of August 16, 2010 and amended on December 17, 2014, August 18, 2015 and February 22, 2016 (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 23, 2016).

Edgar Filing: NEWPORT CORP - Form 10-K

- 10.1 Lease Agreement dated March 27, 1991, as amended, pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.1 of the Registrant's Annual Report on Form 10-K for the year ended July 31, 1992).
- 10.2 First Amendment to Lease dated January 31, 2002, between the Registrant and IRP Muller Associates, LLC pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.2 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
- 10.3 Second Amendment to Lease dated September 28, 2004, between the Registrant and BCSD Properties, L.P. pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.5 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004).
- 10.4 Third Amendment to Lease dated December 15, 2010, between the Registrant and BCSD Properties, L.P. pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.4 of the Registrant's Annual Report on Form 10-K for the year ended January 1, 2011).

Edgar Filing: NEWPORT CORP - Form 10-K

Table of Contents

Exhibit Number	Description of Exhibit
10.5*	2001 Stock Incentive Plan (incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 27, 2001).
10.6*	Form of Nonqualified Stock Option Agreement under the Registrant's 2001 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.9 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
10.7*	Form of Incentive Stock Option Agreement under the Registrant's 2001 Stock Incentive Plan (incorporated by reference to Exhibit 10.10 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
10.8*	Form of Restricted Stock Agreement under the Registrant's 2001 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004).
10.9*	2006 Performance-Based Stock Incentive Plan (incorporated by reference to Appendix B of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 10, 2006).
10.10*	Form of Restricted Stock Unit Award Agreement under the Registrant's 2006 Performance-Based Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2006).
10.11*	Form of Restricted Stock Unit Award Agreement (as revised March 2009) under the Registrant's 2006 Performance-Based Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 4, 2009).
10.12*	Form of Stock Appreciation Right Award Agreement under the Registrant's 2006 Performance-Based Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 4, 2009).
10.13*	2011 Stock Incentive Plan (incorporated by reference to Appendix A of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 6, 2011).
10.14*	Amended and Restated 2011 Stock Incentive Plan (incorporated by reference to Appendix B of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 8, 2015).
10.15*	Form of Restricted Stock Unit Award Agreement (with performance-based vesting) used under the 2011 Stock Incentive Plan and the Amended and Restated 2011 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2011).
10.16*	Form of Restricted Stock Unit Award Agreement (with time-based vesting) used under the 2011 Stock Incentive Plan and the Amended and Restated 2011 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2011).
10.17*	Form of Stock Appreciation Right Award Agreement used under the 2011 Stock Incentive Plan and the Amended and Restated 2011 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2011).
10.18*	Second Amended and Restated Employee Stock Purchase Plan (incorporated by reference to Appendix B of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 4, 2012).

Edgar Filing: NEWPORT CORP - Form 10-K

Table of Contents

Exhibit Number	Description of Exhibit
10.19*	Severance Compensation Agreement dated April 1, 2008 between the Registrant and Robert J. Phillippy, President and Chief Executive Officer (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 7, 2008).
10.20*	Severance Compensation Agreement dated April 1, 2008 between the Registrant and Charles F. Cargile, Senior Vice President, Chief Financial Officer and Treasurer (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 7, 2008).
10.21*	Form of Severance Compensation Agreement between the Registrant and certain of its executive and other officers (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 7, 2008).
10.22*	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.23	Credit Agreement, dated as of July 18, 2013, among Newport Corporation, as borrower, the lenders from time to time party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Wells Fargo Bank, N.A. and BBVA Compass (a tradename of Compass Bank), as Co-Syndication Agents and U.S. Bank, N.A., as Documentation Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 19, 2013).
10.24	Amendment No. 1, dated as of December 20, 2013, to Credit Agreement dated as of July 18, 2013, among Newport Corporation, as borrower, the lenders listed on the signature pages thereof, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.26 of the Registrant's Annual Report on Form 10-K for the year ended December 28, 2013).
10.25	Security and Pledge Agreement, dated as of July 18, 2013, among Newport Corporation, the guarantors from time to time party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 19, 2013).
10.26	Guaranty, dated as of July 18, 2013, among the guarantors from time to time party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 19, 2013).
10.27*	Form of Stockholder Agreement entered into between each of the Registrant's executive officers and directors, as a stockholder, and MKS Instruments, Inc. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 23, 2016).
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (included in signature page).
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 (the Exchange Act).
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
32.1	Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350.

Table of Contents

Exhibit Number	Description of Exhibit
32.2	Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 2, 2016.

NEWPORT CORPORATION

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

POWER OF ATTORNEY

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

SIGNATURE	TITLE	DATE
<i>/s/ Robert J. Phillippy</i> Robert J. Phillippy	President, Chief Executive Officer and Director (Principal Executive Officer)	March 2, 2016
<i>/s/ Charles F. Cargile</i> Charles F. Cargile	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	March 2, 2016
<i>/s/ Willem A. Meintjes</i> Willem A. Meintjes	Vice President and Corporate Controller	March 2, 2016
<i>/s/ Christopher Cox</i> Christopher Cox	Director	March 2, 2016
<i>/s/ Siddhartha C. Kadia</i> Siddhartha C. Kadia	Director	March 2, 2016
<i>/s/ Oleg Khaykin</i> Oleg Khaykin	Director	March 2, 2016
<i>/s/ Kenneth F. Potashner</i>	Director	March 2, 2016

Edgar Filing: NEWPORT CORP - Form 10-K

Kenneth F. Potashner

/s/ Peter J. Simone
Peter J. Simone

Director

March 2, 2016

Table of Contents

INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

	Page
<u>Report of independent registered public accounting firm</u>	F-2
<u>Consolidated statements of income and comprehensive income for the years ended January 2, 2016, January 3, 2015 and December 28, 2013</u>	F-3
<u>Consolidated balance sheets as of January 2, 2016 and January 3, 2015</u>	F-4
<u>Consolidated statements of cash flows for the years ended January 2, 2016, January 3, 2015 and December 28, 2013</u>	F-5
<u>Consolidated statements of stockholders' equity for the years ended January 2, 2016, January 3, 2015 and December 28, 2013</u>	F-6
<u>Notes to consolidated financial statements</u>	F-7
<u>Financial Statement Schedule - Schedule II - Valuation and qualifying accounts</u>	F-42

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

Newport Corporation

Irvine, California

We have audited the accompanying consolidated balance sheets of Newport Corporation and subsidiaries (the Company) as of January 2, 2016 and January 3, 2015 and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years ended January 2, 2016, January 3, 2015 and December 28, 2013. Our audits also included the financial statement schedule listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedule based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Newport Corporation and subsidiaries as of January 2, 2016 and January 3, 2015, and the results of their operations and their cash flows for each of the three years ended January 2, 2016, January 3, 2015 and December 28, 2013, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in Note 16 to the consolidated financial statements, on February 22, 2016, the Company entered into an agreement and plan of merger pursuant to which MKS Instruments, Inc. will acquire the Company.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 2, 2016, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 2, 2016 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Costa Mesa, California

March 2, 2016

F-2

Table of Contents

NEWPORT CORPORATION

Consolidated Statements of Income and Comprehensive Income

(In thousands, except per share data)

	January 2, 2016	Year Ended January 3, 2015	December 28, 2013
Net sales	\$ 602,691	\$ 605,150	\$ 560,054
Cost of sales	340,171	334,394	322,341
Gross profit	262,520	270,756	237,713
Selling, general and administrative expense	155,531	158,646	149,183
Research and development expense	58,512	58,432	52,524
Loss on sale or other disposal of assets, net	1,088	1,913	4,725
Operating income	47,389	51,765	31,281
Loss on extinguishment of debt			(3,355)
Interest expense	(2,314)	(2,358)	(5,464)
Other expense, net	(2,009)	(1,727)	(1,026)
Income before income taxes	43,066	47,680	21,436
Income tax provision	11,945	12,510	5,698
Net income	31,121	35,170	15,738
Net income attributable to non-controlling interests		112	137
Net income attributable to Newport Corporation	\$ 31,121	\$ 35,058	\$ 15,601
Net income	\$ 31,121	\$ 35,170	\$ 15,738
Other comprehensive income (loss) (1)			
Foreign currency translation (losses) gains	(7,702)	(12,260)	2,159
Unrecognized net pension gains (losses), net of tax	709	(2,456)	849
Unrealized gains on investments and marketable securities, net of tax	281	353	208
Other comprehensive (loss) income	(6,712)	(14,363)	3,216
Comprehensive income	\$ 24,409	\$ 20,807	\$ 18,954
Comprehensive income attributable to non-controlling interests	\$	\$ 112	\$ 23
Comprehensive income attributable to Newport Corporation	24,409	20,695	18,931
Comprehensive income	\$ 24,409	\$ 20,807	\$ 18,954
Net income per share attributable to Newport Corporation:			
Basic	\$ 0.79	\$ 0.88	\$ 0.40
Diluted	\$ 0.78	\$ 0.87	\$ 0.39
Shares used in the computation of net income per share:			
Basic	39,221	39,750	39,010
Diluted	39,830	40,528	39,558

(1) Amounts reclassified out of other comprehensive income (loss) were not material for any of the periods presented.

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

F-3

Table of Contents

NEWPORT CORPORATION

Consolidated Balance Sheets

(In thousands, except share and per share data)

	January 2, 2016		January 3, 2015
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 41,678	\$	46,883
Restricted cash	721		1,704
Marketable securities			57
Accounts receivable, net of allowance for doubtful accounts of \$1,296 and \$1,242 as of January 2, 2016 and January 3, 2015, respectively	107,196		96,512
Inventories	113,505		112,440
Current deferred income taxes, net			20,734
Prepaid expenses and other current assets	16,914		14,948
Total current assets	280,014		293,278
Property and equipment, net	83,446		82,793
Goodwill	103,760		97,524
Long-term deferred income taxes, net	13,914		5,005
Intangible assets, net	65,820		70,811
Investments and other assets	29,689		30,516
	\$ 576,643	\$	579,927
LIABILITIES AND STOCKHOLDERS EQUITY			
Current liabilities:			
Short-term borrowings	\$ 3,121	\$	3,772
Accounts payable	29,994		31,448
Accrued payroll and related expenses	32,765		34,607
Accrued expenses and other current liabilities	31,726		31,797
Total current liabilities	97,606		101,624
Long-term debt	74,247		71,000
Pension liabilities	27,843		28,554
Long-term deferred tax liabilities	2,627		14,272
Other long-term liabilities	6,807		7,773
Commitments and contingencies (Note 9)			
Stockholders equity:			
Common stock, par value \$0.1167 per share, 200,000,000 shares authorized; 38,625,849 and 39,603,662 shares issued and outstanding as of January 2, 2016 and January 3, 2015, respectively	4,512		4,626
Capital in excess of par value	455,089		468,575
Accumulated other comprehensive loss	(24,694)		(17,982)
Accumulated deficit	(67,394)		(98,515)
Total stockholders equity	367,513		356,704
	\$ 576,643	\$	579,927

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

Table of Contents

NEWPORT CORPORATION

Consolidated Statements of Cash Flows

(In thousands)

	January 2, 2016	Year Ended January 3, 2015	December 28, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 31,121	\$ 35,170	\$ 15,738
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	28,355	28,136	30,478
Excess tax benefits from stock-based compensation	(3,055)	(6,393)	(3,972)
Deferred income taxes, net	(122)	(3,000)	(4,204)
Provision for losses on inventories	7,090	9,498	7,160
Stock-based compensation expense	13,234	12,051	9,173
Provision for doubtful accounts, net	341	587	404
(Gain) loss on sale of assets		(411)	4,725
Loss on disposal of property and equipment	1,310	2,796	535
Loss on extinguishment of debt			3,355
Increase (decrease) in cash due to change, net of acquisitions and divestitures:			
Accounts receivable	(11,789)	(4,839)	(9,155)
Inventories	(11,596)	(27,060)	(1,502)
Prepaid expenses and other assets	883	1,435	3,346
Accounts payable	(4,069)	507	321
Accrued payroll and related expenses	(2,388)	3,541	1,208
Accrued expenses and other liabilities	2,351	5,770	6,240
Net cash provided by operating activities	51,666	57,788	63,850
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property and equipment	(19,672)	(23,960)	(16,319)
Restricted cash	893	476	843
Proceeds from sale of assets		5,030	
Purchase of marketable securities	(1,449)	(1,463)	(5,264)
Proceeds from the sale and maturity of marketable securities	1,066	9,026	6,068
Acquisition of businesses, net of cash acquired	(8,106)	(34,124)	
Refundable amounts related to acquisition of a business	(2,078)		
Net cash used in investing activities	(29,346)	(45,015)	(14,672)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from long-term debt	28,000	4,000	120,000
Debt issuance costs			(1,484)
Repayment of long-term debt	(25,016)	(20,336)	(210,356)
Proceeds from short term borrowings	1,922	6,873	5,121
Repayment of short term borrowings	(6,560)	(4,505)	(8,733)
Purchases of non-controlling interests		(2,086)	
Proceeds from the issuance of common stock under employee plans	1,854	5,543	8,293
Tax withholding payment related to net share settlement of equity awards	(3,419)	(2,940)	(1,994)
Purchases of the Company's common stock	(27,893)	(10,292)	

Edgar Filing: NEWPORT CORP - Form 10-K

Excess tax benefits from stock-based compensation	3,055	6,393	3,972
Net cash used in financing activities	(28,057)	(17,350)	(85,181)
Impact of foreign exchange rate changes on cash balances	532	(2,250)	946
Net decrease in cash and cash equivalents	(5,205)	(6,827)	(35,057)
Cash and cash equivalents at beginning of year	46,883	53,710	88,767
Cash and cash equivalents at end of year	\$ 41,678	\$ 46,883	\$ 53,710
Supplemental disclosures of cash flow information:			
Cash paid during the year for interest	\$ 2,005	\$ 2,055	\$ 4,956
Cash paid during the year for income taxes, net	\$ 8,307	\$ 5,286	\$ 4,398
Property and equipment accrued in accounts payable at year end	\$ 280	\$ 462	\$ 108

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

Table of Contents

NEWPORT CORPORATION

Consolidated Statements of Stockholders' Equity

(In thousands)

	Common Stock Shares	Common Stock Amount	Capital in excess of par value	Accumulated other comprehensive loss	Accumulated deficit	Newport Corporation stockholders equity	Non- controlling interests	Total stockholders equity
December 29, 2012	38,402	4,481	441,074	(6,949)	(149,174)	289,432	1,386	290,818
Net income					15,601	15,601	137	15,738
Other comprehensive income (loss)				3,330		3,330	(114)	3,216
Issuance of common stock under employee plans	1,110	131	8,162			8,293		8,293
Deferral of vested restricted stock units			(561)			(561)		(561)
Tax withholding payment related to net share settlement of equity awards	(118)	(14)	(1,980)			(1,994)		(1,994)
Stock-based compensation expense			9,173			9,173		9,173
Tax benefits from stock-based compensation, net			3,694			3,694		3,694
December 28, 2013	39,394	4,598	459,562	(3,619)	(133,573)	326,968	1,409	328,377
Net income					35,058	35,058	112	35,170
Other comprehensive loss				(14,363)		(14,363)		(14,363)
Issuance of common stock under employee plans	919	110	5,433			5,543		5,543
Purchases from non-controlling interest shareholders			(565)			(565)	(1,521)	(2,086)
Deferral of vested restricted stock units			(627)			(627)		(627)
Tax withholding payment related to net share settlement of equity awards	(142)	(16)	(2,924)			(2,940)		(2,940)
Repurchases of common stock	(567)	(66)	(10,226)			(10,292)		(10,292)
Stock-based compensation expense			12,051			12,051		12,051
Tax benefits from stock-based compensation, net			5,871			5,871		5,871
January 3, 2015	39,604	\$ 4,626	\$ 468,575	\$ (17,982)	\$ (98,515)	\$ 356,704	\$ 1,409	\$ 356,704
Net income					31,121	31,121		31,121
Other comprehensive loss				(6,712)		(6,712)		(6,712)
Issuance of common stock under employee plans	853	100	1,754			1,854		1,854
Deferral of vested restricted stock units			(251)			(251)		(251)
Tax withholding payment related to net share settlement of equity awards	(180)	(21)	(3,398)			(3,419)		(3,419)
Repurchases of common stock	(1,651)	(193)	(27,700)			(27,893)		(27,893)
			13,234			13,234		13,234

Edgar Filing: NEWPORT CORP - Form 10-K

Stock-based compensation
 expense
 Tax benefits from
 stock-based compensation,
 net

				2,875				2,875		2,875			
January 2, 2016	38,626	\$	4,512	\$	455,089	\$	(24,694)	\$	(67,394)	\$	367,513	\$	367,513

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

Table of Contents

NEWPORT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Newport Corporation, including its subsidiaries (collectively, the Company), is 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. The Company's products are used worldwide in a variety of industries including scientific research, defense and security, microelectronics, life and health sciences and industrial markets. The Company operates within three distinct business segments: its Photonics Group, its Lasers Group and its Optics Group. All of these groups offer a broad array of advanced technology products and services to original equipment manufacturer (OEM) and end-user customers across a wide range of applications in all of the Company's targeted end markets.

Basis of Presentation

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

The Company uses a 52/53-week accounting fiscal year ending on the Saturday closest to December 31, and its fiscal quarters end on the Saturday that is generally closest to the end of each corresponding calendar quarter. Fiscal year 2015 (referred to herein as 2015) ended on January 2, 2016, fiscal year 2014 (referred to herein as 2014) ended on January 3, 2015 and fiscal year 2013 (referred to herein as 2013) ended on December 28, 2013. Fiscal year 2014 consisted of 53 weeks and 2015 and 2013 each consisted of 52 weeks.

Foreign Currency Translation

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

Derivative Instruments

The Company recognizes all derivative financial instruments in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. The Company does not engage in currency speculation; however, the Company uses forward exchange contracts and foreign currency option 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. The Company has not elected hedge accounting treatment and, accordingly, changes in fair values are reported in the consolidated statements of income and comprehensive income. The Company reports derivative asset and liabilities on a gross basis with derivative assets included in *prepaid expenses and other current assets* and derivative liabilities included in *accrued expenses and other current liabilities*. The forward exchange contracts and foreign currency option contracts generally result in the Company paying or receiving net amounts, based on the change in foreign currency rates between inception of the contracts and maturity of the contracts. If the counterparties to the contracts (typically highly rated banks) do not fulfill their obligations to deliver the contracted currencies, the Company could be at risk for any currency

Table of Contents

related fluctuations. Changes in fair values and transaction gains and losses are included in interest and other expense, net in the results of operations (see Note 5).

Cash and Cash Equivalents

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

Restricted Cash

The Company has certain agreements, which require it to maintain specified cash balances as collateral. Such amounts have been classified as restricted cash.

Accounts Receivable

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

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, foreign currency exchange contracts and accounts receivable. The Company maintains cash and cash equivalents with and purchases its foreign currency exchange contracts from major financial institutions and performs periodic evaluations of the relative credit standing of these financial institutions in order to limit the amount of credit exposure with any one institution.

The Company's customers are concentrated in the scientific research, defense and security, microelectronics, life and health sciences and industrial markets, and their ability to pay may be influenced by the prevailing macroeconomic conditions present in these markets. Receivables from the Company's customers are generally unsecured. To reduce the overall risk of collection, the Company performs ongoing evaluations of its customers' financial condition. For the years ended January 2, 2016, January 3, 2015 and December 28, 2013, no customer accounted for 10% or more of the Company's net sales or 10% or more of the Company's gross accounts receivable as of the end of such year.

Pension Plans

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

The Company accounts for its Israeli pension plans using the shut-down method of accounting. Under the shut-down method, the liability is calculated as if it was payable as of each balance sheet date, on an undiscounted basis. In addition, the assets and liabilities of the plans are accounted for on a gross basis.

Inventories

Inventories are stated at the lower of cost (determined on a first-in, first-out (FIFO) basis) or fair market value and include materials, labor and manufacturing overhead. Inventories that are expected to be sold within one year are classified as current inventories and are included in inventories, and inventories that the Company expects to hold for longer than one year are included in investments and other assets. The Company writes down excess and obsolete inventory to net realizable value. Once the Company writes down the carrying value of inventory, a new

Table of Contents

cost basis is established, and the Company does not increase the newly established cost basis based on subsequent changes in facts and circumstances. In assessing the ultimate realization of inventories, the Company makes judgments as to future demand requirements and compares those requirements with the current or committed inventory levels. The Company records any amounts required to reduce the carrying value of inventory to net realizable value as a charge to cost of sales.

Property and Equipment

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

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

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

Capitalized Software Costs

All direct costs related to developing internal use software during the application development stage are capitalized and amortized using the straight-line method over the estimated useful lives of the assets. Costs incurred in the preliminary project stage, maintenance costs and training costs are expensed as incurred.

Goodwill

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

Edgar Filing: NEWPORT CORP - Form 10-K

The Company determines its reporting units by identifying those operating segments, and those product and/or business groups one level below the operating segment level (also known as components), for which discrete financial information is available and regularly reviewed by the management of that unit. Based on the guidance under ASC 350, the Company has aggregated components with similar economic characteristics, such as similar product offerings and shared operations and resources, resulting in three reporting units, which are the same as its operating segments. For any acquisition, the Company allocates goodwill to the applicable reporting unit at the completion of the purchase price allocation through specific identification, based on which reporting unit is expected to benefit from the acquisition.

Fair value of the Company's reporting units is determined using a combination of a comparative company analysis and a discounted cash flow analysis. The comparative company analysis establishes fair value by applying market multiples to the Company's revenue and earnings before interest, income taxes, depreciation and amortization. Such multiples are determined by comparing the Company's reporting units with other publicly traded companies within the respective industries that have similar economic characteristics. In addition, a control premium is added to reflect the value an investor would pay to obtain a controlling interest, which is consistent with the lower quartile control premium for transactions in those industries in which the Company does business. The discounted cash flow analysis establishes fair value by estimating the present value of the projected future cash flows of each reporting unit and applying a terminal growth rate. The present value of estimated discounted future cash flows is determined

Table of Contents

using the Company's estimates of revenue and costs for the reporting units, using a combination of historical results, industry data and competitor data, as well as appropriate discount rates. The discount rate is determined using a weighted-average cost of capital that incorporates market participant data and a risk premium applicable to each reporting unit.

Long-Lived Assets

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

Warranty

Unless otherwise stated in the Company's product literature or in its agreements with customers, products sold by the Company's Photonics and 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, customer type 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.

Environmental Reserves

The Company accrues for losses associated with environmental remediation obligations when such losses are probable and reasonably estimable. Accruals for estimated losses from environmental remediation obligations generally are recognized no later than completion of the remedial feasibility study. Such accruals are adjusted as further information develops or circumstances change. Costs of future expenditures are discounted to their present value. Recoveries of environmental remediation costs from other parties are recognized as assets when their receipt is deemed probable. See Note 9 for additional information.

Revenue Recognition

The Company recognizes revenue after title to and risk of loss of products have passed to the customer, or delivery of the service has been completed, provided that persuasive evidence of an arrangement exists, the price is fixed or determinable and collectability is reasonably

assured. Title to and risk of loss of products generally pass to the customer upon delivery (either at point of shipment or destination depending on the contractual delivery terms), but in certain cases pass upon acceptance. Under ASC 605-25, *Revenue Recognition - Multiple Elements*, the Company recognizes revenue and related costs for arrangements with multiple deliverables as each element is delivered or completed based upon the lesser of its relative selling price, determined based upon the price that would be charged on a standalone basis, or the amount contractually due upon delivery of each element. 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. Some services, such as installation, are not often sold by the Company or its competitors on a stand-alone basis. Therefore, the Company calculates the estimated selling price based on specific facts and circumstances for each service. For example, the relative selling price for installation is determined by estimating the installation hours for a particular product, using historical experience, multiplied by the standard service billing rate. Under ASC 605-20, *Revenue Recognition - Services*, revenue for separately priced extended warranties and product maintenance contracts are excluded from the scope of ASC 605-25 and the

Table of Contents

selling price (without regard to the allocation methodology under ASC 605-25) is recognized over the related contract periods. Revenue for programs involving design and development services and delivery of product prototypes and/or other deliverables is recognized upon the completion of specified milestones, or over the term of the program based upon the percentage of completion of the program (using the cost-to-cost method), depending on the terms of the associated contract. Certain sales to international customers are made through third-party distributors and revenue is recognized upon the sale to the distributor. A discount below list price is generally provided at the time the product is sold to the distributor, and such discount is reflected as a reduction in net sales. Freight costs billed to customers are included in net sales, and freight costs incurred are included in *selling, general and administrative expense*. Sales taxes collected from customers are recorded on a net basis and any amounts not yet remitted to tax authorities are included in *accrued expenses and other current liabilities*.

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

Advertising

The Company expenses the costs of advertising as incurred. Advertising costs, including the costs of the Company's participation at industry trade shows, totaled \$4.4 million, \$4.4 million and \$4.2 million are included in *selling, general and administrative expense* for 2015, 2014 and 2013, respectively.

Shipping and Handling Costs

The Company expenses the costs of shipping and handling as incurred. Shipping and handling costs of \$4.9 million, \$5.0 million and \$4.7 million are included in *selling, general and administrative expense* for 2015, 2014 and 2013, respectively.

Research and Development

All research and development costs are expensed as incurred.

Non-Controlling Interests

In October 2011, the Company acquired Ophir Optronics Ltd. and its subsidiaries (Ophir), which had non-controlling interest holders in certain subsidiaries. During 2014, the Company purchased all shares owned by the holders of such non-controlling interests.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes. Deferred income taxes are recognized for the future tax consequences of temporary differences using enacted statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Temporary differences include the difference between the financial statement carrying amounts, and the tax bases of existing assets and liabilities as well as operating loss and tax credit carryforwards. In accordance with the provisions of ASC 740, *Income Taxes*, 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.

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

Income per Share

Basic income per share is computed by dividing net income by the weighted-average number of shares of common stock outstanding during the period. Diluted income per share is computed using the weighted-average number of

Table of Contents

shares of common stock outstanding during the period plus the dilutive effects of common stock equivalents (restricted stock units, stock options and stock appreciation rights) outstanding during the period, determined using the treasury stock method.

Stock-Based Compensation

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

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

A substantial portion of the Company's restricted stock unit awards vest based upon the achievement of one or more financial performance thresholds established by the Compensation Committee of the Company's Board of Directors. Currently, such performance thresholds relate to the fiscal year in which the award is granted, and if and to the extent that such performance thresholds are met, the awards vest in equal one-third (1/3) annual installments. Until the Company has determined that performance thresholds have been met, the amount of expense that the Company records relating to performance-based awards is estimated based on the likelihood of achieving the performance thresholds. The amount of expense recorded by the Company is also based on estimated forfeitures. The fair value of stock-based awards, adjusted for estimated forfeitures (and adjusted for estimated or actual achievement of performance thresholds in the case of awards having performance-based vesting conditions), is amortized using the straight-line attribution method over the requisite service period of the award, which is generally the vesting period.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates. Significant estimates made in preparing the consolidated financial statements include (but are not limited to) those related to revenue recognition, the allowance for doubtful accounts, inventory reserves, warranty obligations, pension plans, asset impairment valuations, income tax valuations, and stock-based compensation expenses.

Recent Accounting Pronouncements

Edgar Filing: NEWPORT CORP - Form 10-K

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-2, *Leases*, which created Topic 842. ASU No. 2016-2 requires lessees to record the assets and liabilities arising from all leases in the statement of financial position. Under ASU 2016-2, lessees will recognize a liability for lease payments and a right-of-use asset. When measuring assets and liabilities, a lessee should include amounts related to option terms, such as the option of extending or terminating the lease or purchasing the underlying asset, that are reasonably certain to be exercised. For leases with a term of 12 months or less, lessees are permitted to make an accounting policy election to not recognize lease assets and liabilities. ASU 2016-2 retains the distinction between finance leases and operating leases and the classification criteria remains similar. For financing leases, a lessee will recognize the interest on a lease liability separate from amortization of the right of use asset. In addition, repayments of principal will be presented within financing activities and interest payments will be presented within operating activities in the statement of cash flows. For operating leases, a lessee will recognize a single lease cost on a straight-line basis and classify all cash payments within operating activities in the statement of cash flows. ASU No. 2016-2 will be effective for fiscal years and interim periods beginning after December 15, 2018 and is required to be applied using a modified retrospective approach. Early adoption is permitted but has not been elected. The Company is currently evaluating the expected impact of ASU No. 2016-2 on its financial position and results of operations.

Table of Contents

In January 2016, the FASB issued ASU No. 2016-1, *Recognition and Measurement of Financial Assets and Liabilities*. ASU No. 2016-1 requires equity investments, except those accounted for under the equity method of accounting, to be measured at fair value with changes in fair value recognized in net income. Companies may elect to measure equity instruments that do not have readily determinable fair values at cost, less impairment (if any), plus or minus changes resulting from observable price changes. If a company has elected to measure a liability at fair value, any changes in fair value resulting from instrument specific credit risk are required to be recorded through other comprehensive income. Companies are also required to separately present financial assets and financial liabilities, by measurement category and form of financial asset, on the balance sheet or in the notes to the financial statements. ASU No. 2016-1 will be effective for fiscal years and interim periods beginning after December 15, 2017 and is required to be applied prospectively with a cumulative effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. Early adoption is not permitted, except for recognition of changes in fair value of a liability resulting from a change in instrument specific credit risk through other comprehensive income. Adoption of ASU No. 2016-1 would have resulted in a cumulative effect adjustment to other comprehensive income, related to unrealized gains on investments, of \$1.7 million as of January 2, 2016.

In November 2015, the FASB issued ASU No. 2015-17, *Balance Sheet Classification of Deferred Taxes*. ASU No. 2015-17 removes the requirement to separate deferred income tax assets and liabilities into current and noncurrent amounts and instead requires such amounts to be classified as noncurrent. ASU No. 2015-17 will be effective for fiscal years and interim periods beginning after December 15, 2016, and can be applied either prospectively or retrospectively. Early adoption is permitted. The Company has elected to adopt ASU No. 2015-17 as of January 2, 2016, applying it prospectively, which resulted in \$21.6 million of current deferred tax assets being reclassified to noncurrent deferred tax assets and \$0.1 million of current deferred tax liabilities being reclassified to noncurrent deferred tax liabilities.

In September 2015, the FASB issued 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 became 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 adoption of ASU No. 2015-16 will not have a material impact on the Company's financial position or results of operations.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which created Topic 606. ASU No. 2014-09 establishes a core principle that a company should recognize revenue to depict the transfer of promised goods or services to a customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. In order to achieve that core principle, companies are required to apply the following steps: (1) identify the contract with the customer; (2) identify performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the company satisfies a performance obligation. Upon adoption, ASU No. 2014-09 can be applied either (i) retrospectively to each prior reporting period or (ii) retrospectively with the cumulative effect of initial application recognized on the date of adoption. At the time of issuance, ASU No. 2014-09 was to become effective for interim and annual periods beginning after December 15, 2016, and early adoption was not permitted. However, in July 2015, the FASB deferred the effective date of ASU No. 2014-09 by one year to annual reporting periods beginning after December 15, 2017. In addition, early adoption of the standard will be permitted, but not before the original effective date of December 15, 2016. The Company is currently evaluating the expected impact of ASU No. 2014-09 on its financial position and results of operations.

In July 2015, the FASB issued ASU No. 2015-11, *Simplifying the Measurement of Inventory*. ASU No. 2015-11 clarifies that inventory should be held at the lower of cost or net realizable value. Net realizable value is defined as the estimated selling price, less the estimated costs to complete, dispose and transport such inventory. ASU No. 2015-11 will be effective for fiscal years and interim periods beginning after December 15, 2016. ASU No. 2015-11

Table of Contents

is required to be applied prospectively and early adoption is permitted. The adoption of ASU No. 2015-11 is not expected to have a material impact on the Company's financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. ASU No. 2015-03 requires debt issuance costs to be presented as a reduction from the carrying amount of the related debt rather than as a deferred charge (an asset). ASU No. 2015-03 became effective for fiscal years and interim periods beginning after December 15, 2015, and is required to be applied retrospectively. Early adoption was permitted but was not elected by the Company. In August 2015, the FASB issued ASU No. 2015-15, *Presentation and Measurement of Debt Issuance Costs Associated with Line-of-Credit Arrangements*. ASU No. 2015-15 clarified that debt issuance costs related to line-of-credit arrangements could be presented as an asset and subsequently amortized ratably over the term of the line-of-credit arrangement. The adoption of ASU No. 2015-03 and ASU No. 2015-15 will not have a material impact on the Company's financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-04, *Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets*. ASU No. 2015-04 allows companies with a fiscal year-end that does not coincide with a month-end to measure defined benefit plan assets and obligations using the month-end date that is closest to the entity's fiscal year-end. This practical expedient is required to be applied consistently year to year and for all plans. However, if a contribution or significant event occurs between the month-end date and the entity's fiscal year-end, the defined benefit plan assets and obligations should be adjusted to capture such events. ASU No. 2015-04 became effective for fiscal years and interim periods beginning after December 15, 2015. Early adoption was permitted but was not elected by the Company. The adoption of ASU No. 2015-04 will not have a material impact on the Company's financial position or results of operations.

In April 2015, the FASB issued ASU No. 2015-05, *Customer's Accounting for Fees Paid in a Cloud Computing Arrangement*. ASU No. 2015-05 provides guidance for determining whether a cloud computing arrangement includes a software license. A cloud computing arrangement is considered to contain a license if the customer has a contractual right to take possession of the software without significant penalty and it is feasible for the customer to run the software on its own or with an unrelated vendor. If the arrangement includes a software license, the customer should account for the purchase of the license consistent with the purchase of other licenses. If the arrangement does not include a license, the customer should account for the arrangement as a service contract. ASU No. 2015-05 became effective for fiscal years and interim periods beginning after December 15, 2015 and can be applied prospectively or retrospectively. Early adoption was permitted but was not elected by the Company. The adoption of ASU No. 2015-05 will not have a material impact on the Company's financial position or results of operations.

NOTE 2 ACQUISITIONS AND DIVESTITURES

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 \$1.9 million, resulting in a purchase price of \$7.2 million (approximately \$8.2 million). 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 has expanded the Company's offering of ultrafast laser products and enhanced its technology base in this area. The results of FEMTOLASERS following the acquisition date are included in the results of the Company's Lasers Group.

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

Table of Contents

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)	Purchase Price Allocation	
Assets acquired and liabilities assumed:		
Cash	\$	78
Accounts receivable		1,968
Inventories		2,759
Other assets		2,015
Goodwill		6,922
Developed technology		1,811
In-process research and development		1,721
Other intangible assets		543
Accounts payable		(3,417)
Debt		(4,021)
Other liabilities		(2,195)
	\$	8,184

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 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 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 for 2015 and 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)	Year Ended	
	January 2, 2016	January 3, 2015
Actual:		
Net sales	\$ 7,096	\$
Net loss attributable to Newport Corporation	\$ (185)	\$
Supplemental pro forma information:		
Net sales	\$ 602,952	\$ 615,041
Net income attributable to Newport Corporation	\$ 31,483	\$ 33,510
Net income per share		
Basic	\$ 0.80	\$ 0.84
Diluted	\$ 0.79	\$ 0.83

Edgar Filing: NEWPORT CORP - Form 10-K

For the purposes of determining pro forma net income, adjustments were made to actual net income of the Company for both 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 \$0.5 million for 2014. Transaction costs totaling \$0.4 million, which were incurred prior to the closing of the acquisition, are excluded from pro forma net income.

F-15

Table of Contents*Acquisition of V-Gen*

On September 29, 2014, the Company acquired all of the capital stock of V-Gen, Ltd. (V-Gen). The purchase price was \$36.4 million, of which \$35.6 million was allocated to the purchase price and \$0.8 million was allocated to the fair value of unearned compensation related to unvested stock options. The purchase price was paid in cash and consisted of an initial purchase price of \$34.0 million, plus an adjustment of \$2.4 million based on a calculation of V-Gen's net working capital and cash balances at the closing date. After considering the cash held by V-Gen as of the closing date, the net cash used by the Company for this transaction was \$34.1 million. The Company incurred \$0.3 million in transaction costs, which have been expensed as incurred and are included in *selling, general and administrative expense* in the accompanying statements of income and comprehensive income. V-Gen has expanded the Company's fiber laser products and its technology in this area. The results of V-Gen are included in the results of the Company's Lasers Group.

The consideration paid by the Company for the acquisition of V-Gen 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)	Purchase Price Allocation
Assets acquired and liabilities assumed:	
Cash	\$ 1,482
Accounts receivable	2,264
Inventories	2,364
Other assets	1,243
Goodwill	19,543
Developed technology	5,600
In-process research and development	5,600
Customer relationships	1,600
Other intangible assets	300
Deferred income taxes	(2,211)
Other liabilities	(2,217)
	\$ 35,568

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

Divestiture of Advanced Packaging Systems Business

During the third quarter of 2013, the Company developed a plan to sell its advanced packaging systems business and, based on negotiations for the sale of this business that occurred during the second half of 2013, the Company considered the assets and liabilities of this business as held for sale as of December 28, 2013. The Company completed the sale of this business in January 2014 for \$5.7 million, consisting of an initial

Edgar Filing: NEWPORT CORP - Form 10-K

sales price of \$6.0 million, less an adjustment of \$0.3 million based on the net assets of the business at closing. The initial sales price consisted of \$5.35 million in cash and an unsecured note receivable of \$0.65 million, and the net asset adjustment was repaid to the purchaser in cash. The Company incurred \$0.4 million in transaction costs, which have been expensed as incurred and are included in *selling, general and administrative expense* in the accompanying consolidated statements of income and comprehensive income.

The net book value of this business was \$9.5 million as of December 28, 2013; however, because these assets were held for sale at such time, the Company wrote them down to their net realizable value as of December 28, 2013 based on the terms that had been negotiated with the purchaser and expected transaction costs, resulting in a loss of

Table of Contents

\$4.7 million during 2013. In 2014, the Company recorded a gain of \$0.4 million to reduce the loss on the sale to \$4.3 million, based on the final terms of the transaction and the net assets of the business on the closing date.

NOTE 3 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)	January 2, 2016	January 3, 2015
Raw materials and purchased parts	\$ 69,581	\$ 68,989
Work in process	17,341	16,564
Finished goods	26,583	26,887
	\$ 113,505	\$ 112,440

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)	January 2, 2016	January 3, 2015
Raw materials and purchased parts	\$ 1,848	\$ 3,208
Finished goods	5,235	3,856
	\$ 7,083	\$ 7,064

Property and Equipment, net

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

(In thousands)	January 2, 2016	January 3, 2015
Land	\$ 3,098	\$ 3,275
Buildings	9,832	10,425
Leasehold improvements	34,928	36,820
Machinery and equipment	103,250	98,368
Office equipment	56,541	53,550

Edgar Filing: NEWPORT CORP - Form 10-K

Construction in process	6,356	5,984
	214,005	208,422
Less accumulated depreciation and amortization	(130,559)	(125,629)
	\$ 83,446	\$ 82,793

During 2015, the Company entered into a plan to transfer the operations of its North Andover, Massachusetts facility to certain of its other facilities and shut down manufacturing operations at that facility. In connection with this plan, the Company determined that the carrying value of leasehold improvements for the facility was not recoverable and recorded a loss of \$1.1 million.

During 2014, the Company determined that it would no longer utilize certain software applications for which it had capitalized the application development costs and recognized a loss of \$2.3 million on the disposal of such assets.

Depreciation expense totaled \$17.2 million, \$17.1 million and \$17.2 million for 2015, 2014 and 2013, respectively.

Table of Contents*Accrued Warranty Obligations*

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)	Year Ended	
	January 2, 2016	January 3, 2015
Balance at beginning of year	\$ 3,556	\$ 3,285
Additions charged to cost of sales	5,362	2,825
Warranty claims	(5,649)	(2,554)
Balance at end of year	\$ 3,269	\$ 3,556

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities were as follows:

(In thousands)	January 2, 2016	January 3, 2015
Deferred revenue	\$ 13,426	\$ 13,032
Deferred lease liability	4,641	5,094
Short-term accrued warranty obligations	3,072	3,324
Accrued income taxes	1,834	2,219
Accrued third party commissions	1,581	1,395
Other	7,172	6,733
	\$ 31,726	\$ 31,797

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss consisted of the following:

(In thousands)	January 2, 2016	January 3, 2015
Cumulative foreign currency translation losses	\$ (22,258)	\$ (14,556)
Unrecognized net pension losses, net of tax	(4,146)	(4,855)

Edgar Filing: NEWPORT CORP - Form 10-K

Unrealized gains on investments and marketable securities, net of tax	1,710	1,429
	\$ (24,694)	\$ (17,982)

F-18

Table of Contents**NOTE 4 GOODWILL AND INTANGIBLE ASSETS**

The changes in the carrying amount of goodwill for the years ended January 2, 2016 and January 3, 2015 were as follows:

(In thousands)	Photonics Group	Lasers Group	Optics Group	Total
Balance at December 28, 2013:				
Goodwill	98,808	111,038	41,314	251,160
Accumulated impairment losses	(47,458)	(104,562)	(20,339)	(172,359)
	51,350	6,476	20,975	78,801
Goodwill allocated to acquisition		19,543		19,543
Foreign currency impact		(820)		(820)
	51,350	25,199	20,975	97,524
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		6,922		6,922
Foreign currency impact		(686)		(686)
	51,350	31,435	20,975	103,760
Balance at January 2, 2016:				
Goodwill	98,808	135,997	41,314	276,119
Accumulated impairment losses	(47,458)	(104,562)	(20,339)	(172,359)
	\$ 51,350	\$ 31,435	\$ 20,975	\$ 103,760

During 2015, the Company allocated \$6.9 million of goodwill to its Lasers Group related to the acquisition of FEMTOLASERS. During 2014, the Company allocated \$19.5 million of goodwill to its Lasers Group related to the acquisition of V-Gen.

The Company amortizes customer relationships on an accelerated basis and amortizes all other intangible assets on a straight line basis over the periods listed in the table below. As of January 2, 2016, 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	\$ 39,669	\$ (12,490)	\$ 27,179
Customer relationships	up to 10 years	28,644	(21,758)	6,886
In-process research and development	10 years	15,094	(2,378)	12,716
Other	3 months-10 years	2,181	(1,407)	774
		85,588	(38,033)	47,555
Intangible assets not subject to amortization:				
Trademarks and trade names		18,265		18,265
Intangible assets		\$ 103,853	\$ (38,033)	\$ 65,820

Edgar Filing: NEWPORT CORP - Form 10-K

As of January 2, 2016, 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

Table of Contents

related entities (Spectra-Physics), 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 \$8.4 million, \$8.8 million and \$10.3 million for 2015, 2014 and 2013, respectively.

Estimated aggregate amortization expense for future fiscal years will be amortized over a remaining weighted-average life of 9.5 years as follows:

(In thousands)	Estimated Aggregate Amortization Expense
2016	\$ 8,325
2017	7,159
2018	4,995
2019	4,404
2020	4,017
Thereafter	16,248
	\$ 45,148

The Company has excluded \$2.4 million of amortization expense related to in-process research and development from the table above, as it was uncertain as of January 2, 2016 when the technology will be completed and when the amortization will begin.

Table of Contents**NOTE 5 OTHER EXPENSE, NET**

Other expense, net, was as follows:

(In thousands)	January 2, 2016	Year Ended January 3, 2015	December 28, 2013
Interest and dividend income	\$ 114	\$ 291	\$ 221
Bank and portfolio asset management fees	(1,316)	(1,174)	(830)
Derivative gains (losses)	144	(1,225)	709
Foreign currency transaction gains (losses)	(1,056)	369	(1,103)
Other, net	105	12	(23)
	\$ (2,009)	\$ (1,727)	\$ (1,026)

NOTE 6 STOCK INCENTIVE PLANS AND STOCK-BASED COMPENSATION*Stock-Based Benefit Plans*

In March 2011, the Company's Board of Directors adopted the 2011 Stock Incentive Plan subject to approval of its stockholders, which was received in May 2011. In March 2015, the Company's Board of Directors adopted the Amended and Restated 2011 Stock Incentive Plan, which increased the number of shares of common stock authorized for issuance under the 2011 Stock Incentive Plan by an additional 4,500,000 shares, extended the term of the plan by four (4) years, and amended certain other provisions of the plan. The Amended and Restated 2011 Stock Incentive Plan was approved by the Company's stockholders in May 2015. The Amended and Restated 2011 Stock Incentive Plan is referred to herein as the 2011 Plan.

The primary purpose of the 2011 Plan is to enhance the Company's ability to attract, motivate and retain the services of qualified employees, officers and directors, consultants and other service providers upon whose judgment, initiative and efforts the successful conduct and development of the Company's business largely depends. The 2011 Plan authorizes the Company to grant up to 10,500,000 shares of common stock. This number of shares is subject to adjustments as to the number and kind of shares in the event of stock splits, stock dividends or certain other similar changes in the capital structure of the Company.

The 2011 Plan permits the grant of stock appreciation rights, restricted stock, restricted stock units, incentive stock options and non-qualified stock options. For purposes of calculating the total number of shares that may be issued under the 2011 Plan, the 2011 Plan provides that full value awards shall be counted against the share limit to a greater extent than appreciation awards. Stock options and stock appreciation rights, which are appreciation awards, shall be counted against the share limit under the 2011 Plan as one (1) share for each share of common stock subject to such award. Restricted stock and restricted stock units, which are full value awards, shall be counted against the share limit under the 2011 Plan as one and seven tenths (1.7) shares for each share of common stock subject to such award.

Edgar Filing: NEWPORT CORP - Form 10-K

Any stock options or stock appreciation rights granted under the 2011 Plan will have exercise prices or base values not less than the fair market value of the Company's common stock on the date of grant and terms of not more than seven years. The vesting of substantially all awards granted to directors under the 2011 Plan occurs over a period of one year (except for a portion of the initial awards granted to newly appointed directors, which vests over a period of four years). The vesting of substantially all awards granted to officers and employees under the 2011 Plan occurs over a period of three years, and the vesting of substantially all restricted stock unit awards is also conditioned upon the achievement of performance thresholds established by the Compensation Committee of the Company's Board of Directors. Currently, such performance thresholds relate to the fiscal year in which the award is granted, and if such performance thresholds are met, the awards vest in equal one-third (1/3) annual installments. All awards are subject to forfeiture if employment or other service terminates prior to the vesting of the awards.

Table of Contents

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

Stock-Based Compensation Expense

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

	January 2, 2016	Year Ended January 3, 2015	December 28, 2013
Fair value	\$ 7.60	\$ 7.85	\$ 6.61
Expected annual volatility	41.79%	46.52%	56.26%
Risk-free interest rate	1.64%	1.59%	0.85%
Expected term (years)	5.4	5.2	5.0
Annualized expected dividend yield			

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

(In thousands)	January 2, 2016	Year Ended January 3, 2015	December 28, 2013
Cost of sales	\$ 1,415	\$ 1,098	\$ 938
Selling, general and administrative expense	10,242	9,525	7,142
Research and development expense	1,577	1,428	1,093
	\$ 13,234	\$ 12,051	\$ 9,173

As required by ASC 718, the Company estimates the expected future forfeitures of stock appreciation rights and restricted stock units and recognizes compensation expense for only those equity awards expected to vest, excluding the expected future forfeitures. If actual forfeitures differ from the Company's estimates, the amount of compensation expense recognized for the applicable period is cumulatively adjusted. The Company assumed a forfeiture rate of 12.5% in recognizing compensation expense for 2015, 2014 and 2013.

At January 2, 2016, 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 \$17.6 million, net of estimated forfeitures. This future compensation expense will be amortized, using the straight-line attribution method over a weighted-average period of 1.8 years. The actual compensation expense that the Company will recognize in the future related to stock-based awards outstanding at January 2, 2016 will be adjusted for subsequent forfeitures. All performance conditions applicable to stock-based awards outstanding at January 2, 2016 have been met.

Table of Contents*Stock-Based Award Activity*

The following table summarizes stock option activity for the year ended January 2, 2016:

	Number of Options (In thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 3, 2015	82	\$ 13.67		
Exercised	(77)	\$ 13.68		
Expired (cancelled post-vesting)	(5)	\$ 13.46		
Outstanding at January 2, 2016		\$		\$

The intrinsic value of options exercised during fiscal years 2015, 2014 and 2013 totaled \$0.3 million, \$1.7 million and \$1.3 million, respectively. The intrinsic value of options exercised is calculated as the difference between the market price on the date of exercise and the exercise price, multiplied by the number of options exercised.

The following table summarizes the Company's stock appreciation rights activity for the year ended January 2, 2016:

	Number of Shares (In thousands)	Weighted Average Base Value	Weighted Average Remaining Contractual Life (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding at January 3, 2015	2,235	\$ 13.96		
Granted	496	\$ 19.08		
Exercised	(322)	\$ 9.18		
Forfeited (cancelled pre-vesting)	(71)	\$ 17.01		
Expired (cancelled post-vesting)	(14)	\$ 16.04		
Outstanding at January 2, 2016	2,324	\$ 15.61	4.1	\$ 3,968
Vested and expected to vest at January 2, 2016	2,229	\$ 15.48	4.1	\$ 3,963
Exercisable at January 2, 2016	1,315	\$ 13.89	3.0	\$ 3,582

The intrinsic value of stock appreciation rights exercised during fiscal years 2015, 2014 and 2013 totaled \$3.4 million, \$1.7 million and \$2.0 million, respectively. The intrinsic value of stock appreciation rights exercised is calculated as the difference between the market price on the date of exercise and the base value, multiplied by the number of stock appreciation rights exercised.

The grant date fair value of stock appreciation rights that vested during fiscal years 2015, 2014 and 2013 totaled \$3.7 million, \$2.8 million and \$2.3 million, respectively.

Table of Contents

The following table summarizes the Company's restricted stock unit activity for the year ended January 2, 2016:

	Number of Shares (In thousands)	Weighted Average Grant Date Fair Value
Outstanding at January 3, 2015	1,196	\$ 16.54
Granted	533	\$ 19.06
Vested	(561)	\$ 16.38
Forfeited	(81)	\$ 17.33
Outstanding at January 2, 2016	1,087	\$ 17.81

At January 2, 2016, the Company had reserved 7,473,297 shares of common stock for future issuance under its stock incentive plans, which included 4,062,664 shares that were reserved for the future grant of stock-based awards under the 2011 Plan, and had reserved 1,880,231 shares of common stock for future issuance under the Purchase Plan.

NOTE 7 DEBT AND LINES OF CREDIT*Short-Term Debt*

Total short-term debt was as follows:

(In thousands)	Interest Rate(s)	January 2, 2016	January 3, 2015
Japanese revolving lines of credit, no expiration date	1.28%	\$ 2,817	\$ 3,163
Japanese receivables financing facility, no expiration date	1.20%	304	25
Current portion of long-term debt			584
Total short-term borrowings		\$ 3,121	\$ 3,772

Short-Term Lines of Credit

At January 2, 2016, the Company had various revolving lines of credit and an agreement with a Japanese bank denominated in yen under which it sells trade notes receivable with recourse. The Japanese revolving lines of credit allow the Company to borrow up to \$10.1 million (based on the currency exchange rate at January 2, 2016). The agreement to sell receivables allows the Company to sell up to \$2.1 million of receivables (based on the currency exchange rate at January 2, 2016). The effective interest rates and the amounts outstanding under these lines of credit and agreement at January 2, 2016 are presented in the table above. Such amounts are included in *short-term borrowings* in the accompanying consolidated balance sheets.

Table of Contents**Long-Term Debt**

Total long-term debt was as follows:

(In thousands)	Interest Rate(s)	January 2, 2016	January 3, 2015
U.S. revolving line of credit, maturing July 2018	1.94%	\$ 74,000	\$ 71,000
Israeli loans			584
Austrian loans, maturing through March 2019	0.75%-2.00%	247	
Total long-term debt		74,247	71,584
Current portion of long-term debt			584
Total long-term debt, less current portion		\$ 74,247	\$ 71,000

Secured Credit Facility

On July 18, 2013, the Company entered into a credit agreement with certain lenders (Credit Agreement), which replaced a prior credit agreement. The Credit Agreement consists of a senior secured revolving credit facility of \$275 million with a term of five years (Credit Facility). The Credit Agreement also provides the Company with the option to increase the aggregate principal amount of loans in the form of additional revolving loans or a separate tranche of term loans, in an aggregate amount that does not exceed \$50 million, in each case subject to certain terms and conditions contained in the Credit Agreement. Concurrently with the closing of the Credit Agreement, the Company terminated the prior credit agreement after repaying the entire outstanding principal amount of \$152.6 million and all accrued interest and fees thereon, utilizing \$120.0 million borrowed under the Credit Facility together with a portion of the Company's then-existing cash balances. Upon terminating the prior credit agreement, the Company recorded a loss on extinguishment of debt of \$3.4 million, to write off the remaining deferred debt issuance costs relating to the prior credit agreement.

At January 2, 2016, the outstanding balance under the Credit Facility was \$74.0 million. The interest rate per annum applicable to amounts outstanding under the Credit Facility is, at the Company's option, either (a) the base rate as defined in the Credit Agreement (Base Rate) plus an applicable margin, or (b) the Eurodollar Rate as defined in the Credit Agreement (Eurodollar Rate) plus an applicable margin. A commitment fee is payable on the unused portion of the Credit Facility. The margins over the Base Rate and Eurodollar Rate applicable to the loans outstanding under the Credit Facility, and the commitment fee, are adjusted periodically based on the consolidated leverage ratio of the Company, as calculated pursuant to the Credit Agreement. The maximum applicable margins are 1.25% per annum for Base Rate loans and 2.25% per annum for Eurodollar Rate loans, and the minimum applicable margins are 0.5% per annum for Base Rate loans and 1.5% per annum for Eurodollar Rate loans. The maximum commitment fee is 0.40% per annum, and the minimum commitment fee is 0.25% per annum. As of January 2, 2016, the interest rate per annum applicable to amounts outstanding under the Credit Facility was 1.94%, and the commitment fee on the unused portion of the Credit Facility was 0.25%.

Edgar Filing: NEWPORT CORP - Form 10-K

The Company's obligations under the Credit Agreement are secured by a lien on substantially all of the assets of Newport Corporation and certain of its U.S. subsidiaries, which are guarantors under the Credit Agreement, as well as by a pledge of certain shares of international subsidiaries of Newport Corporation. The terms of the Credit Agreement permit the Company to pay dividends during the term of such facility, subject to certain conditions and limitations.

Austrian Loans

One of the Company's Austrian subsidiaries has four outstanding loans from the Austrian government to fund research and development. These loans are unsecured and do not require principal repayment as long as certain conditions are met. Interest on these loans is payable semi-annually. The interest rates and principal amounts outstanding under these loans are shown in the table above.

Table of Contents

Maturities of the Company's debt obligations as of January 2, 2016 were as follows:

(In thousands)	
2016	\$ 3,121
2017	88
2018	74,011
2019	148
	\$ 77,368

NOTE 8 NET INCOME PER SHARE

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

(In thousands, except per share data)	January 2, 2016	Year Ended January 3, 2015	December 28, 2013
Net income attributable to Newport Corporation	\$ 31,121	\$ 35,058	\$ 15,601
Shares:			
Weighted average shares outstanding - basic	39,221	39,750	39,010
Dilutive potential common shares, using treasury stock method	609	778	548
Weighted average shares outstanding - diluted	39,830	40,528	39,558
Net income per share attributable to Newport Corporation:			
Basic	\$ 0.79	\$ 0.88	\$ 0.40
Diluted	\$ 0.78	\$ 0.87	\$ 0.39

For 2015, 2014 and 2013, 1.0 million, 0.6 million and 1.3 million stock options and/or stock appreciation rights, respectively, 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.

Table of Contents**NOTE 9 COMMITMENTS AND CONTINGENCIES***Facility Leases*

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

Future minimum rental commitments under the terms of these leases at January 2, 2016 were as follows:

(In thousands)	Capital Leases	Operating Leases	Total Obligations
Payments Due By Period:			
2016	\$ 16	\$ 10,550	\$ 10,566
2017	14	8,875	8,889
2018	7	7,997	8,004
2019		7,167	7,167
2020		6,177	6,177
Thereafter		6,518	6,518
Total minimum payments	37	\$ 47,284	\$ 47,321
Less amount representing interest	(1)		
Present value of obligation	\$ 36		

The Company has subleased one of its facilities under a non-cancelable sublease. Future minimum rentals to be received under such sublease as of January 2, 2016 were as follows:

(In thousands)	Operating Leases	
Payments Due By Period:		
2016	\$ 345	
2017	427	
2018	488	
2019	494	
Total minimum sublease payments	\$ 1,754	

Rental expense, net of sublease income, under all leases totaled \$10.0 million, \$10.0 million and \$11.5 million for 2015, 2014 and 2013, respectively.

Environmental Reserves

Certain portions of the soil at Spectra-Physics former facility located in Mountain View, California, and certain portions of the aquifer surrounding the facility, through which contaminated ground water flowed, are part of an EPA-designated Superfund site and are subject to a cleanup and abatement order from the California Regional Water Quality Control Board. Spectra-Physics, along with several other entities with facilities located near the Mountain View, California facility, have been identified as Responsible Parties with respect to this Superfund site, due to releases of hazardous substances during the 1960s and 1970s. The site is mature, and investigations and remediation efforts have been ongoing for approximately 30 years. Spectra-Physics and the other Responsible

Table of Contents

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

At the time of the Company's acquisition of Spectra-Physics, it established a reserve to cover known costs relating to this site for which it was liable, the balance of which was immaterial at January 2, 2016 and January 3, 2015. The Company is currently unaware of any material future expenses associated with this site for which the Company will be liable.

Indemnification Obligations

The Company from time to time enters into certain types of agreements that contingently require the Company to indemnify the other parties against certain claims. These contracts primarily include: (i) contracts for the development and/or sale of products, under which the Company customarily agrees to hold the other party harmless against losses arising from bodily injury or damage to personal property caused by the Company's personnel or products or infringement by the Company's products of third-party intellectual property rights; (ii) certain real estate leases, under which the Company may be required to indemnify property owners for environmental and other liabilities, and other claims arising from the Company's use of the applicable premises; (iii) divestiture agreements, under which the Company may provide customary indemnifications to purchasers of the Company's businesses or assets; and (iv) certain agreements with the Company's officers, directors and employees, under which the Company may be required to indemnify such persons for liabilities incurred by them in the course of their employment.

In each of these circumstances, payment by the Company is typically subject to the other party making a claim to and cooperating with the Company pursuant to the procedures specified in the particular contract. This usually allows the Company to challenge the other party's claims and to control the defense or settlement of any third-party claims brought against the other party. The Company's obligations under these agreements are typically not limited in terms of amount or duration. In some instances, the Company may have recourse against third parties and/or insurance covering certain payments made by the Company.

It is not possible to predict the maximum potential amount of future payments under these or similar agreements due to the conditional nature of the Company's obligations and the unique facts and circumstances involved in each particular agreement. Historically, the Company has not been obligated to make significant payments for these obligations, and no liabilities have been recorded for these obligations as of January 2, 2016 and January 3, 2015.

Other Contingencies

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

NOTE 10 INCOME TAXES

Edgar Filing: NEWPORT CORP - Form 10-K

United States and foreign income before income taxes were as follows:

(In thousands)	January 2, 2016	Year Ended January 3, 2015	December 28, 2013
United States	\$ 16,332	\$ 17,208	\$ 2,377
Foreign	26,734	30,472	19,059
	\$ 43,066	\$ 47,680	\$ 21,436

F-28

Table of Contents

The income tax provisions based on income were as follows:

(In thousands)	January 2, 2016	Year Ended January 3, 2015	December 28, 2013
Current:			
Federal	\$ 4,699	\$ 6,017	\$ 4,973
State	169	1,205	546
Foreign	6,862	5,865	4,662
	11,730	13,087	10,181
Deferred:			
Federal	(705)	(478)	(5,249)
State	2,097	(105)	283
Foreign	(1,177)	6	483
	215	(577)	(4,483)
	\$ 11,945	\$ 12,510	\$ 5,698

The income tax provisions that were based on income differs from the amount obtained by applying the statutory tax rate as follows:

(In thousands)	January 2, 2016	Year Ended January 3, 2015	December 28, 2013
Income tax provision at statutory rate	\$ 15,073	\$ 16,688	\$ 7,503
Increase (decrease) in taxes resulting from:			
Non-deductible expenses	71	156	490
State tax, net of federal benefit	523	1,084	429
Foreign rate variance	(4,186)	(3,881)	(1,135)
Income tax credits	(725)	(783)	(1,636)
Valuation allowance	102	229	(873)
Tax contingency	356	(695)	(114)
Other, including deferred tax adjustment, net	731	(288)	1,034
	\$ 11,945	\$ 12,510	\$ 5,698

Table of Contents

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

(In thousands)	January 2, 2016	January 3, 2015
Deferred tax assets:		
Net operating loss carryforwards	\$ 3,485	\$ 2,053
Accruals and reserves not currently deductible	20,135	18,529
Tax credit carryforwards	1,740	1,817
Other basis differences	10,037	9,929
Total gross deferred tax assets	35,397	32,328
Valuation allowance	(3,239)	(2,480)
Total deferred tax assets	32,158	29,848
Deferred tax liabilities:		
Intangible assets	15,626	14,642
Property and equipment	4,806	3,169
Other basis differences	439	583
Total deferred tax liabilities	20,871	18,394
Net deferred tax assets	\$ 11,287	\$ 11,454

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

As of January 2, 2016, the Company could not determine that it is more likely than not that deferred tax assets related to domestic unrealized losses, certain domestic and foreign net operating loss carryforwards and other miscellaneous foreign deferred tax assets would be realized. Therefore, the Company has maintained a valuation allowance of \$3.2 million against its domestic and certain foreign subsidiaries' deferred tax assets.

At January 2, 2016, the Company had gross state and foreign net operating loss carryforwards totaling approximately \$18.3 million and \$18.2 million, respectively. State net operating loss carryforwards begin to expire in 2016, net operating losses of the Company's subsidiary in Romania begin to expire in 2019, and a majority of the remaining foreign net operating loss carryforwards may be carried forward indefinitely.

At January 2, 2016, the Company had federal and state income tax credit carryforwards of \$13.4 million and \$13.1 million, respectively. Certain unused federal carryforwards will begin to expire in 2020 and will continue to expire in future years if not fully utilized. The state carryforwards do not expire.

The Company recognizes excess tax benefits associated with share-based compensation to stockholders' equity only when realized. When assessing whether excess tax benefits relating to share-based compensation have been realized, the Company follows the with-and-without approach excluding any indirect effects of the excess tax deductions. Under this approach, excess tax benefits related to share-based

Edgar Filing: NEWPORT CORP - Form 10-K

compensation are not deemed to be realized until after the utilization of all other tax benefits available to the Company. During the years ended January 2, 2016 and January 3, 2015, the Company realized \$3.1 million and \$6.4 million, respectively, of such excess tax benefits and, accordingly, recorded a corresponding increase in capital in excess of par value. As of January 2, 2016, the Company had \$10.8 million of unrealized excess tax benefits associated with share-based compensation. These tax benefits, if and when realized, will be accounted for as an increase in capital in excess of par value rather than as a reduction in the provision for income taxes.

F-30

Table of Contents

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

Undistributed earnings of the Company's historic and acquired foreign subsidiaries for which no federal or state liability has been recorded totaled \$59.6 million and \$46.7 million at January 2, 2016 and January 3, 2015, respectively. These undistributed earnings are considered to be indefinitely reinvested. Accordingly, no provision for federal and state income taxes or foreign withholding taxes has been provided on such undistributed earnings. Determination of the potential amount of unrecognized deferred federal and state income tax liability and foreign withholding taxes is not practicable because of the complexities associated with this hypothetical calculation; however, unrecognized foreign tax credits would be available to reduce some portion of the federal liability.

As of January 2, 2016, the Company had \$18.4 million of gross unrecognized tax benefits and a total of \$14.6 million of net unrecognized tax benefits, which, if recognized, would affect the effective tax rate. Interest and penalties related to unrecognized tax benefits were not significant as of January 2, 2016. The Company believes that gross unrecognized tax benefits may decrease by \$1.5 million over the next twelve months.

As of January 3, 2015, the Company had \$17.6 million of gross unrecognized tax benefits and a total of \$14.3 million of net unrecognized tax benefits, which, if recognized, would affect the effective tax rate. Interest and penalties related to unrecognized tax benefits were not significant as of January 3, 2015.

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

(In thousands)	January 2, 2016	Year Ended January 3, 2015	December 28, 2013
Unrecognized tax benefits at beginning of year	\$ 17,612	\$ 17,429	\$ 15,173
Gross increases for tax positions of prior years	542	236	832
Gross decrease for tax positions of prior years		(942)	
Gross increases for tax positions of current year	1,156	1,558	2,509
Settlements	(571)	(492)	
Lapse of statute of limitations	(343)	(177)	(1,085)
Unrecognized tax benefits at end of year	\$ 18,396	\$ 17,612	\$ 17,429

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

U.S. Federal	2012 through current periods
California	2011 through current periods
France	2013 through current periods
Germany	2010 through current periods
Japan	2009 through current periods
Israel	2012 through current periods

Edgar Filing: NEWPORT CORP - Form 10-K

The use of net operating losses in the United States 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 2003 tax year.

F-31

Table of Contents**NOTE 11 STOCKHOLDERS EQUITY TRANSACTIONS**

In May 2008, the Board of Directors approved a share repurchase program, authorizing the purchase of up to 4.0 million shares of the Company's common stock. Purchases may be made under this program from time to time in the open market or in privately negotiated transactions, and the timing and amount of the purchases will be based on factors including the Company's share price, cash balances, expected cash requirements and general business and market conditions. The terms of the Credit Agreement permit the Company to purchase shares under the repurchase program, subject to certain conditions and limitations.

During 2015, the Company repurchased 1.7 million shares for a total of \$27.9 million, and during 2014, the Company repurchased 0.6 million shares for a total of \$10.3 million, under this program. No purchases were made under this program during 2013. As of January 2, 2016, 1.7 million shares remained available for purchase under the program.

In 2015, 2014 and 2013, the Company cancelled 0.2 million, 0.1 million and 0.1 million shares of common stock underlying restricted stock units, respectively, 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 shares totaled \$3.4 million, \$2.9 million and \$2.0 million, respectively, at the time they were cancelled.

NOTE 12 FAIR VALUE MEASUREMENTS

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

The Company's assets measured at fair value on a recurring basis are categorized in the table below based upon their level within the fair value hierarchy as of January 2, 2016.

(In thousands)

Description	January 2, 2016	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	\$ 721	\$ 721	\$	\$
Derivatives:				

Edgar Filing: NEWPORT CORP - Form 10-K

Option contracts	125			125	
Funds in investments and other assets:					
Israeli pension funds	11,599			11,599	
German group insurance contracts	5,719			5,719	
	17,318			17,318	
	\$ 18,164	\$ 721	\$ 17,443		\$
Liabilities:					
Derivatives:					
Option contracts	\$ 142	\$	\$ 142		\$

F-32

Table of Contents

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 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	
Derivatives:				
Option contracts	103		103	
Funds in investments and other assets:				
Israeli pension funds	11,090		11,090	
German group insurance contracts	6,140		6,140	
	17,230		17,230	
	\$ 19,094	\$ 1,711	\$ 17,383	\$
Liabilities:				
Derivatives:				
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 the 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)	January 2, 2016		January 3, 2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Short-term borrowings	\$ 3,121	\$ 3,121	\$ 3,772	\$ 3,772
Long-term debt	\$ 74,247	\$ 73,908	\$ 71,000	\$ 69,761

NOTE 13 EMPLOYEE BENEFIT PLANS*Defined Contribution Plan*

Edgar Filing: NEWPORT CORP - Form 10-K

The Company sponsors certain 401(k) defined contribution plans. Generally, all U.S. employees are eligible to participate in and contribute to one of these plans. The Company makes certain matching contributions to these plans based on participating employees' contributions to the plans and their total compensation. Expense recognized for the plans totaled \$5.4 million, \$5.0 million and \$4.8 million for 2015, 2014 and 2013, respectively.

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 was based upon a number of actuarial assumptions, including a discount rate for plan obligations, an assumed rate of return on pension plan assets and an assumed rate of compensation increase for employees covered by the plan. All of these assumptions were based upon management's judgment, considering all known trends and uncertainties. Actual results that differ from these assumptions would impact future expense recognition and the cash funding requirements of the Company's pension plans.

Table of Contents

January 2, 2016, January 3, 2015 and December 28, 2013 serve as the measurement dates for the respective amounts shown below. Net periodic benefit costs for the plans in aggregate included the following components:

(In thousands)	January 2, 2016	Year Ended January 3, 2015	December 28, 2013
Service cost	\$ 2,243	\$ 2,227	\$ 2,692
Interest cost on projected benefit obligations	478	688	653
Expected return on plan assets	(175)	(277)	(207)
Amortization of net loss	299	102	240
	\$ 2,845	\$ 2,740	\$ 3,378

Changes in plan assets and benefit obligations recognized in other comprehensive income (loss) included the following components:

(In thousands)	January 2, 2016	Year Ended January 3, 2015	December 28, 2013
Net actuarial (gain) loss	\$ (410)	\$ 2,558	\$ (609)
Amortization of net loss	(299)	(102)	(240)
Total recognized in other comprehensive (income) loss	(709)	2,456	(849)
Total recognized in net periodic benefit costs and other comprehensive (income) loss	\$ 2,136	\$ 5,196	\$ 2,529

Table of Contents

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

(In thousands)	January 2, 2016	January 3, 2015
Change in projected benefit obligations:		
Projected benefit obligations, beginning of year	\$ 36,998	\$ 36,426
Liabilities assumed through acquisition		293
Service cost	2,243	2,227
Interest cost	478	688
Actuarial (gain) loss	(529)	4,155
Benefits paid	(1,460)	(2,087)
Currency translation adjustments	(1,289)	(4,704)
Projected benefit obligations, end of year	36,441	36,998
Change in plan assets:		
Fair value of plan assets, beginning of year	8,134	9,198
Company contributions	582	415
Gain on plan assets	56	24
Benefits paid	(241)	(525)
Currency translation adjustments	(228)	(978)
Fair value of plan assets, end of year	8,303	8,134
Funded status	\$ (28,138)	\$ (28,864)
Amounts recognized in the balance sheet:		
Current portion of pension liabilities	\$ (295)	\$ (310)
Pension liabilities	(27,843)	(28,554)
Net amount recognized	\$ (28,138)	\$ (28,864)
Amounts recognized in accumulated comprehensive loss:		
Net actuarial loss	\$ 5,705	\$ 6,723
Income tax impact	(1,559)	(1,868)
Accumulated other comprehensive loss	\$ 4,146	\$ 4,855

The Company's Israeli plans account for the deferred vested benefits using the shut-down method of accounting, which resulted in assets of \$11.6 million and \$11.1 million and vested benefit obligations of \$13.4 million and \$12.5 million being reported on a gross basis as of January 2, 2016 and January 3, 2015, respectively. Under the shut-down method, the liability is calculated as if it was payable as of each balance sheet date, on an undiscounted basis. As January 3, 2015, all other plans were underfunded and had combined assets of \$8.1 million and combined projected benefit obligations of \$24.5 million. As January 2, 2016, all other plans were underfunded and had combined assets of \$8.3 million and combined projected benefit obligations of \$23.1 million.

At January 2, 2016, the aggregate projected benefit obligations, accumulated benefit obligations and fair value of plan assets were \$36.4 million, \$33.9 million and \$8.3 million, respectively. At January 3, 2015, the aggregate projected benefit obligations, accumulated benefit obligations and fair value of plan assets were \$37.0 million, \$34.7 million and \$8.1 million, respectively.

Edgar Filing: NEWPORT CORP - Form 10-K

Table of Contents

At January 2, 2016, the estimated benefit payments for the next 10 years were as follows:

(In thousands)	Estimated Benefit Payments
2016	\$ 1,553
2017	1,530
2018	2,242
2019	1,449
2020	1,439
2021-2026	16,469
	\$ 24,682

The Company expects to contribute \$1.6 million to the plans during 2016.

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

	January 2, 2016	January 3, 2015	December 28, 2013
Discount rate	1.37%	1.96%	1.87%
Rate of increase in salary levels	1.56%	1.58%	1.67%
Expected long-term rate of return on assets	2.64%	1.83%	1.89%

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

	January 2, 2016	January 3, 2015
Discount rate	1.35%	1.37%
Rate of increase in salary levels	1.52%	1.56%
Expected long-term rate of return on assets	1.95%	2.64%

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

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

(Amounts in thousands)	January 2, 2016		January 3, 2015	
	Amount	Percentage	Amount	Percentage
Cash	\$ 813	10%	\$ 764	9%

Edgar Filing: NEWPORT CORP - Form 10-K

Bonds	1,232	15	1,230	15
Equity securities	742	9	1,051	13
Insurance contracts	5,516	66	5,089	63
	\$ 8,303	100%	\$ 8,134	100%

In general, the Company's asset management objectives include maintaining an adequate level of diversification to reduce interest rate and market risk while providing adequate liquidity to meet immediate and future benefit payment requirements. In Japan, assets are primarily invested in pooled funds of insurance companies. The expected long-term rate of return on these assets is 2.0%, which is based on the general yield environment for high quality instruments in Japan. The United Kingdom pension plan invests in a combination of equity and bond funds. The allocation mix is designed to minimize risk while providing a rate of return that will provide asset growth which

Table of Contents

will be sufficient to cover expected liabilities. The expected long-term rate of return on these assets is 4.8%, which is a combination of long dated government and corporate bond yields for the bond funds, and long dated government and corporate bond yields with an allowance for out-performance for equity funds. In France, assets are invested in group insurance contracts and the expected long-term rate of return on these assets is 1.3%, which is based on the expected return on the underlying assets. The Company does not invest in derivative instruments, although the pooled funds it owns may use such instruments in a risk management capacity.

Other Pension-Related Assets

As of January 2, 2016 and January 3, 2015, the Company had assets with an aggregate market value of \$5.7 million and \$6.1 million, respectively, which it has set aside in connection with its German pension plans. These assets are invested in group insurance contracts through the insurance companies administering these plans, in accordance with applicable pension laws. The German contracts have a guaranteed minimum rate of return ranging from 2.25% to 4.25%, depending on the contract. Because these assets were not separate legal assets of the pension plan, they were not included in the Company's plan assets shown above. However, the Company has designated such assets to pay pension benefits. Such assets are included in *investments and other assets* in the accompanying consolidated balance sheets.

The Company's Israeli plans are accounted for using the shut-down method of accounting. As a result, plan assets are reported separate from the net underfunded pension liability and were not included in the Company's plan assets shown above. The Israeli assets are invested in government regulated pension funds, which invest primarily in bonds. As of January 2, 2016 and January 3, 2015, the aggregate market value of these assets was \$11.6 million and \$11.1 million, respectively. Such assets are included in *investments and other assets* in the accompanying consolidated balance sheets.

Fair Value Measurements

The carrying amount of cash and cash equivalents approximates fair value due to the short-term maturities of these instruments. The fair value of bond funds is based on quoted prices provided by the fund issuer and the fair value of insurance contracts is based on quoted prices provided by the insurance provider. Because the bond funds and insurance contracts are not actively traded but are valued using observable inputs, they fall within Level 2 of the fair value hierarchy. Equity securities are included within an equity fund and the fair value is based on quoted prices provided by the fund issuer. Although the individual equity securities are actively traded, the fund is not publicly traded, and therefore, these assets fall within Level 2 of the fair value hierarchy.

NOTE 14 BUSINESS SEGMENT INFORMATION

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

Edgar Filing: NEWPORT CORP - Form 10-K

The Company develops, manufactures and markets its products within three distinct business segments: its Photonics Group, its Lasers Group and its Optics Group.

The Photonics Group products are sold to OEM and end-user customers in a wide range of markets, including the microelectronics, scientific research, defense and security, life and health sciences and industrial markets. The products sold by this group include photonics instruments and systems, precision positioning systems and subsystems, vibration isolation systems and subsystems, optical components for research applications, optical hardware and three-dimensional non-contact measurement sensors and equipment.

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

Table of Contents

The Optics Group products and systems are sold to OEM and end-user customers in a wide range of markets, including the microelectronics, defense and security, life and health sciences and industrial markets. The products sold by this group include precision optics and lens assemblies, optical components and opto-mechanical subassemblies. In addition, this group sells subsystems to customers that integrate these products into larger systems, particularly for microelectronics and life and health sciences applications.

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.

Selected segment financial information for the Company's reportable segments for the years ended January 2, 2016, January 3, 2015 and December 28, 2013 were as follows:

(In thousands)	Photonics Group	Lasers Group	Optics Group	Total
Year ended January 2, 2016				
Sales to external customers	\$ 249,277	\$ 192,832	\$ 160,582	\$ 602,691
Depreciation and amortization	\$ 3,574	\$ 5,094	\$ 7,526	\$ 16,194
Segment income	\$ 62,302	\$ 17,607	\$ 16,175	\$ 96,084
Segment assets	\$ 182,529	\$ 164,918	\$ 135,082	\$ 482,529
Expenditures for long-lived assets	\$ 5,314	\$ 2,271	\$ 7,752	\$ 15,337
Year ended January 3, 2015				
Sales to external customers	\$ 245,710	\$ 193,032	\$ 166,408	\$ 605,150
Depreciation and amortization	\$ 4,236	\$ 3,992	\$ 7,338	\$ 15,566
Segment income	\$ 55,664	\$ 25,508	\$ 17,446	\$ 98,618
Segment assets	\$ 202,103	\$ 148,380	\$ 124,512	\$ 474,995
Expenditures for long-lived assets	\$ 3,499	\$ 4,592	\$ 7,431	\$ 15,522
Year ended December 28, 2013				
Sales to external customers	\$ 230,303	\$ 165,788	\$ 163,963	\$ 560,054
Depreciation and amortization	\$ 4,035	\$ 3,534	\$ 8,236	\$ 15,805
Segment income	\$ 49,984	\$ 18,746	\$ 11,748	\$ 80,478
Segment assets	\$ 200,584	\$ 111,651	\$ 123,781	\$ 436,016
Expenditures for long-lived assets	\$ 3,561	\$ 2,341	\$ 6,328	\$ 12,230

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

(In thousands)	January 2, 2016	Year Ended January 3, 2015	December 28, 2013
Segment income	\$ 96,084	\$ 98,618	\$ 80,478
Unallocated operating expenses	(47,607)	(44,940)	(44,472)
Loss on sale or other disposal of assets, net	(1,088)	(1,913)	(4,725)
Loss on extinguishment of debt			(3,355)
Interest expense	(2,314)	(2,358)	(5,464)
Other expense, net	(2,009)	(1,727)	(1,026)

Edgar Filing: NEWPORT CORP - Form 10-K

Consolidated income before income taxes	\$	43,066	\$	47,680	\$	21,436
---	----	--------	----	--------	----	--------

F-38

Table of Contents

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

(In thousands)	January 2, 2016	As of or for the Year Ended January 3, 2015	December 28, 2013
Depreciation and amortization for reportable segments	\$ 16,194	\$ 15,566	\$ 15,805
Depreciation and amortization for assets held at corporate	12,161	12,570	14,673
Total depreciation and amortization	\$ 28,355	\$ 28,136	\$ 30,478
Assets of reportable segments	\$ 482,529	\$ 474,995	\$ 436,016
Assets held at corporate, primarily cash and cash equivalents and property and equipment	94,114	104,932	129,213
Total assets	\$ 576,643	\$ 579,927	\$ 565,229
Expenditures for long-lived assets for reportable segments	\$ 15,337	\$ 15,522	\$ 12,230
Expenditures for long-lived assets held at corporate	4,335	8,438	4,089
Total expenditures for long-lived assets	\$ 19,672	\$ 23,960	\$ 16,319

Selected financial information for the Company's operations by geographic area is presented in the table below. The table below reflects the Company's net sales by geographic region. Sales are attributed to each location based on the customer's address to which the product is shipped.

(In thousands)	January 2, 2016	As of or for the Year Ended January 3, 2015	December 28, 2013
Geographic area net sales:			
United States	\$ 231,453	\$ 230,807	\$ 218,298
Germany	66,246	81,859	75,119
Other European countries	90,853	87,404	81,178
Greater China	64,617	55,158	45,851
Other Pacific Rim countries	105,551	107,854	101,689
Rest of world	43,971	42,068	37,919
	\$ 602,691	\$ 605,150	\$ 560,054
Geographic area long-lived assets:			
United States	\$ 47,068	\$ 45,205	
Israel	20,074	21,834	
Europe	13,728	13,074	
Rest of world	2,576	2,680	
	\$ 83,446	\$ 82,793	

Table of Contents**NOTE 15 SUPPLEMENTARY QUARTERLY CONSOLIDATED FINANCIAL DATA (Unaudited)**

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended January 2, 2016:				
Net sales	\$ 156,655	\$ 147,977	\$ 147,560	\$ 150,499
Gross profit	\$ 70,281	\$ 63,919	\$ 62,427	\$ 65,893
Net income	\$ 8,664	\$ 5,770	\$ 7,103	\$ 9,584
Basic income per share attributable to Newport Corporation (1)	\$ 0.22	\$ 0.15	\$ 0.18	\$ 0.25
Diluted income per share attributable to Newport Corporation (1)	\$ 0.21	\$ 0.14	\$ 0.18	\$ 0.24

(In thousands, except per share data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year Ended January 3, 2015:				
Net sales	\$ 146,890	\$ 153,232	\$ 146,299	\$ 158,729
Gross profit	\$ 65,459	\$ 69,888	\$ 65,965	\$ 69,444
Net income attributable to Newport Corporation	\$ 7,886	\$ 8,952	\$ 9,470	\$ 8,750
Basic income per share attributable to Newport Corporation (1)	\$ 0.20	\$ 0.22	\$ 0.24	\$ 0.22
Diluted income per share attributable to Newport Corporation (1)	\$ 0.19	\$ 0.22	\$ 0.23	\$ 0.22

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

NOTE 16 SUBSEQUENT EVENT

On February 22, 2016, the Company entered into an agreement and plan of merger (Merger Agreement) with MKS and its wholly owned subsidiary, PSI Equipment, Inc. (Merger Sub), pursuant to which Merger Sub will merge with and into the Company, with the Company surviving the merger as a wholly owned subsidiary of MKS (the Merger), subject to the terms and conditions of the Merger Agreement. The completion of the Merger is subject to customary closing conditions, including the adoption and approval of the Merger Agreement by an affirmative vote of the holders of at least a majority of the outstanding shares of the Company's common stock, and the receipt of certain regulatory approvals, including the expiration or early termination of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1974, as amended, and certain foreign antitrust approvals. The Company expects that the Merger will be completed during the second quarter of 2016, subject to the satisfaction of all closing conditions.

If the Merger is consummated, (i) each share of the Company's common stock that is issued and outstanding immediately prior to the effective time of the Merger will be converted into the right to receive \$23.00 in cash, without interest; (ii) each restricted stock unit that is outstanding immediately prior to the effective time of the Merger and as to which shares have not been fully distributed in connection with the closing of the Merger will be assumed by MKS and converted into a restricted stock unit of MKS having an equivalent value based on the consideration paid by MKS in connection with the Merger; and (iii) each stock appreciation right that is outstanding immediately prior to the effective time of the Merger will be assumed by MKS and converted into a stock appreciation right of MKS having an equivalent value based on the consideration paid by MKS in connection with the Merger, on the terms and subject to the conditions set forth in the Merger Agreement. All assumed and

Edgar Filing: NEWPORT CORP - Form 10-K

converted restricted stock units and stock appreciation rights will continue to be subject to the same terms and conditions (including vesting schedule) as in effect immediately prior to the Merger.

Pursuant to the Merger Agreement, the Company is subject to certain restrictions on its business activities, including limits on capital expenditures above a specified level, the making of loans and investments in third parties, and the incurrence of indebtedness, all of which apply during the period from February 22, 2016 through the consummation of the Merger. Prior to the receipt of approval of the Merger Agreement by the Company's stockholders, the Company may terminate the Merger Agreement to enter into an agreement relating to an alternative acquisition proposal from a third party if the Company's Board of Directors determines that such proposal is more favorable from a financial point of view to the Company's stockholders as compared with the Merger, provided, among other things, that the Company complies in all material respects with certain obligations in the Merger Agreement and

Table of Contents

pays MKS a termination fee of \$32.6 million. The Company is obligated to pay such termination fee in the event of termination of the Merger Agreement under certain other circumstances, as set forth in the Merger Agreement.

In connection with the Merger Agreement, each of the Company's directors and executive officers executed a stockholder agreement with MKS (Stockholder Agreements). Each Stockholder Agreement (i) requires the applicable stockholder to vote such stockholder's shares in favor of (and to grant a proxy to MKS to vote in favor of) adoption and approval of the Merger Agreement and to vote against the approval or adoption of any alternative acquisition proposal, and (ii) prohibits the applicable stockholder from transferring such stockholder's shares, each subject to the exceptions described in the Stockholder Agreement. The Stockholder Agreements will terminate upon the effective time or the earlier termination of the Merger Agreement.

Table of Contents

NEWPORT CORPORATION

Schedule II

Valuation and Qualifying Accounts

(In thousands)	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Charged to Other Accounts	Write-Offs	Other Charges Add/Deduct (1)	Balance at End of Period
Year Ended January 2, 2016:						
Deducted from asset accounts:						
Allowance for doubtful accounts	\$ 1,242	\$ 341	\$	\$ (143)	\$ (144)	\$ 1,296
Year Ended January 3, 2015:						
Deducted from asset accounts:						
Allowance for doubtful accounts	\$ 1,441	\$ 587	\$	\$ (436)	\$ (350)	\$ 1,242
Year Ended December 28, 2013:						
Deducted from asset accounts:						
Allowance for doubtful accounts	\$ 1,548	\$ 404	\$	\$ (493)	\$ (18)	\$ 1,441

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

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description of Exhibit
2.1	Agreement and Plan of Merger, dated as of February 22, 2016, between the Registrant, MKS Instruments, Inc., and PSI Equipment, Inc. (incorporated by reference to Exhibit 2.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 23, 2016).
3.1	Restated Articles of Incorporation of the Registrant, as amended to date (incorporated by reference to Exhibit 3.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2010).
3.2	Amended and Restated Bylaws of the Company, as adopted by the Board of Directors of the Company effective as of August 16, 2010 and amended on December 17, 2014, August 18, 2015 and February 22, 2016 (incorporated by reference to Exhibit 3.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 23, 2016).
10.1	Lease Agreement dated March 27, 1991, as amended, pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.1 of the Registrant's Annual Report on Form 10-K for the year ended July 31, 1992).
10.2	First Amendment to Lease dated January 31, 2002, between the Registrant and IRP Muller Associates, LLC pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.2 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001).
10.3	Second Amendment to Lease dated September 28, 2004, between the Registrant and BCSD Properties, L.P. pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.5 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004).
10.4	Third Amendment to Lease dated December 15, 2010, between the Registrant and BCSD Properties, L.P. pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.4 of the Registrant's Annual Report on Form 10-K for the year ended January 1, 2011).
10.5*	2001 Stock Incentive Plan (incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 27, 2001).
10.6*	Form of Nonqualified Stock Option Agreement under the Registrant's 2001 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.9 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
10.7*	Form of Incentive Stock Option Agreement under the Registrant's 2001 Stock Incentive Plan (incorporated by reference to Exhibit 10.10 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
10.8*	Form of Restricted Stock Agreement under the Registrant's 2001 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004).
10.9*	2006 Performance-Based Stock Incentive Plan (incorporated by reference to Appendix B of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 10, 2006).

Edgar Filing: NEWPORT CORP - Form 10-K

Table of Contents

Exhibit Number	Description of Exhibit
10.10*	Form of Restricted Stock Unit Award Agreement under the Registrant's 2006 Performance-Based Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2006).
10.11*	Form of Restricted Stock Unit Award Agreement (as revised March 2009) under the Registrant's 2006 Performance-Based Stock Incentive Plan (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 4, 2009).
10.12*	Form of Stock Appreciation Right Award Agreement under the Registrant's 2006 Performance-Based Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended April 4, 2009).
10.13*	2011 Stock Incentive Plan (incorporated by reference to Appendix A of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 6, 2011).
10.14*	Amended and Restated 2011 Stock Incentive Plan (incorporated by reference to Appendix B of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 8, 2015).
10.15*	Form of Restricted Stock Unit Award Agreement (with performance-based vesting) used under the 2011 Stock Incentive Plan and the Amended and Restated 2011 Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2011).
10.16*	Form of Restricted Stock Unit Award Agreement (with time-based vesting) used under the 2011 Stock Incentive Plan and the Amended and Restated 2011 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2011).
10.17*	Form of Stock Appreciation Right Award Agreement used under the 2011 Stock Incentive Plan and the Amended and Restated 2011 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2011).
10.18*	Second Amended and Restated Employee Stock Purchase Plan (incorporated by reference to Appendix B of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 4, 2012).
10.19*	Severance Compensation Agreement dated April 1, 2008 between the Registrant and Robert J. Phillippy, President and Chief Executive Officer (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 7, 2008).
10.20*	Severance Compensation Agreement dated April 1, 2008 between the Registrant and Charles F. Cargile, Senior Vice President, Chief Financial Officer and Treasurer (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 7, 2008).
10.21*	Form of Severance Compensation Agreement between the Registrant and certain of its executive and other officers (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on April 7, 2008).
10.22*	Form of Indemnification Agreement between the Registrant and each of its directors and executive officers (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).

Edgar Filing: NEWPORT CORP - Form 10-K

Table of Contents

Exhibit Number	Description of Exhibit
10.23	Credit Agreement, dated as of July 18, 2013, among Newport Corporation, as borrower, the lenders from time to time party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Wells Fargo Bank, N.A. and BBVA Compass (a tradename of Compass Bank), as Co-Syndication Agents and U.S. Bank, N.A., as Documentation Agent (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 19, 2013).
10.24	Amendment No. 1, dated as of December 20, 2013, to Credit Agreement dated as of July 18, 2013, among Newport Corporation, as borrower, the lenders listed on the signature pages thereof, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.26 of the Registrant's Annual Report on Form 10-K for the year ended December 28, 2013).
10.25	Security and Pledge Agreement, dated as of July 18, 2013, among Newport Corporation, the guarantors from time to time party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 19, 2013).
10.26	Guaranty, dated as of July 18, 2013, among the guarantors from time to time party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 19, 2013).
10.27*	Form of Stockholder Agreement entered into between each of the Registrant's executive officers and directors, as a stockholder, and MKS Instruments, Inc. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 23, 2016).
21.1	Subsidiaries of the Registrant.
23.1	Consent of Independent Registered Public Accounting Firm.
24.1	Power of Attorney (included in signature page).
31.1	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 (the Exchange Act).
31.2	Certification pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act.
32.1	Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350.
32.2	Certification pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350.
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

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

