NEWPORT CORP
Form 10-Q
August 11, 2005
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended July 2, 2005

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	**94-0849175**

(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*

1791 Deere Avenue, Irvine, California 92606

(Address of principal executive offices) (Zip Code)

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

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 x No ¨

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes x No ¨

As of July 29, 2005, 39,842,294 shares of the registrant s sole class of common stock were outstanding.

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FORM 10-Q

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

NEWPORT CORPORATION

Consolidated Statements of Operations

(In thousands, except per share data)

(Unaudited)

	Three Months Ended		Six Months Ended	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
Net sales	$ 97,520	$ 40,146	$ 194,511	$ 76,052
Cost of sales	57,185	25,123	113,625	48,188
Gross profit	40,335	15,023	80,886	27,864
Selling, general and administrative expense	25,127	9,281	50,238	19,049
Research and development expense	8,925	3,053	17,652	6,070
Operating income	6,283	2,689	12,996	2,745
Interest and other income (expense), net	(759)	1,057	(1,197)	2,556
Income from continuing operations before income taxes	5,524	3,746	11,799	5,301
Income tax provision (benefit)	801	40	1,887	(160)
Income from continuing operations before extraordinary gain	4,723	3,706	9,912	5,461
Loss from discontinued operations, net of income taxes of $37, $0, $760 and $0, respectively	(1,864)	(999)	(5,455)	(1,613)
Extraordinary gain on settlement of litigation			2,891	
Net income	$ 2,859	$ 2,707	$ 7,348	$ 3,848
Basic income (loss) per share:				
Income from continuing operations before extraordinary gain	$ 0.11	$ 0.09	$ 0.23	$ 0.14
Loss from discontinued operations, net of income taxes	(0.04)	(0.02)	(0.13)	(0.04)
Extraordinary gain on settlement of litigation			0.07	
Net income	$ 0.07	$ 0.07	$ 0.17	$ 0.10

Diluted income (loss) per share:				
Income from continuing operations before extraordinary gain	$ 0.11	$ 0.09	$ 0.22	$ 0.13
Loss from discontinued operations, net of income taxes	(0.05)	(0.02)	(0.12)	(0.04)
Extraordinary gain on settlement of litigation			0.07	
Net income	$ 0.06	$ 0.07	$ 0.17	$ 0.09
Shares used in the computation of income (loss) per share:				
Basic	42,727	39,308	42,808	39,234
Diluted	44,263	41,074	44,321	41,241

See accompanying notes.

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NEWPORT CORPORATION

Consolidated Balance Sheets

(In thousands, except share data)

(Unaudited)

	July 2, 2005	January 1, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,338	$ 41,443
Marketable securities	32,788	66,739
Accounts receivable, net of allowance for doubtful accounts of $1,141 and $2,057, respectively	64,165	63,334
Notes receivable, net	4,554	6,891
Inventories	73,729	75,257
Prepaid expenses and other current assets	8,921	8,710
Assets of discontinued operations	15,347	18,400
Total current assets	226,842	280,774
Property and equipment, net	51,295	55,577
Goodwill	176,235	176,235
Intangible assets, net	52,330	54,420
Investments and other assets	10,379	11,462
	$ 517,081	$ 578,468
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term obligations	$ 10,387	$ 17,186
Accounts payable	22,290	22,328
Accrued payroll and related expenses	15,929	20,739
Accrued expenses and other current liabilities	28,430	32,012
Accrued restructuring costs	1,497	2,672
Obligations under capital leases	77	161
Liabilities of discontinued operations	2,375	3,474
Total current liabilities	80,985	98,572
Long-term debt	49,782	46,716
Obligations under capital leases, less current portion	1,362	1,576
Accrued pension liabilities	10,731	11,410
Accrued restructuring costs and other liabilities	3,536	4,685
Commitments and contingencies		
Stockholders equity:		
	4,649	5,021

Common stock, par value $0.1167 per share, 200,000,000 shares authorized; 39,838,170 and 43,022,866 shares issued and outstanding, respectively		
Capital in excess of par value	447,899	493,986
Deferred stock compensation	(658)	(1,379)
Accumulated other comprehensive income	2,036	8,470
Accumulated deficit	(83,241)	(90,589)
Total stockholders equity	370,685	415,509
	$ 517,081	$ 578,468

See accompanying notes.

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NEWPORT CORPORATION

Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	Six Months Ended	
	July 2, 2005	**July 3, 2004**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 7,348	$ 3,848
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	10,312	4,549
Provision for doubtful accounts	(549)	34
Provision for losses on inventories	384	(587)
Gain on disposal of property and equipment	(463)	(165)
Extraordinary gain	(2,891)	
Investment write-down	458	
Increase (decrease) in cash due to changes in:		
Accounts and notes receivable	(2,921)	(9,074)
Inventories	372	3,495
Prepaid expenses and other current assets	(202)	(155)
Other assets and liabilities	(55)	(1,436)
Accounts payable	4	1,171
Accrued payroll and related expenses	(4,510)	(234)
Accrued expenses and other current liabilities	(3,101)	(629)
Accrued restructuring costs	(1,300)	(1,174)
Net cash provided by (used in) operating activities	2,886	(357)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(5,199)	(1,728)
Proceeds from the sale of property and equipment	318	11
Purchase of marketable securities	(235,878)	(161,295)
Proceeds from the sale of marketable securities	268,659	178,545
Proceeds from sale of business and equity investments	952	
Purchase of equity investments		(410)
Net cash provided by investing activities	28,852	15,123
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt and obligations under capital leases	(97)	(148)
Short-term borrowings (repayments), net	(675)	
Purchases of the Company s common stock	(46,081)	
Proceeds from the issuance of common stock under employee plans	3,227	2,895
Net cash provided by (used in) financing activities	(43,626)	2,747

Impact of foreign exchange rate changes on cash balances	(2,217)	(68)
Net increase (decrease) in cash and cash equivalents	(14,105)	17,445
Cash and cash equivalents at beginning of period	41,443	11,795
Cash and cash equivalents at end of period	$ 27,338	$ 29,240
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 1,494	$ 80
Income taxes, net	$ 1,549	$ 253

See accompanying notes.

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Notes to Consolidated Financial Statements

July 2, 2005

NOTE 1 BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. These financial statements are unaudited and have been prepared in accordance with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal and recurring accruals and acquisition-related items) considered necessary for a fair presentation have been included. All significant intercompany transactions and balances have been eliminated in consolidation.

The accompanying consolidated financial statements do not include certain footnotes and financial presentations normally required under generally accepted accounting principles (GAAP) and, therefore, should be read in conjunction with the consolidated financial statements and related notes contained in the Company s Annual Report on Form 10-K for the year ended January 1, 2005. The results for the interim periods are not necessarily indicative of results for the full year ending December 31, 2005. The January 1, 2005 balances reported herein are derived from the audited consolidated financial statements included in the Company s Annual Report on Form 10-K for the year ended January 1, 2005.

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

NOTE 2 DERIVATIVE INSTRUMENTS

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

There were no foreign exchange contracts outstanding as of July 2, 2005 or January 1, 2005.

NOTE 3 ACCOUNTS AND NOTES RECEIVABLE

The Company records reserves for specific receivables deemed to be at risk for collection, as well as a reserve based on the Company s historical collections experience. The Company estimates the collectibility of customer receivables on an ongoing basis by reviewing past due invoices and assessing the current creditworthiness of each customer. A considerable amount of judgment is required in assessing the ultimate realization of these receivables. In the first quarter of 2005, the Company revised its method of estimating its reserve based upon the Company s historical collections experience. As a result of this revision, the allowance for doubtful accounts was reduced by approximately $0.7 million in the first quarter of 2005. This amount reduced *selling, general and administrative expense* for the six months ended July 2, 2005 in the accompanying statement of operations.

Certain of the Company s Japanese customers provide the Company with promissory notes on the due date of the receivable. The payment date of the promissory notes is generally 90 days from the original receivable due date. Subsequently, certain of these promissory notes are sold with recourse under line of credit agreements to one of four banks within Japan with which the Company does business. Such transactions are conducted in the ordinary course of business. For balance sheet presentation purposes, amounts due to the Company under such promissory notes are reclassified from accounts receivable to current notes receivable. At July 2, 2005 and January 1, 2005, total promissory notes receivable amounted to $4.6 million and $6.9 million, respectively. The principal amount of promissory notes sold with recourse is included in both *notes receivable, net* and *short-term obligations* until the

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NEWPORT CORPORATION

Notes to Consolidated Financial Statements

July 2, 2005

underlying note obligations are ultimately satisfied by payment by the customers to the banks. At July 2, 2005 and January 1, 2005, the principal amounts of such promissory notes included in *notes receivable, net* and *short-term obligations* in the accompanying consolidated balance sheet were $1.8 million and $4.3 million, respectively.

NOTE 4 REVENUE RECOGNITION

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

Customers generally have 30 days from the original invoice date (generally 60 days for international customers) to return a standard catalog product purchase for exchange or credit. Catalog products must be returned in the original condition and meet certain other criteria. Product returns of catalog items have historically been insignificant and are charged against revenue in the period returned. Custom, option-configured and certain other products as defined in the terms and conditions of sale cannot be returned. For certain non-catalog products, the Company establishes a sales return reserve based on the historical product returns.

NOTE 5 STOCK-BASED COMPENSATION

The Company applies the intrinsic value based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and related Interpretations in accounting for its stock-based compensation and complies with the disclosure provisions of Statement of Financial Accounting Standards (SFAS) No. 148, *Accounting for Stock-Based Compensation Transition and Disclosure* and SFAS No. 123, *Accounting for Stock-Based Compensation*. Accordingly, no compensation expense is recognized for employee stock options with exercise prices greater than or equal to the Company s stock price at the date of grant. Costs related to restricted stock grants, representing the difference between the grant date fair value of the award and the purchase price, if any, of the related shares, are fixed at the date of grant and amortized over the vesting period. Pro forma amounts adjusted for the effect of recording compensation cost related to the Company s stock option and employee stock purchase plans determined based upon the fair value of awards under these plans as of the grant date, consistent with the methodology prescribed under SFAS No. 148 and SFAS No. 123, are presented below:

	Three Months Ended		Six Months Ended	
(In thousands, except per share data)	**July 2, 2005**	**July 3, 2004**	**July 2, 2005**	**July 3, 2004**

Net income reported	$ 2,859	$ 2,707	$ 7,348	$ 3,848
Employee compensation expense under fair value method	(1,729)	(3,469)	(3,517)	(7,138)
Net income (loss) pro forma	$ 1,130	$ (762)	$ 3,831	$ (3,290)
Basic net income per share reported	$ 0.07	$ 0.07	$ 0.17	$ 0.10
Basic net income (loss) per share pro forma	0.03	(0.02)	0.09	(0.08)
Diluted net income per share reported	$ 0.06	$ 0.07	$ 0.17	$ 0.09
Diluted net income (loss) per share pro forma	0.03	(0.02)	0.09	(0.08)
Shares used in computation of income (loss) per share:				
Basic reported and pro forma	42,727	39,308	42,808	39,234
Diluted reported	44,263	41,074	44,321	41,241
Diluted pro forma	44,263	39,308	44,321	39,234

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The fair value of each option granted in 2005 was estimated as of the date of the grant using the Black-Scholes option pricing model with the following weighted-average assumptions: no annualized dividend yield; expected annual volatility of 60.1%; risk-free interest rate of 3.9%; expected life of 5 years; and expected turnover rate of 12.9%.

NOTE 6 ACQUISITION

In July 2004, the Company acquired all of the issued and outstanding capital stock of Spectra-Physics, Inc. and certain related entities (collectively, Spectra-Physics). Spectra-Physics manufactures high-power solid-state, gas and dye lasers, high-power laser diodes, and ultrafast laser systems, as well as other photonic components and devices used in a wide range of applications, including scientific research, industrial and microelectronics manufacturing and analytical instrumentation for life and health sciences. The combination creates a leading photonics company with an integrated technology mix.

The transaction was accounted for using the purchase method. The Company s results of operations for 2004 included the results of operations of Spectra-Physics from the date of acquisition on July 16, 2004. Accordingly, the Company s results of operations for the three and six months ended July 3, 2004 do not include the results of operations of Spectra-Physics.

The purchase price for Spectra-Physics, which resulted in the recognition of goodwill of $175.3 million, was determined by arms-length negotiation between management and Thermo Electron Corporation, Spectra-Physics former parent, taking into account a number of factors, including the value of the assets, the historical and projected financial performance of Spectra-Physics and the valuations of certain recently acquired companies with comparable businesses and financial performance.

The aggregate purchase price was approximately $275.3 million, which consisted of approximately $174.9 million in cash, $48.1 million in common stock of the Company, $46.4 million in debt and $5.9 million in other costs, which primarily consisted of professional fees related to the acquisition.

The number of shares of the Company s common stock issued was determined by dividing $50.0 million by the average closing price of the Company s common stock for the 20 trading days ending two days before the acquisition date of July 16, 2004, which was $15.53 per share. The fair value of the Company s common stock issued was determined using an average price of $14.93, which was the average closing price of the Company s common stock two days before and after the measurement date of July 14, 2004.

The debt, which has a principal amount of $50.0 million and bears interest at 5% per annum, was valued at approximately $46.4 million on the date of acquisition, based upon the present value of cash flows, using a discount rate of 6.75% in order to reflect a market rate of interest for similar debt with similar characteristics.

In connection with the acquisition of Spectra-Physics, the Company formulated a restructuring plan to consolidate certain locations and this preliminary plan was approved by the Company s Board of Directors. The Company is still finalizing this plan with respect to the employee severance, relocation and facility closure costs required for certain locations. In the second quarter of 2005, based upon currently available information related to the closure of certain facilities, the Company adjusted its purchase price allocation by $0.8 million, which included adjustments to fixed assets, direct costs of the acquisition and certain accrued liabilities. Further changes in these costs with respect to Spectra-Physics locations may result in adjustments to goodwill. The Company expects to finalize such plan in the third quarter of 2005.

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Notes to Consolidated Financial Statements

July 2, 2005

Supplemental Pro Forma Information

The financial information below summarizes the combined results of operations of the Company and Spectra-Physics, on a pro forma basis, as though the companies had been combined as of the beginning of 2004. This 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 had the acquisition taken place at the beginning of the periods presented. The pro forma condensed combined statement of operations for the three and six months ended July 3, 2004 includes the historical results of the Company, plus the historical results of Spectra-Physics for the three and six months ended July 3, 2004:

(In thousands)	Three Months Ended July 3, 2004	Six Months Ended July 3, 2004
Pro forma net sales	$ 96,803	$ 191,697
Pro forma income from continuing operations before extraordinary item	4,713	7,690
Pro forma net income	3,714	6,077
Pro forma basic net income per share	0.09	0.14
Pro forma diluted net income per share	0.08	0.14

NOTE 7 DISCONTINUED OPERATIONS

In the first quarter of 2005, the Company s Board of Directors approved a plan to sell the Company s robotic systems operations, which serve the front-end semiconductor equipment industry with product lines including wafer-handling robots, load ports and equipment front-end modules. Following the acquisition of Spectra-Physics, the Company conducted a strategic review of all of its businesses and concluded that these operations were no longer core to the Company s strategy. The Company has hired an investment banking firm to assist it in selling the assets of the operations and expects to complete the divestiture by the end of 2005. The robotic systems operations were included in the Company s former Advanced Packaging and Automation Systems (APAS) Division. The robotic systems operations have been accounted for as discontinued operations for all periods presented.

The net sales and loss before income taxes from the discontinued operations consisted of the following:

(In thousands)	Three Months Ended July 2, 2005	Three Months Ended July 3, 2004	Six Months Ended July 2, 2005	Six Months Ended July 3, 2004

Net sales	$ 3,911	$ 7,354	$ 7,872	$ 13,848
Loss before income taxes	(1,901)	(999)	(6,215)	(1,613)

NOTE 8 INCOME TAXES

The Company provides for income taxes in interim periods based on the estimated effective income tax rate for the complete fiscal year. The income tax provision (benefit) is computed on the pretax income (loss) of the consolidated entities located within each taxing jurisdiction based on current tax law. Deferred taxes result from the future tax consequences associated with temporary differences between the amount of assets and liabilities for tax and financial accounting purposes. A valuation allowance for deferred tax assets is recorded to the extent the Company cannot determine, in accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes*, that the ultimate realization of the net deferred tax assets is more likely than not.

The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers taxable income in carryback years, the scheduled reversal of deferred tax liabilities, tax planning strategies and projected future taxable income in making this assessment. As of July 2, 2005, due to uncertainties surrounding the realization of the

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July 2, 2005

Company s cumulative federal and state net operating losses, the Company has recorded a valuation allowance against a portion of its gross deferred tax assets. For the foreseeable future, the Federal tax provision related to future earnings will be substantially offset by a reduction in the valuation reserve, and any future pretax losses will not be offset by a tax benefit due to the uncertainty of the recoverability of the deferred tax assets. Accordingly, current and future tax expense will consist primarily of certain required state income taxes and taxes in certain foreign jurisdictions.

NOTE 9 INVENTORIES

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

Inventories consisted of the following:

(In thousands)	July 2, 2005	January 1, 2005
Raw materials and purchased parts	$ 34,376	$ 37,628
Work in process	19,748	19,481
Finished goods	19,605	18,148
	$ 73,729	$ 75,257

NOTE 10 ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities consisted of the following:

(In thousands)	July 2, 2005	January 1, 2005

Deferred revenue	$ 11,055	$ 9,820
Accrued warranty obligations	4,182	4,890
Other	13,193	17,302
	$ 28,430	$ 32,012

NOTE 11 ACCRUED WARRANTY OBLIGATIONS

Unless otherwise stated in the Company s product literature or in its agreements with customers, products sold by the Company s Photonics and Precision Technologies Division generally carry a one-year warranty from the original invoice date on all product material and workmanship. Products of such division sold to original equipment manufacturer (OEM) customers generally carry longer warranties, typically 15 to 24 months. Products sold by the Company s Lasers Division generally carry warranties that vary by product and product component, but generally range from 90 days to two years. In certain cases, such warranties are limited by amount of usage of the product. Defective products will be either repaired or replaced, generally at the Company s option, upon meeting certain criteria. The Company accrues a provision (based on historical experience) for the estimated costs that may be incurred for warranties relating to a product as a component of cost of sales at the time revenue for that product is recognized.

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Notes to Consolidated Financial Statements

July 2, 2005

The activity in accrued warranty obligations is as follows:

	Six Months Ended	
(In thousands)	**July 2, 2005**	**July 3, 2004**
Balance at beginning of year	$ 4,890	$ 806
Additions charged to cost of sales	1,610	560
Warranty claims	(2,318)	(879)
Balance at end of period	$ 4,182	$ 487

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

NOTE 12 ACCRUED RESTRUCTURING COSTS

2004 Restructuring Plan

In connection with the acquisition of Spectra-Physics, the Company formulated a restructuring plan to consolidate certain locations and such preliminary plan was approved by the Company s Board of Directors. The Company is still finalizing this plan with respect to the employee severance, relocation and facility closure costs required for certain locations. This plan originally included $2.2 million for employee relocation and employee severance and related termination costs and $3.2 million related to facility consolidations. In the second quarter of 2005, based on currently available information related to the closure of certain facilities, the Company revised the plan to include $2.4 million for employee relocation and employee severance and related termination costs and $2.2 million related to facility consolidations. Further changes in these costs with respect to Spectra-Physics locations may result in adjustments to goodwill. The Company expects to finalize such plan in the third quarter of 2005.

The following table summarizes the activity in the accrued restructuring costs related to the purchase of Spectra-Physics, which primarily involve the payment of cash:

(In thousands)	**Employee**	**Total**

	Relocation and Severance	Facility Consolidation	
Accrued restructuring at January 1, 2005	$ 1,687	$ 3,186	$ 4,873
Cash payments	(1,076)	(24)	(1,100)
Adjustments to restructuring plan	190	(972)	(782)
Accrued restructuring at July 2, 2005	$ 801	$ 2,190	$ 2,991

The facility consolidation costs will be paid over the term of the lease for the closed facility, which expires in 2011. At July 2, 2005 and January 1, 2005, $1.1 million and $2.1 million, respectively, of these accrued restructuring costs were expected to be paid within one year and were included in current liabilities in *accrued restructuring costs*, and $1.9 million and $2.8 million, respectively, of accrued restructuring costs were included in long-term liabilities in *accrued restructuring costs and other liabilities,* in the accompanying consolidated balance sheets.

2002 Restructuring Plan

During 2002, in response to the continued severe downturn in the fiber optic communications market and the uncertainty with respect to the pace of recovery in the semiconductor equipment market, the Company s Board of Directors approved a restructuring and cost reduction plan designed to bring the Company s operating costs in line with its business outlook at that time.

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NEWPORT CORPORATION

Notes to Consolidated Financial Statements

July 2, 2005

The following table summarizes the activity in accrued restructuring costs related to the 2002 restructuring plan:

(In thousands)	**Facility Consolidation**
Accrued restructuring at January 1, 2005	$ 833
Cash payments	(200)
Accrued restructuring at July 2, 2005	$ 633

As of July 2, 2005, $0.6 million of facility-related costs remained accrued for under the Company s 2002 restructuring plan. The facility consolidation reserves will be paid over the associated lease terms, which expire at various dates between 2005 and 2008. At July 2, 2005 and January 1, 2005, $0.4 million and $0.6 million, respectively, of accrued restructuring costs were expected to be paid within one year and were included in current liabilities in *accrued restructuring costs,* and $0.2 million of accrued restructuring costs were included in long-term liabilities in *accrued restructuring costs and other liabilities* for both periods, in the accompanying consolidated balance sheets.

NOTE 13 SHORT-TERM OBLIGATIONS

At July 2, 2005, the Company had a total of seven lines of credit, including one domestic revolving line of credit, two revolving lines of credit with Japanese banks, and four other lines of credit with Japanese banks which are used to sell trade notes receivable with recourse to the banks.

The Company s domestic revolving line of credit has a total credit limit of $5.0 million and expires December 1, 2005. Certain of the marketable securities that are being managed by the lending institution collateralize the line of credit. The line bears interest at the prevailing prime rate, or the prevailing London Interbank Offered Rate (3.34% at July 2, 2005) plus 1.5%, at the Company s option, and an unused line fee of 0.25% per year. At July 2, 2005, there were no balances outstanding under the line of credit, with $1.8 million available under the line, after considering outstanding letters of credit totaling $3.2 million.

The two revolving lines of credit with Japanese banks total 1.7 billion yen ($15.3 million at July 2, 2005) and expire as follows: $7.2 million on November 30, 2005, $5.4 million on March 18, 2006 and $2.7 million on June 30, 2008. The lines are not secured and bear interest at the prevailing bank rate. At July 2, 2005, the Company had $11.3 million outstanding and $4.0 million available for borrowing under these lines of credit. Approximately $8.6 million of the amount outstanding under these revolving lines of credit at July 2, 2005 was included in *short-term obligations* in the accompanying balance sheet, and approximately $2.7 million was included in *long-term debt* as the due date of this portion of the borrowings outstanding is on June 30, 2008.

The four other lines of credit with Japanese banks, which are used to sell notes receivable with recourse, total 800 million yen ($7.2 million at July 2, 2005), have no expiration date and bear interest at the bank s prevailing rate. At July 2, 2005, the Company had $1.8 million outstanding and $5.4 million available for the sale of notes receivable under these lines of credit. The weighted average interest rate on all borrowings on all six Japanese lines of credit as of July 2, 2005 was 1.5%.

NOTE 14 STOCKHOLDER EQUITY TRANSACTIONS

In April 2003, the Board of Directors of the Company approved a share repurchase program, authorizing the purchase of up to 3.9 million shares, or 10% of the Company s then-outstanding stock. The purchases may be made 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.

In May 2005, the Company purchased 174,833 shares of its common stock in the open market at an average price of $13.72 per share for a total of $2.4 million. In June 2005, the Company purchased 3,220,300 shares of its common stock from Thermo Electron Corporation (Thermo) that were previously issued as part of the consideration for the

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acquisition of Spectra-Physics from Thermo in July 2004. The Company purchased the shares at a price of $13.56 per share for a total of $43.7 million. As of July 2, 2005, 219,038 shares remain available for purchase under the share repurchase program.

NOTE 15 INTEREST AND OTHER INCOME (EXPENSE), NET

Interest and other income (expense), net, consisted of the following:

	Three Months Ended		Six Months Ended	
	July 2,	July 3,	July 2,	July 3,
(In thousands)	2005	2004	2005	2004
Interest and dividend income	$ 654	$ 1,305	$ 1,304	$ 2,599
Foreign exchange gains (losses), net	132	(3)	63	(45)
Gains (losses) on sales of marketable securities, net	(38)	(52)	(58)	260
Bank and portfolio asset management fees	(120)	(138)	(246)	(270)
Interest expense	(927)	(39)		