NEWPORT CORP
Form 10-K/A
March 16, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K/A

Amendment No. 1

(Mark One)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

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

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 x

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 x

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 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 x No ¨

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. x

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 x
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 x

As of July 1, 2011, the last business day of the registrant s most recently completed fiscal quarter, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $672.7 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 29, 2012, 37,770,642 shares of the registrant s sole class of common stock were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s Proxy Statement for its 2012 Annual Meeting of Stockholders, which is expected to be held on May 15, 2012, are incorporated by reference into Part III of this Annual Report on Form 10-K/A. Only those portions of the Proxy Statement that are specifically incorporated by reference herein shall constitute a part of this Annual Report on Form 10-K/A.

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Explanatory Note

This Form 10-K/A is being filed as Amendment No. 1 to the Annual Report on Form 10-K of Newport Corporation (the Company) for the year ended December 31, 2011, which was originally filed with the Securities and Exchange Commission on March 15, 2012 (Original Filing). This Form 10-K/A is being filed for the purpose of making certain corrections to the Registrant s consolidated statement of cash flows for the year ended December 31, 2011 and related changes to the narrative discussion under the heading Liquidity and Capital Resources in Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, as discussed in more detail below.

Specifically, the classification of debt issuance costs of $6.2 million related to the Company s senior secured credit facility and a commitment fee of $0.5 million related to an interim revolving line of credit has been corrected within the Company s consolidated statement of cash flows for the year ended December 31, 2011. In the Original Filing, the debt issuance costs related to the credit facility had been included as part of the change in prepaid expenses and other assets within cash flows from operating activities. These costs are now classified in this Form 10-K/A as debt issuance costs under cash flows from financing activities. In the Original Filing, the $0.5 million commitment fee had not been included as an adjustment to reconcile net income to cash provided by operating activities. Such commitment fee has now been classified in this Form 10-K/A as debt issuance costs under cash flows from financing activities and has correspondingly been included as an adjustment to reconcile net income to cash provided by operating activities. These corrections resulted in an increase of $6.7 million in net cash provided by operating activities and a corresponding decrease in net cash provided by financing activities for the year ended December 31, 2011. A paragraph has been added under the heading Corrections in Note 1 of the Notes to Consolidated Financial Statements to explain such corrections. In addition, the narrative discussion regarding the Company s cash flows under the heading Liquidity and Capital Resources in Item 7, *Management s Discussion and Analysis of Financial Condition and Results of Operations*, has been amended to reflect such changes.

The XBRL interactive data filed as exhibits to the Original Filing have also been amended to reflect the corrections in the Company s consolidated statement of cash flows for the year ended December 31, 2011 and the associated change in Note 1 of the Notes to Consolidated Financial Statements and have been re-filed with this Form 10-K/A.

Except as described above, no other substantive changes have been made to the Original Filing. This Form 10-K/A speaks as of the filing date of the Original Filing, and has not been updated to reflect events occurring subsequent to the date of the Original Filing.

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This Annual Report on Form 10-K/A 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/A 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/A. 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. 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

We are a global supplier of advanced technology products and systems to a wide range of industries, including scientific research, microelectronics, aerospace and defense/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.

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

- lasers and laser technology, including solid-state lasers, ultrafast lasers and laser systems, tunable lasers, and gas and dye 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, high-speed 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 and vibration isolation products and systems;

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advanced automated manufacturing systems used in the manufacture of solar panels and communications and electronics devices; and

three dimensional non-contact measurement equipment.

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 over four decades, we have serviced the needs of research laboratories for precision equipment. We have acquired a number of companies, which has contributed to the expansion of our product offerings, technology base and geographic presence and has 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 both research and commercial applications. Through our acquisitions and our own product development, 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

In July 2004, we acquired Spectra-Physics, Inc. and certain related photonics entities (collectively, Spectra-Physics). This acquisition significantly increased the scope of our expertise and product offerings in our target customer end markets, adding to our product portfolio solid-state, gas and dye lasers, high-power diode lasers, and ultrafast laser systems, as well as photonics instruments and components, including light sources, monochromators, spectroscopy instrumentation, optical filters, ruled and holographic diffraction gratings and crystals. This acquisition approximately doubled our size with respect to revenue, number of employees and facilities. At the time of the acquisition, we established Spectra-Physics laser and laser-related technology business as our Lasers Division, and we combined Spectra-Physics Corion filters, Hilger Crystals, Oriel Instruments and Richardson Gratings businesses with the existing businesses that comprised our former Industrial and Scientific Technologies Division to create our Photonics and Precision Technologies (PPT) Division.

In July 2009, we acquired the New Focus business of Oclaro, Inc. (Oclaro). The New Focus business expanded our product offerings to include a number of new high-performance products, including opto-electronics, high-resolution actuators, high-speed detectors and modulators, opto-mechanics, tunable lasers, and custom-engineered solutions designed for original equipment manufacturer (OEM) customers. At the time of the acquisition, the New Focus business became a part of our PPT Division.

In July 2011, we acquired High Q Technologies GmbH (High Q). This acquisition has 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. High Q is now a part of our Lasers Division.

In October 2011, we acquired Ophir Optronics Ltd. (Ophir). This acquisition has significantly expanded our capabilities in infrared optics and photonics instrumentation, adding to our product offerings 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 equipment. At the time of the acquisition, we established the Ophir businesses as our Ophir Division.

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. ILX is now a part of our PPT Division.

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Divestitures

In 2009, in evaluating the performance and needs of our Lasers Division, we concluded that our high-power diode laser manufacturing operations in Tucson, Arizona were not well aligned with the focus and business model of our Lasers Division. Therefore, in July 2009, we sold these diode laser operations to Oclaro in conjunction with our acquisition of the New Focus business from Oclaro. In connection with the sale, we secured a supply arrangement with Oclaro to ensure the continued availability of diode lasers needed in the manufacture of certain of our laser products at competitive price levels.

In 2010, we concluded that our Hilger Crystals Limited subsidiary, which manufactured infrared, x-ray and gamma ray synthetic crystals, primarily for security applications, was not a strategic fit with our overall business. As a consequence, we sold all of the outstanding capital stock of Hilger Crystals Limited in July 2010.

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 different 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-15, of this Annual Report for additional information.

Our Markets

We sell our products, subsystems and systems to 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 fifty years, we have worked closely with the research 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 enabler of the semiconductor industry roadmap driving smaller chip feature sizes with the increased functionalities needed for next-generation electronic products, including smartphones, tablet computers, e-readers, personal media players and digital cameras. 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, memory yield enhancement, wafer dicing and scribing, wafer and component marking, resistor trimming, LED scribing, thin-film solar panel scribing and edge deletion, solar cell testing and characterization, and solar cell efficiency enhancement, as well as in printed circuit board and flat panel display manufacturing applications.

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 CAD/CAM scanning and medical device manufacturing.

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Aerospace and Defense/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 infrared optics 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 other photonics products are also used by aerospace and defense engineers to develop, assemble, test and calibrate equipment and, in some cases, are incorporated into weapon or sensor systems for applications including target recognition and acquisition, LIDAR, range finding, missile guidance, and advanced weapons development.

Industrial. Our lasers, infrared optics and other photonics products are used in applications across a wide range of industries, including precision manufacturing applications, automotive safety, image recording and telecommunications. The precision manufacturing applications served by our products include rapid prototyping, micromachining, heat-treating, welding and soldering, cutting, illumination, drilling and high-precision marking and engraving.

Our Operating Divisions

We operate our business in three divisions, our PPT Division, our Lasers Division and our Ophir Division, which are organized to support our primary product categories.

Photonics and Precision Technologies Division

Our PPT Division 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 that integrate them into their systems, particularly for microelectronics and life and health sciences applications. The products sold by this division include photonics instruments and systems, precision positioning systems and subsystems, vibration isolation systems and subsystems, optics, optical hardware, and opto-mechanical subassemblies. The addition of ILX broadens our product offerings in photonics instrumentation, particularly in the areas of semiconductor laser/LED instrumentation and burn-in, test and characterization systems. The PPT Division also offers automated systems for advanced applications in the manufacturing of solar panels and communications and electronic devices, including microwave, optical, radio frequency (RF) and multi-chip modules.

Our PPT Division also designs, develops and manufactures systems and subsystems 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 established a business team comprised of technical and operations specialists, which collaborates across our divisions 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 manufacturing and solar cell manufacturing, and in life and health sciences applications such as flow cytometry, DNA sequencing and bioimaging.

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Products

The following table summarizes our PPT Division s primary product offerings by product category, and includes representative applications for each category:

Category	Products	Representative Applications
Photonics Instruments and Systems	Electro-optic modulators	Atom trapping and cooling, including Bose-Einstein Condensates
	Laser diode controllers	Characterization of cosmetic and pharmaceutical products
	Laser diode burn-in and life-test systems	Characterization of light emitted by lasers, light emitting diodes and broadband light sources
	Light sources	Chemical composition analysis
	Monochromators and spectrographs	Colorimetry
	Optical power and energy detectors	Lifetime testing of laser diodes
	Optical power and energy meters	Optical power and energy measurement for free space and fiber-directed laser light
	Photonics test systems	Solar cell characterization and measurements
	Solar simulators	Spectroscopy
	Solar cell test instruments	Testing and characterization of optical fibers and passive fiber optical components
	Spectrometers	

	Tunable external cavity diode lasers	
	Ultrafast laser pulse measurement systems	
Vibration Isolation Systems and Subsystems	Active and passive isolation systems	Foundation platforms for laser systems
	Active vibration damping systems	Isolated platforms for semiconductor lithography equipment
	Elastomeric mounts	Reduction of impact of external vibration sources on high-precision research, manufacturing test and assembly systems
	Honeycomb and granite structures	
	Optical tables, support systems and accessories	Scanning electron microscope, atomic force microscope, and optical microscope base isolation
	Workstations	Workstation platforms for fiber optic device fabrication
		Workstation platforms for microscopy and other advanced imaging applications

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Category	Products	Representative Applications
Precision Positioning Devices, Systems and Subsystems	Custom multi-axis positioning systems	High-precision positioning for manufacturing and in-process inspection, metrology and final test applications
	Fast steering mirrors	High-precision positioning for thin-film solar cell manufacturing
	Fiber alignment stages and accessories	High-precision positioning of semiconductor wafers for metrology and fabrication
	Manual linear and rotation stages	Laser beam stabilization and pointing
	Micrometers and adjustment screws	Laser system alignment and beam steering for inspection, laser processing and communications
	Motion controllers and drivers	Precision alignment in fiber optic, telecommunication and laser device assembly
	Motorized linear and rotation stages	Sample or sensor manipulation for imaging and microscopy
	Motorized actuators and optical mounts	Sample sorting and sequencing for DNA research
	Nano-positioning and nano-focusing stages	Solar cell test and characterization
	Piezo motor actuators and stages	Tracking and targeting test systems for aerospace and defense/security applications
	Precision air-bearing motion systems	Analytical instrumentation for life and health sciences applications
Optics and Optical Hardware	Beam routing and enclosing systems	

Beamsplitters and polarization optics	
Collimators	Development and manufacturing of laser systems
Filters and attenuators	Electro-optic sensors and imaging systems for defense/security applications
Laser-to-fiber couplers	High-precision alignment of optical instruments
Lenses	Optical measurement and communications systems
Mirrors	Research in physical and biological sciences
Optical hardware including bases, brackets, posts and rod systems	Semiconductor lithography, wafer and reticle inspection and wafer processing
Optical mounts	Spectroscopy
Prisms and windows	Ultrafast laser, terahertz imaging and laser fusion research
Ruled and holographic diffraction gratings	
Thin-film filters and coatings	
Ultrafast laser optics	

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Category	Products	Representative Applications
Opto-Mechanical Subassemblies and Subsystems	Integrated electro-opto-mechanical subsystems	Analytical instrumentation for life and health sciences applications
	Laser beam attenuators	High-speed cell sorting for genomic research
	Laser beam delivery and imaging assemblies	Laser beam delivery systems for solar panel manufacturing
	Objective lens systems	Laser beam stabilization for industrial metrology
	Refractive beam shaper assemblies	Light detection and ranging
		Optical coherence tomography for non-invasive diagnostics
		Optical data storage
		Semiconductor mask patterning
		Semiconductor lithography, wafer and reticle inspection and wafer processing
		Thin-film measurement of semiconductor wafers
Advanced Manufacturing Systems	Automated electronic device packaging systems	Automated manufacturing and assembly of microelectronic and optoelectronic devices
	Automated die bonding and dispensing systems	Crystalline silicon solar cell module manufacturing

Automated, laser-based crystalline silicon solar cell efficiency enhancement systems	
	High-speed, high-accuracy automated dispensing applications for microwave modules, optical modules, hybrid circuits, multi-chip modules and semiconductor packaging
Automated, laser-based solar panel scribing and edge deletion systems	
	Thin-film solar panel manufacturing

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Lasers Division

Our Lasers Division, which was formed in July 2004 in connection with our acquisition of Spectra-Physics, 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, diode-pumped solid-state lasers, high-energy pulsed lasers, tunable lasers and gas 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. The addition of High Q Laser broadens our Lasers Division s ultrafast laser products and capabilities, particularly for applications in the life and health sciences and microelectronics markets.

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	InSight DeepSee tunable ultafast lasers	Femtosecond spectroscopy
	Spirit high repetition rate ultrafast amplifiers	Micro-machining and other high-precision materials processing applications
	Mai Tai® and Mai Tai DeepSee tunable ultrafast lasers	Multiphoton microscopy
	Tsunami® ultrafast lasers	Supercontinuum and high harmonic generation
	Spitfire® Ace ultrafast amplifiers	Terahertz imaging
	Solstice® one-box ultrafast amplifiers	Time-resolved photoluminescence
	Inspire femtosecond optical parametric oscillators (OPOs)	Two-photon polymerization
	TOPAS Prime automated ultrafast optical parametric amplifiers (OPAs)	Ultrafast laser surgery

femtoRegen ultra compact all-in-one femtosecond regenerative amplifier systems

femtoTrain ultra compact femtosecond oscillators

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Category	Products	Representative Applications
Diode-Pumped Solid State Q-Switched Lasers	Mosaic® all-in-one lasers	Diamond processing
	Tristar high repetition rate UV lasers	Disk texturing
	Navigator lasers	Electronics and semiconductor packaging manufacturing
	HIPPO mid-power lasers	Flat panel display manufacturing
	Pulseo® high power lasers	Laser microdissection
	Explorer® compact lasers	LED wafer scribing
	Explorer XP all-in-one compact lasers	Matrix-assisted laser desorption/ionization
	Empower® high pulse energy lasers	Memory yield enhancement systems
		Printed circuit board (PCB) manufacturing
		Pump source for ultrafast lasers
		Rapid prototyping
		Resistor trimming

		Semiconductor wafer and flat panel display marking
		Silicon micromachining
		Solar cell manufacturing
		Stereolithography
Diode-Pumped Solid State Continuous Wave (CW) and Quasi-CW Lasers	Millennia® Prime and Millennia Edge CW green lasers	Confocal microscopy
	MG series CW green lasers	DNA sequencing
	Excelsior low power CW lasers	Flow cytometry
	Vanguard quasi-CW lasers	Image recording
	3900S and Matisse® CW tunable lasers	Laser cooling
	Cyan compact low power CW lasers	Materials processing
		Optical trapping
		Raman imaging
		Semiconductor wafer inspection and metrology
		Solar cell manufacturing

Ti:Sapphire laser pumping

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Category	Products	Representative Applications
High Energy Pulsed Nd:YAG and Tunable Lasers	Quanta-Ray® pulsed Nd:YAG lasers	Flat-panel display manufacturing
	Scan Series high energy optical parametric oscillators (OPOs)	Laser ablation
	Precision Scan, Cobra Stretch and Cobra tunable dye lasers	Laser cleaning
	Credo high-repetition rate dye lasers	LIDAR
		Mass spectrometry
		Particle imaging velocimetry combustion diagnostics
		Plastic and ceramic component marking
		Remote sensing
		Spectroscopy
Gas Lasers	Air-cooled argon ion lasers	Lithography
	Helium-Neon lasers	Semiconductor wafer inspection

Ophir Division

Our Ophir Division, which was formed in October 2011 in connection with our acquisition of Ophir Optronics Ltd., offers precision infrared optics and lens assemblies, laser measurement instrumentation and three-dimensional non-contact measurement equipment to OEM and end-user customers in all of our target end markets. This division designs and produces a full range of high performance infrared optics and opto-mechanical lens assemblies and components for aerospace and defense/security and commercial applications. Our Ophir Division also offers a complete line of laser instrumentation, including laser power and energy meters and laser beam profilers, for applications in the industrial, life and health sciences and scientific research markets. This division also manufactures and supplies three-dimensional non-contact measurement systems and sensors that are used for in-process inspection, quality control and reverse engineering in the industrial, microelectronics and life and health sciences markets, particularly for digital dentistry applications.

Products

The following table summarizes our Ophir Division s product offerings by product category, and includes representative applications for each category:

Category	Products	Representative Applications
Optics	Optical lens assemblies and elements for cooled infrared cameras	Thermal imaging and observation systems
	Optical lens assemblies and elements for uncooled infrared cameras	Targeting and fire control systems
	Optical lenses for infrared radiometric/thermograph systems	Automotive safety systems
	Infrared optics	CO2 laser cutting, drilling and welding systems
	CO2 laser optics	

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Category	Products	Representative Applications
Photonics Instruments	Laser beam profilers	Analysis of optical power and energy profile of laser beams
	Laser power and energy meters	Measurement and monitoring of optical power and energy levels of laser beams
	Laser power and energy sensors	
Three-Dimensional Non-Contact Measurement Equipment	3D sensors	High precision three-dimensional non-contact measurements
	3D scanning systems	In process inspection and testing in manufacturing processes
		Dental CAD/CAM scanning for computerized design and manufacturing of crowns, bridges and other dental restorations

Financial information regarding our business segments and our operations by geographic area is included in Note 15 of the Notes to Consolidated Financial Statements included in this Annual Report beginning on page F-39. 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 47. 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 domestic and international direct sales organizations, an international network of independent distributors and sales representatives, our product catalogs and our web sites. Our domestic and international direct sales organizations are 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 domestic locations in California, Connecticut, Massachusetts, Montana, New York and Utah, and at our international locations in Austria, China, France, Germany, Israel, Japan, Singapore, Switzerland, Taiwan and the United Kingdom. We sell our products and services to three major categories of customers: 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. To serve the needs of end users, we have organized our field sales personnel, together with internal sales support personnel, into teams based on their specialized knowledge and expertise relating to specific product groups. These sales teams are closely aligned with their respective product management and operations organizations. 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

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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 2011.

We also market our standard products through our comprehensive web sites and our product catalog, The Newport Resource®, particularly for the scientific research market. Our Newport.com web site features an online catalog, providing customers with access to the latest information regarding our products, technical/tutorial and application related materials, sales information, a literature and information request form, and the ability to purchase a majority of our standard products. Our web sites are widely used by our customers to review information about our technologies, products and services. Our product catalog provides detailed product information as well as extensive technical and applications data. The Newport Resource is published in English, French, German, Japanese and Mandarin. New product supplements for each catalog are also distributed between publications. We also publish and distribute a variety of sales literature and product brochures which focus on specific products and end markets.

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 solar cell testing and characterization, multiphoton microscopy, ultrafast spectroscopy and laser micro-fabrication. The TAC produces application notes and kits 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 Applications Laboratories at the Santa Clara, California and Rankweil, Austria facilities of our Lasers Division, 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 laser applications. We believe that the TAC and the 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 February 29, 2012, 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 $45.3 million, or 8.3% of net sales, in 2011, $39.3 million, or 8.2% of net sales, in 2010, and $36.9 million, or 10.1% of net sales, in 2009. Research and development expenses attributable to our PPT Division were $25.6 million, or 7.9% of net sales by that division, in 2011; $23.9 million, or 8.0% of net sales by that division, in 2010; and $20.9 million, or 9.5% of net sales by that division, in 2009. Research and development expenses attributable to our Lasers Division were $17.8 million, or 9.3% of net sales by that division, in 2011 (which included research and development expenses for High Q, which we acquired in July 2011); $15.4 million, or 8.5% of net sales by that division, in 2010; and $16.0 million, or 10.9% of net sales by that division, in 2009. Research and development expenses attributable to our Ophir Division were $1.9 million, or 6.8% of net sales by that division, following our acquisition of Ophir in October 2011.

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 will be 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 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), aerospace

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and defense/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 2011, 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. In 2011, sales by our PPT Division to one customer in the microelectronics market represented slightly more than 10% of that division s total net sales. We believe that our relationships with this customer 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 sufficiently expand our customer base to replace the lost business or to reduce our cost structure accordingly, our business and results of operations would be harmed.

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 our PPT Division, our Lasers Division and our Ophir Division serve all of our targeted end markets. The following table summarizes our primary competitors for our principal product categories:

Product Category	Primary Competitors	
Automated Manufacturing Systems	Asymtek	Manz Automation AG
	Datacon Technology GmbH	Palomar Technologies
	Jenoptik Laser Optik Systeme GmbH	Rofin-Sinar Technologies, Inc.
Diffraction Gratings	Headwall Photonics, Inc.	Optometrics Corporation
	Horiba Jobin Yvon	Spectrogon
Lasers	Coherent, Inc.	Jenoptik Laser Optik Systeme GmbH
	GSI Group/Excel Technology, Inc.	Rofin-Sinar Technologies, Inc.
	IDEX Corporation (CVI Melles Griot)	Toptica Photonics AG
	IPG Photonics, Inc.	Trumpf Group
	JDS Uniphase Corporation	
Laser Optics	II-VI Incorporated	Sigma Koki Co., Ltd.
	Corning Tropel Corporation	Sumitomo Electric
	Edmund Optics, Inc.	Thorlabs, Inc.
	IDEX Corporation (CVI Melles Griot)	Umicore Laser Optics
	Jenoptik Laser Optik Systeme GmbH	Zygo Corporation
	Qioptiq (formerly LINOS)	
Light Sources and Spectroscopy Instrumentation	Andor Technology	Princeton Instruments
	Acton Research Corporation	Sciencetech, Inc.

	Horiba Jobin Yvon	Solar Light Company, Inc.
	Ocean Optics, Inc.	Spectral Products
	Photon Technology International	Thorlabs, Inc.
Optical Filters	Chroma Technology Corp.	Materion Corporation (Barr Associates)
	Ferroperm Optics A/S	Oclaro, Inc.
	IDEX Corporation (Semrock)	Omega Optical, Inc.
	JDS Uniphase Corporation	
Optical Hardware and Opto-Mechanical Subassemblies and Subsystems	Corning Tropel Corporation	Qioptiq (formerly LINOS)
	Edmund Optics, Inc.	Sigma Koki Co., Ltd.
	IDEX Corporation (CVI Melles Griot)	Thorlabs, Inc.
	Jenoptik Laser Optik Systeme GmbH	Zygo Corporation
Optics for Thermal Imaging	Janos Technology, Inc.	Qioptiq (formerly LINOS)
	Netoptic	Raytheon ELCAN Optical Technologies
	OASYS Technology, LLC	Temek Optics, Ltd.

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Product Category	Primary Competitors	
Photonics Instruments	Agilent Technologies, Inc.	Labsphere, Inc.
	Coherent, Inc.	Picometrix, LLC
	Gentec Electro Optics, Inc.	Thorlabs, Inc.
	IDEX Corporation (CVI Melles Griot)	
Precision Positioning Devices, Systems and Subsystems	Aerotech Inc.	Rockwell Automation, Inc. (Anorad)
	Danaher Corporation (Dover)	Sigma Koki Co., Ltd.
	Parker Hannifin Corporation	Thorlabs, Inc.
	PI miCos GmbH	
Three-Dimensional Non-Contact Measurement Equipment	3M Company (ESPE)	Institut Straumann AG
	3 Shape A/S	Keyence Corporation
	Align Technologies, Inc. (Cadent)	Renishaw plc
	Dental Wings, Inc.	Sirona Dental Systems, Inc.
	Faro Technologies, Inc.	
Vibration Isolation Systems and Subsystems	AMETEK, Inc. (TMC)	Kinetic Systems, Inc.
	Herzan, LLC	Thorlabs, Inc.

In certain of our product lines, particularly our precision motion systems, infrared optics and opto-mechanical subassembly 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 each of 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 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 us, will seek to provide products to one or more of our markets in the future. Such future competition could harm our business.

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Intellectual Property and Proprietary Rights

Our success and competitiveness depends to an extent on 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 300 patents in the U.S. and foreign jurisdictions, and we have approximately 110 additional patent applications pending. These patents and patent applications cover various aspects of products in many of our key product categories, particularly our laser products. We also have trademarks registered in the U.S. and foreign jurisdictions. 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 try to 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 foreign jurisdictions, such as China, where the intellectual property laws 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

Our PPT Division manufactures instruments, components, subassemblies and systems at domestic facilities located in Irvine and Santa Clara, California; Stratford, Connecticut; Franklin and North Billerica, Massachusetts; Bozeman, Montana; and Rochester, New York; and at international facilities in Beaune-la Rolande, France; Brigueuil, France; and Wuxi, China. Our Lasers Division manufactures lasers and laser systems at our facilities in Santa Clara, California; Rankweil, Austria; and Stahnsdorf, Germany. Our Ophir Division manufactures optics, photonics instruments and three-dimensional non-contact measurement equipment in Jerusalem, Israel; North Andover, Massachusetts; North Logan, Utah; 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 low power lasers, to a number of domestic and foreign third-party subcontractors and contract manufacturers.

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 on a limited basis, 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

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of these cases, the number of available suppliers is limited by the existence of patents covering the components or materials. 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 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.

Backlog

Our consolidated backlog of orders totaled $193.4 million at December 31, 2011 and $142.0 million at January 1, 2011. As of December 31, 2011, $168.7 million of our consolidated backlog was scheduled to be shipped on or before December 29, 2012. 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 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 February 29, 2012, we had approximately 2,550 employees worldwide. We believe that our relationships with our employees are good.

Government Regulation

Regulatory Compliance

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 in lasers sold to end-users and 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). 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 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

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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. In such event, we could be subject to claims by employees or third parties, 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.

Spectra-Physics former facility located in Mountain View, California is an EPA-designated Superfund site and is 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 and 1970s. 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 and remediation efforts by the Responsible Parties have been ongoing for approximately 25 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. In addition to our remediation obligations, we may be liable for property damage or personal injury claims relating to this site. While we are not aware of any claims at this time, such claims could be made against us in the future. Thermo Fisher Scientific, Inc., formerly known as Thermo Electron Corporation (Thermo), has agreed, in connection with our purchase of Spectra-Physics, to indemnify us, subject to certain conditions, for costs of remediation that are incurred and third party claims that are made prior to July 16, 2014, which arise from the releases of hazardous substances at or from the Mountain View facility and are subject to remediation under the cost-sharing agreement. However, our ultimate costs of remediation and other potential liability are difficult to predict, and this indemnity may not cover all liabilities relating to this site. If significant costs or other liability relating to this site arise in the future and are either not covered by this indemnity or arise after this indemnity expires, our business, financial condition and results of operations could be adversely affected.

In addition, 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. The European Union member states continue to define the scope of the implementation of RoHS and WEEE. While many of our products are not subject to RoHS and WEEE requirements, based on information we have received to date, certain of our products sold in these countries are or will likely be subject to these requirements. We will continue to monitor RoHS and WEEE guidance as it is announced by individual jurisdictions to determine our responsibilities. The guidance available to us to date suggests that in some instances we are not directly responsible for compliance with RoHS and WEEE because some of our products may be outside the scope of the directives. However, because the scope of the directives continues to expand in the course of implementation by the European Union member states, we will likely be directly or contractually subject to 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 the United States, as well as other countries, such as Japan and China. Our failure to comply with any 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 countries in these regions.

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 Securities and Exchange Commission (SEC). We will also provide electronic or paper copies of such reports free of charge, upon request

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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.

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 occur, 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.

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.

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 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 within a given quarter;
- 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 manufacture a sufficient quantity of our products to meet 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;

fluctuations in foreign currency exchange rates;

our expense levels;

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impairment of goodwill and amortization of intangible assets; and

fees and expenses relating to litigation.

We may in the future choose to change prices, increase spending, or add or eliminate 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.

In addition, we often recognize a substantial portion of our sales in the last month of the 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 customers purchase decisions, rescheduled delivery dates requested by our customers, or manufacturing 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 unexpected delays in manufacturing, testing, shipping and 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 comparisons of our results of operations, or any other similar period-to-period comparisons, are not reliable indicators of our future performance. In any period, our results may be below the expectations of market analysts and investors, which would likely cause the trading price of our common stock to drop.

Difficulties in finding suitable acquisition targets and in successfully completing and executing our acquisitions could adversely impact our business.

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 process of integrating acquired companies into our operations requires significant resources and is time consuming, expensive and disruptive to our business. Further, 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;

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

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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.

Additionally, we may incur significant charges in future quarters 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, during the fourth quarter of 2008, we determined that goodwill and certain intangible assets associated with our Lasers Division were impaired, and we recorded an impairment charge of $119.9 million to write off the total goodwill balance and certain other intangible assets associated with that division. While we believe that our assumptions currently used in evaluating the goodwill associated with our business are reasonable, we may be required to recognize a goodwill impairment charge in the future.

We face significant risks from doing business internationally.

Our business is subject to risks inherent in conducting business internationally. For the years ended December 31, 2011, January 1, 2011 and January 2, 2010, our international revenues accounted for approximately 55.8%, 51.3% and 53.7%, respectively, of total net sales, with a substantial portion of international sales originating in Europe and Japan. 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 U.S. and foreign regulatory authorities, including embargoes, 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, importing and exporting of our products, as well as U.S. and international anti-corruption laws, 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;

longer accounts receivable collection periods;

overlapping, differing or more burdensome tax structures;

adverse currency exchange rate fluctuations;

differing protection of intellectual property;

more complex and burdensome labor laws and practices in countries where we have employees;

difficulties in staffing and managing each of our individual foreign operations; and

increased risk of exposure to civil unrest, terrorist and military activities.

In particular, as a result of our acquisition of Ophir, we have significant facilities and operations and a considerable number of employees in Israel. A number of Ophir products are manufactured in facilities located in Israel. The future of peace efforts between Israel and its Arab neighbors remains extremely uncertain. Any armed conflicts or further 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. Our

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operations in Israel could be disrupted by the absence for a significant period of one or more key employees or a significant number of other employees due to military service. Any such disruption could adversely affect our business.

Also, the March 2011 earthquake in Japan, and the resulting tsunami and related devastation adversely impacted our business in that country in 2011, as our revenue from that country declined significantly in the aftermath. Although we have recently seen some improvement in our business in Japan, we are uncertain as to when it will recover to the level we experienced prior to the earthquake.

Further, fluctuations in foreign exchange rates could affect the sales price in local currencies of our products in foreign markets, potentially making our products less price competitive. Such exchange rate fluctuations could also increase the costs and expenses of our foreign 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 and results of operations could be significantly harmed.

Our operating results may be adversely affected by unfavorable economic and market conditions.

Decreased consumer confidence, volatile corporate operating results, reduced capital spending, lower research 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 expenses, and consequently have a material adverse effect on our business, financial condition and results of operations.

In particular, our worldwide customers in the scientific research and aerospace and defense markets rely to a large extent on government funding for their research and defense-related programs, and utilize this funding to purchase our products utilized in these programs. Any decline in government funding as a result of reduced budgets in connection with fiscal austerity measures could result in reduced sales of our products to these customers, which would have an adverse impact on our results of operations.

Further, as a result of the acquisitions of Ophir and High Q, our dependence upon the European market as a significant revenue source has increased. In the event the European Union economy declines as a result of ongoing 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 an adverse effect upon our results of operations.

Ongoing concerns regarding the 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 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 components, subsystems and laser products to manufacturers of semiconductor fabrication, inspection and metrology equipment and sales of capital equipment to integrated semiconductor device manufacturers. 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, which had a significant negative impact on our operating results. The continued cyclicality 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

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technology and to support and service our products. In addition, due to the relatively long manufacturing lead times for some of the systems 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 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.

A limited number of customers account for a significant portion of our overall sales to the microelectronics market and our Ophir Division s sales to the aerospace and defense markets, and if we lose any of these customers or they significantly curtail their purchases of our products, our results of operations would be harmed.

Our sales to the microelectronics market (which is comprised primarily of semiconductor capital equipment customers) constituted 28.3%, 31.7% and 23.1% of our consolidated net sales for the years 2011, 2010 and 2009, 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 59.7%, 55.6% and 45.6% of our sales to this market for the years 2011, 2010 and 2009, respectively, with one customer 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 2011, 2010 or 2009. 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 could 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, systems and subsystems in advance of significant sales of these products, systems and/or 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 and results of operations.

Additionally, our Ophir Division generates a significant amount of revenue from sales of infrared optics and lens assemblies to a limited number of customers in the aerospace and defense markets. 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 financial condition and results of operations will be adversely affected.

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.

In October 2011, we obtained a secured credit facility from certain lenders. The credit facility consists of a revolving credit facility of $65 million and a term loan of $185 million, each with a term of five years. Our ability to borrow funds under the revolving credit facility is subject to certain conditions, including compliance with certain covenants and making certain representations and warranties. The term loan requires amortization in the form of quarterly scheduled principal payments as specified in the credit agreement. 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 international subsidiaries.

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Effects of entering into the credit agreement include:

- requiring that we dedicate a significant portion of our cash flow from operations and other capital resources to debt service, thereby reducing our ability to fund working capital, capital expenditures, research and development and other cash requirements;
- increasing our vulnerability to adverse economic and industry conditions; and
- limiting our ability to incur additional debt on acceptable terms, if at all.

The credit agreement requires compliance with certain financial covenants, including maintaining specific financial ratios. The credit agreement and related loan 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;
- 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 meet our quarterly payment obligations under the term loan and repay any amounts owed under the revolving credit facility will depend upon our future cash balances. The amount of cash available for repayment of these loans 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, outstanding indebtedness under the credit agreement may, at the option of the lenders, become 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.

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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 likely have a materially 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 do not introduce new and innovative products or improve our existing products, our business and results of operations will be negatively affected.

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 cyclicality 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 and results of operations would be harmed.

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 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 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.

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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 capital equipment, system and subsystem products are complex, and customers for these products require substantial time to make purchase decisions. In addition, some of our sales to aerospace and defense/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 capital equipment, system and subsystem 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 material costs. We have from time to time experienced order rescheduling and cancellations that have caused our revenues 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. These fluctuations could harm our results of operations.

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, 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 use competitors products. In addition, because certain of our markets, such as the semiconductor equipment market, are highly cyclical in nature, if we fail to timely introduce new products in advance of an upturn in the market s cycle, we may be foreclosed from selling products to certain customers until a future cycle. As such, our inability to introduce new or enhanced products in a timely manner could cause our business and results of operations to suffer.

We face substantial competition, and if we fail to compete effectively, our operating results will suffer.

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 and results of operations would be harmed.

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 and State. Similar export regulations govern exports of our products and technology developed or manufactured in certain other countries. 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. For products and technology subject to the U.S. Export Administration Regulations administered by the U.S. Department of Commerce s Bureau of Industry and Security, the requirement for a license is dependent on the type

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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 U.S. 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. 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 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 fail to protect our intellectual property and proprietary technology, we may lose our competitive advantage.

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 foreign countries 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 have in the past and may in the future 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. If we are unsuccessful at effectively protecting our intellectual property, our business, financial condition and results of operations could be harmed.

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 adversely impact our business and 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 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.

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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 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 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 harm our business.

Many of our products, especially our laser and automation products, are inherently complex in design and 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 materials by us or 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.

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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; 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 adversely affect our 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 sold by High Q, are used in medical applications where malfunctions could result in serious injury. We are exposed to significant risks for product liability claims if property damage, personal injury or death 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 any claim or product recall, could have a material adverse effect on our business, financial condition and results of operations.

Our failure to successfully manage the transition of certain of our manufacturing operations to international locations and to contract manufacturers could harm our business.

As part of our ongoing cost-reduction efforts, we continue to transition the manufacture of certain of our product lines and subassemblies from higher-cost manufacturing locations to our facilities in Wuxi, China and Bucharest, Romania and to selected contract manufacturers in Asia. If we are unable to successfully manage the transition of the manufacture of these products, our results of operations could be harmed.

In particular, transferring product lines to our lower-cost manufacturing locations and our contract manufacturers facilities 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. If we are unable to manage this transfer and training smoothly and comprehensively, 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 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

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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 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.

While we believe we currently have adequate internal control over financial reporting, 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 Securities and Exchange Commission 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 an attestation report on such internal controls. Management s assessment of internal controls 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 assessments.

We face challenges in implementing our internal control over financial reporting for acquired businesses. For example, although Ophir, which we acquired in October 2011, was a publicly traded company in Israel, it was subject to different accounting requirements and standards than us. Consequently, implementing our internal control systems at Ophir will be time consuming and difficult to complete comprehensively. We will need to have implemented adequate internal controls at Ophir before the end of 2012 in order for our management to assert that our internal control over financial reporting is effective, and we may not succeed in timely implementing such internal controls.

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 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 adversely affect our financial results.

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 Environmental Protection Agency (EPA), and comparable authorities are involved 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. In such event, we could be subject to claims by

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employees or third parties, 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.

Spectra-Physics former facility located in Mountain View, California is an EPA-designated Superfund site and is 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 and 1970s. 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 and remediation efforts by the Responsible Parties have been ongoing for approximately 25 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. In addition to our remediation obligations, we may be liable for property damage or personal injury claims relating to this site. While we are not aware of any claims at this time, such claims could be made against us in the future. Thermo Fisher Scientific, Inc., formerly known as Thermo Electron Corporation (Thermo), has agreed, in connection with our purchase of Spectra-Physics, to indemnify us, subject to certain conditions, for costs of remediation that are incurred and third party claims that are made prior to July 16, 2014, which arise from the releases of hazardous substances at or from the Mountain View facility and are subject to remediation under the cost-sharing agreement. However, our ultimate costs of remediation and other potential liability are difficult to predict, and this indemnity may not cover all liabilities relating to this site. If significant costs or other liability relating to this site arise in the future and are either not covered by this indemnity or arise after this indemnity expires, our business, financial condition and results of operations could be adversely affected.

The environmental regulations to which we are subject, include a variety of federal, state, local and international environmental regulations restricting the use and disposal of materials used in the manufacture of our products, or requiring 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.

From time to time new regulations are enacted, and it is difficult to anticipate how such regulations will be implemented and enforced. We continue to evaluate the necessary steps for compliance with 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. The European Union member states continue to define the scope of the implementation of RoHS and WEEE. Based on information we have received to date, certain of our products sold in these countries are or will likely be subject to RoHS and WEEE requirements. We will continue to monitor RoHS and WEEE guidance as it is announced by individual jurisdictions to determine our responsibilities. The guidance available to us to date suggests that in some instances we are not directly responsible for compliance with RoHS and WEEE because some of our products may be outside the scope of the directives. However, because the scope of the directives continues to expand in the course of implementation by the European Union member states, we will likely be directly or contractually subject to 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 the United States, as well as other countries, such as Japan and China. 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 countries in these regions.

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Difficulties with our global information technology system could harm our business.

Any failure or malfunctioning of our global information technology system, errors or misuse by system users, 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.

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 recent flooding in Thailand. We currently have comprehensive 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

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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 manufacturing operations for each of our divisions are located in the following facilities:

Division	Primary Facility Locations	Approximate Facility Size
Photonics and Precision Technologies	Irvine, California	257,000 square feet
	Rochester, New York	58,000 square feet
	Franklin, Massachusetts	56,000 square feet
	North Billerica, Massachusetts	41,000 square feet
	Stratford, Connecticut	32,000 square feet
	Bozeman, Montana	21,000 square feet
	Beaune-la Rolande, France	86,000 square feet
	Wuxi, China	64,000 square feet
	Brigueuil, France	44,000 square feet
Lasers	Santa Clara, California	139,000 square feet
	Rankweil, Austria	27,000 square feet
	Stahnsdorf, Germany	12,000 square feet
Ophir	Jerusalem, Israel	101,000 square feet
	North Andover, Massachusetts	27,000 square feet
	North Logan, Utah	15,000 square feet
	Bucharest, Romania	17,500 square feet

We own portions of our Rochester, New York, Beaune-la Rolande, France and Jerusalem, Israel facilities, and we own our Brigueuil, France facility. 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 2012 to 2022. 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.

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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 29, 2012, we had 828 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
December 31, 2011	$ 14.49	$ 9.35
October 1, 2011	19.15	10.50
July 2, 2011	19.84	15.29
April 2, 2011	18.99	14.93
January 1, 2011	18.15	10.85
October 2, 2010	13.57	8.43
July 3, 2010	14.48	8.30
April 3, 2010	12.63	7.74

Dividends

We declared no dividends on our common stock during 2011 or 2010. We do not intend to pay cash dividends in the foreseeable future, however, we will periodically review this issue in the future based on changes in our financial position 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 October 2011 restrict our ability to pay dividends during the term of such facility.

Purchases of Equity Securities

We made no purchases of our equity securities during the fourth quarter of the year ended December 31, 2011.

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Information Regarding Equity Compensation Plans

The following table sets forth information with respect to securities authorized for issuance under our equity compensation plans as of December 31, 2011:

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in column (a)) (c)
Equity Compensation Plans Approved by Security Holders	3,511,772	$ 11.28	5,207,693
Equity Compensation Plans Not Approved by Security Holders			
Total	3,511,772		5,207,693

All of our equity compensation plans under which options, warrants and rights were outstanding or available for future issuance as of December 31, 2011 have been approved by security holders. The number of shares reflected in column (a) consists of: (i) outstanding options to purchase an aggregate of 1,338,161 shares of our common stock, which were issued under our 2001 Stock Incentive Plan; (ii) outstanding stock-settled stock appreciation rights with respect to an aggregate of 1,290,275 shares of our common stock, which were issued under our 2006 Performance-Based Stock Incentive Plan and our 2011 Stock Incentive Plan; and (iii) outstanding restricted stock units representing the right to receive upon vesting an aggregate of 883,336 shares of our common stock, which were issued under our 2006 Performance-Based Stock Incentive Plan and our 2011 Stock Incentive Plan. The weighted-average exercise price reflected in column (b) represents the combined weighted-average exercise price (or base value) of all outstanding options (having a weighted-average exercise price of $13.75 per share) and all outstanding stock-settled stock appreciation rights (having a weighted-average base value of $8.72 per share). All outstanding restricted stock units were awarded without payment of any purchase price.

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Stock Performance Graph

The following graph compares the cumulative total stockholder return on $100 invested in our common stock for the five years ended December 31, 2011, with the cumulative total return on $100 invested in each of (i) the Nasdaq Market Index, (ii) our current peer group, and (iii) our prior peer group. The graph assumes all investments were made at market value on December 30, 2006 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.

COMPARES 5-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.

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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 and in our annual reports that have been filed for the prior years presented.

	For the Year Ended (1)				
(In thousands, except percentages)	December 31, 2011 (10)	January 1, 2011	January 2, 2010 (2)	January 3, 2009	December 29, 2007
CONSOLIDATED STATEMENTS OF OPERATIONS:					
Net sales	$ 545,054	$ 479,787	$ 366,989	$ 445,336	$ 445,197
Cost of sales	305,325	274,491	224,387	274,542	259,636
Gross profit	239,729	205,296	142,602	170,794	185,561
Selling, general and administrative expenses	140,636	112,754	112,177	118,518	116,476
Research and development expense	45,270	39,278	36,948	46,068	42,570
Loss (gain) on sale of assets and related costs (3)		542	4,355	(2,504)	
Impairment charges (4)			360	119,944	
Operating income (loss)	53,823	52,722	(11,238)	(111,232)	26,515
Recovery (write-down) of note receivable and other amounts related to previously discontinued operations, net (5)	619		101	(7,040)	
Foreign currency translation gain from dissolution of subsidiary (6)	7,198				
Write-down of minority interest investment (7)				(2,890)	
Gain (loss) on extinguishment of debt (8)	(582)		328	7,734	
Interest and other expense, net	(10,550)	(8,481)	(8,564)	(6,751)	(4,053)
Income (loss) before income taxes	50,508	44,241	(19,373)	(120,179)	22,462
Income tax provision (benefit) (9)	(29,154)	3,128	(1,967)	28,545	(17,229)
Net income (loss)	79,662	41,113	(17,406)	(148,724)	39,691
Net loss attributable to non-controlling interest	(46)				
Net income (loss) attributable to Newport Corporation	$ 79,708	$ 41,113	$ (17,406)	$ (148,724)	$ 39,691
Percentage of net sales:					
Gross profit	44.0%	42.8%	38.9%	38.4%	41.7%
Selling, general and administrative expenses	25.8%	23.5%	30.6%	26.6%	26.2%
Research and development expense	8.3%	8.2%	10.1%	10.4%	9.6%
Operating income (loss)	9.9%	11.0%	(3.1)%	(24.9)%	5.9%
Net income (loss)	14.6%	8.5%	(4.8)%	(33.4)%	8.9%
Net income (loss) attributable to Newport Corporation	14.6%	8.5%	(4.8)%	(33.4)%	8.9%

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(In thousands, except per share and worldwide employment figures)	As of or for the Year Ended December 31, 2011	January 1, 2011	January 2, 2010	January 3, 2009	December 29, 2007
PER SHARE INFORMATION:					
Net income (loss) per share attributable to Newport Corporation:					
Basic	$ 2.13	$ 1.12	$ (0.48)	$ (4.11)	$ 1.03
Diluted	$ 2.06	$ 1.09	$ (0.48)	$ (4.11)	$ 1.02
Shares used in computation of income (loss) per share:					
Basic	37,407	36,647	36,175	36,155	38,479
Diluted	38,673	37,726	36,175	36,155	39,058
Total stockholders equity per diluted share	$ 9.57	$ 7.83	$ 7.04	$ 7.34	$ 10.93
BALANCE SHEET INFORMATION:					
Cash, restricted cash and marketable securities	$ 72,855	$ 200,184	$ 141,923	$ 148,420	$ 143,864
Working capital	$ 178,598	$ 288,650	$ 236,510	$ 263,507	$ 284,676
Total assets	$ 764,069	$ 556,390	$ 493,407	$ 524,903	$ 698,323
Short-term borrowings	$ 45,149	$ 12,468	$ 11,056	$ 14,089	$ 12,402
Long-term borrowings (includes borrowings under capital leases)	$ 179,008	$ 123,198	$ 122,636	$ 136,807	$ 153,489
Stockholders equity of Newport Corporation	$ 370,258	$ 295,459	$ 254,636	$ 265,197	$ 426,838
MISCELLANEOUS STATISTICS:					
Common shares outstanding at year end	37,634	36,909	36,316	36,049	36,918
Average worldwide employment	2,116	1,687	1,683	1,900	1,943
Sales per employee	$ 258	$ 284	$ 218	$ 234	$ 229

(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 closest to the end of each corresponding calendar quarter. Fiscal year 2011 (referred to herein as 2011) ended on December 31, 2011, fiscal year 2010 (referred to herein as 2010) ended on January 1, 2011, fiscal year 2009 (referred to herein as 2009) ended on January 2, 2010, fiscal year 2008 (referred to herein as 2008) ended on January 3, 2009 and fiscal year 2007 (referred to herein as 2007) ended on December 29, 2007. Fiscal years 2011, 2010, 2009 and 2007 each consisted of 52 weeks, and fiscal year 2008 consisted of 53 weeks.

(2) In July 2009, we entered into an asset exchange transaction with Oclaro, Inc. (Oclaro) in which we acquired substantially all of the assets of the New Focus business. The purchase price was paid by the transfer to Oclaro of our diode laser business, as described in footnote (3) below, and the payment of $3.0 million in cash. Our results of operations for 2009 included the results of operations of the New Focus business from July 4, 2009, the closing date of the acquisition.

(3) In 2010, we sold our Hilger Crystals Limited subsidiary for $4.0 million in cash. We recognized a loss of $0.5 million after considering the net asset carrying value of $2.5 million, charges of $1.4 million related to the pension plan associated with this business, a charge of $0.4 million to write off an inter-company receivable, and transaction expenses of $0.2 million. In 2009, we entered into an asset exchange transaction in which we sold substantially all of the assets of our diode laser business, which had a book value of $14.9 million, which resulted in a loss of $4.4 million after considering the fair value of these assets of $11.1 million and selling costs of $0.6 million. In 2008, we sold a building under a sale-leaseback agreement for $7.0 million, net of $0.3 million in selling costs. We recorded a gain on the sale of the building of $2.5 million after considering the net book value of the building and the present value of the leaseback agreement.

(4) In 2009, we determined that we would not continue to pursue technology related to purchased in-process research and development and recorded an impairment charge of $0.4 million associated with such technology. In 2008, we determined that goodwill and other intangible assets related to our Lasers Division were impaired and recorded impairment charges of $104.6 million related to goodwill and $15.4 million related to other acquired intangible assets.

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(5) 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, resulting in charges totaling $7.0 million, net of amounts recovered relating to the sublease. In 2009, we entered into a settlement agreement with Kensington pursuant to which Kensington paid us $0.2 million and transferred to us certain assets included in the collateral securing the note. In 2009, we recognized $0.1 million as a recovery on the note, net of certain costs. In 2011, we recognized an additional $0.6 million as a recovery of amounts due from Kensington, net of certain costs.

(6) 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.

(7) In 2008, we determined that a minority interest investment had an other-than-temporary decline in value and wrote off $2.9 million, representing the full carrying value of such investment.

(8) In 2011, we extinguished $114.4 million of our convertible subordinated notes 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. In 2009, we extinguished $20.2 million of our convertible subordinated notes for $18.7 million. After allocating $0.3 million of the extinguished amount to the equity component of the notes, we recorded a gain of $0.3 million on extinguishment of the debt, net of unamortized fees and debt discount. In 2008, we extinguished $28.0 million of our convertible subordinated notes for $16.8 million, and we recorded a gain of $7.7 million on extinguishment of the debt, net of unamortized fees and debt discount.

(9) 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 2007, we reduced the valuation allowance against our deferred tax assets by $19.8 million, and in 2008, we reestablished such valuation allowance and recorded an additional valuation allowance of $4.6 million. In 2010, we reduced such valuation allowance by $18.2 million, due primarily to income generated during the year. In 2011, we reduced such valuation allowance by an additional $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 11 of the Notes to Consolidated Financial Statements regarding our valuation allowance.

(10) 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.

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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/A. 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/A.

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, three-dimensional non-contact measurement and advanced automated manufacturing systems. Our products are used worldwide in industries including scientific research, microelectronics, aerospace and defense/security, life and health sciences and industrial markets. We operate within three distinct business segments, our Photonics and Precision Technologies (PPT) Division, our Lasers Division and our Ophir Division. All of our divisions 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 our targeted end markets.

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

Acquisitions and Divestitures

Acquisition of Opticoat

On December 29, 2011, we acquired substantially all of the assets of Opticoat SRL (Opticoat) for a purchase price of $3.0 million in cash, of which $2.0 million was paid upon the closing and $1.0 million was held back to secure certain obligations of Opticoat under the acquisition agreement. In the absence of any indemnification claims by us, we will pay $850 thousand of the amount held back to Opticoat in 2012 and the remaining $150 thousand in 2013. The present value of these payments was determined to be $2.9 million. We incurred $0.1 million in transaction costs, which have been expensed as incurred and are included in *selling, general and administrative expenses* in the accompanying statements of operations. This acquisition expands our capabilities and capacity in the manufacturing of precision optical components and coatings.

Acquisition of Ophir

On October 4, 2011, we acquired all of the outstanding capital stock of Ophir Optronics Ltd. (Ophir) for $242.3 million in cash, of which $242.1 million was allocated to the purchase price and $0.2 million was allocated to the fair value of unearned compensation related to unvested stock options. We funded the purchase price with a combination of $162.8 million of cash on hand and $79.5 million of the net proceeds we received from the senior secured credit facility we obtained in October 2011, described more fully under the heading Liquidity and Capital Resources below. We incurred $4.7 million in transaction costs, which have been expensed as incurred and are included in *selling, general and administrative expenses* in the accompanying statements of operations. This acquisition adds precision infrared optics and lens assemblies, laser measurement instrumentation and three-dimensional non-contact measurement equipment to our product offerings.

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Acquisition of High Q

On July 29, 2011, we acquired all of the capital stock of High Q Technologies GmbH (High Q). The total purchase price was $18.5 million, consisting of an initial purchase price of $17.2 million, $2.9 million of which was deposited into escrow until December 31, 2013 to secure representations and warranties made by the sellers, and a subsequent payment of $1.3 million, which was paid to the sellers based on a calculation of High Q s net assets at closing. We incurred $0.4 million in transaction costs, which have been expensed as incurred and are included in *selling, general and administrative expenses* in the accompanying statements of operations. This acquisition broadens our ultrafast laser capabilities, particularly for applications in the life and health sciences and industrial markets, and expands our presence in European laser markets.

Prior to the closing of the acquisition, High Q sold the building that houses its corporate headquarters and its operations to a company established by the then-largest shareholder of High Q for 3.5 million ($4.5 million as of December 31, 2011), and leased the building from the purchaser for a period of at least ten years. High Q financed the purchase price of the building pursuant to a loan agreement with the purchaser that is secured by a mortgage on the building in favor of High Q. Such loan will be repaid over ten years and accrues interest at an annual rate of 2.0%. The principal balance of the loan was 3.4 million ($4.4 million) as of December 31, 2011. As of December 31, 2011, the current portion of the loan was $0.3 million and was included in *prepaid expenses and other current assets,* and the long-term portion of the loan was $4.1 million and was included in *other assets,* in the accompanying consolidated balance sheets.

Purchase Price Allocation for 2011 Acquisitions

The consideration paid for our acquisitions 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 estimated fair values of intangible assets acquired were determined using an income approach. 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)	$00,0000 **Ophir**	$00,0000 **High Q**	$00,0000 **Opticoat**	$00,0000 **Total**
Assets acquired and liabilities assumed:				
Cash	$ 23,233	$ 5,989	$	$ 29,222
Goodwill	66,524	6,745	1,302	74,571
Developed technology	41,530	6,300	705	48,535
In-process research and development	9,560			9,560
Customer relationships	56,640	1,350	148	58,138
Other intangible assets	13,970	4,170		18,140
Property and equipment	41,652	1,436	917	44,005
Other assets	67,497	15,505		83,002
Liabilities	(76,446)	(22,990)	(137)	(99,573)
Non-controlling interests	(2,076)			(2,076)
	$ 242,084	$ 18,505	$ 2,935	$ 263,524

For our Ophir acquisition, the $66.5 million of goodwill has been allocated to our newly created Ophir Division and will not be deductible for tax purposes. For our High Q acquisition, the $6.7 million of goodwill has been allocated to our Lasers Division, a portion of which will be deductible for Austrian tax purposes. For our Opticoat acquisition, the $1.3 million of goodwill has been allocated to our Ophir Division and will not be deductible for tax purposes.

Divestiture of Hilger Crystals Limited

On July 19, 2010, we sold all of the outstanding capital stock of our Hilger Crystals Limited subsidiary. We received $4.0 million in cash as consideration for the sale. In addition, if Hilger Crystals Limited achieves certain specified revenue targets in the 18-month period following the closing date, we could receive up to an additional

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$0.75 million in cash. The achievement of such revenue targets is expected to be determined in the second quarter of 2012.

We recognized a net loss of $0.5 million related to this transaction in 2010. The net asset value of Hilger Crystals Limited at the time of the sale was $2.5 million, including $0.6 million of goodwill allocated to the business, and we incurred charges totaling $1.4 million related to the pension plan associated with the business, a charge of $0.4 million to write off an inter-company receivable that will not be repaid by the new owner and $0.2 million in legal and consulting fees related to this transaction. Such net loss has been included in *loss on sale of assets and related costs* in the accompanying consolidated statements of operations. In addition, we recognized $0.6 million in previously unrealized foreign currency losses as a non-operating expense upon the disposition of this business, which is included in *interest and other expense, net* in the accompanying consolidated statements of operations.

The assets of the Hilger Crystals business had previously been included in our PPT Division. Below is a summary of the assets and liabilities disposed of:

(In thousands)	
Assets and liabilities disposed of:	
Current assets	$ 1,714
Other assets	1,775
Current liabilities	(1,020)
	$ 2,469

Acquisition of New Focus and Divestiture of Diode Laser Operations

On July 4, 2009, we completed an asset exchange transaction with Oclaro, Inc. (Oclaro), pursuant to which we acquired certain assets and assumed certain liabilities related to Oclaro s New Focus business, and we sold certain assets and transferred certain liabilities related to our diode laser operations based in Tucson, Arizona to Oclaro. The acquisition of the New Focus business expanded our product offerings to include a number of new high-performance products, including opto-electronics, high-resolution actuators, high-speed detectors and modulators, opto-mechanics, tunable lasers, and custom-engineered solutions designed for OEM customers.

The fair value of the New Focus business on the acquisition date was $14.1 million, and the purchase price was paid by the transfer to Oclaro of our diode laser assets and liabilities, which had a fair value of $11.1 million, and the payment of $3.0 million in cash. We incurred $0.2 million in acquisition related expenses, which have been expensed as incurred and are included in *selling, general and administrative expenses* in the accompanying consolidated statements of operations.

Below is a summary of the purchase price, assets acquired and liabilities assumed:

(In thousands)	
Assets acquired and liabilities assumed:	
Current assets	$ 8,930
Goodwill	1,392
Purchased intangible assets	4,830
Other assets	1,247
Current liabilities	(2,299)
	$ 14,100

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Our diode laser assets had a net book value of $14.9 million, which resulted in a loss of $4.4 million after considering the fair value of these assets of $11.1 million and selling costs of $0.6 million. This loss has been included in *loss on sale of assets and related costs* in our consolidated statements of operations. These assets had previously been included in our Lasers Division. Below is a summary of the assets and liabilities disposed of:

(In thousands)	
Assets and liabilities disposed of:	
Current assets	$ 11,043
Other assets	5,106
Current liabilities	(1,284)
	$ 14,865

Subsequent Event

On January 13, 2012, we acquired all of the outstanding capital stock of ILX Lightwave Corporation (ILX) for an initial purchase price of $9.3 million in cash, of which $1.2 million was deposited at closing into escrow until July 12, 2013, to secure certain indemnification obligations of the purchase price recipients. The purchase price is subject to subsequent adjustment based on a calculation of ILX s net assets at closing. This acquisition expands our optical power meter and fiber optic source product offerings, and adds laser diode instrumentation and laser diode and light emitting diode (LED) burn-in, test and characterization systems to our product portfolio.

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 closest to the end of each corresponding calendar quarter. Fiscal year 2011 (referred to herein as 2011) ended on December 31, 2011, fiscal year 2010 (referred to herein as 2010) ended on January 1, 2011 and fiscal year 2009 (referred to herein as 2009) ended on January 2, 2010. Each of these fiscal years 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, 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) to the Notes to Consolidated Financial Statements, included in Item 15 (Exhibits, Financial Statement Schedules) of this Annual Report. 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, asset impairment, 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 fee is fixed or

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determinable and collectability is reasonably assured. We recognize 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 selling price, determined based upon the price that would be charged on a standalone basis. If a portion of the total contract price is not payable until installation is complete, we do not recognize such portion as revenue until completion of installation; however, we record the full cost of the product at the time of shipment. Revenue for extended service contracts is recognized over the related contract periods. Certain sales to international customers are made through third-party distributors. 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 expenses*. 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 and Notes 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.

Certain of our Japanese customers provide us with promissory notes on the due date of the receivable. The payment dates of the promissory notes generally range between 60 and 150 days from the original receivable due date. For balance sheet presentation purposes, amounts due to us under such promissory notes are reclassified from accounts receivable to notes receivable. At December 31, 2011 and January 1, 2011, *notes receivable, net* totaled $2.1 million and $3.3 million, respectively. Certain of these promissory notes are sold with recourse to banks in Japan with which we regularly do business. The sales of these receivables have been accounted for as secured borrowings, as we have not met the criteria for sale treatment in accordance with Accounting Standards Codification (ASC) 860-30, *Transfers and Servicing Secured Borrowing and Collateral*. The principal amount of the promissory notes sold with recourse is included in both *notes receivable, net* and *short-term borrowings* until the underlying note obligations are ultimately satisfied through payment by the customers to the banks. At December 31, 2011 and January 1, 2011, the principal amount of such promissory notes included in *notes receivable, net* and *short-term borrowings* in the accompanying consolidated balance sheets totaled $1.3 million and $2.0 million, respectively.

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.

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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 either a first-in, first-out (FIFO) or average cost 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 *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 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 our customers, products sold by our PPT Division generally carry a one-year warranty from the original invoice date on all product materials and workmanship, other than filters and gratings products, which generally carry a 90 day warranty. Products of this division sold to OEM customers generally carry longer warranties, typically 15 to 19 months. Products sold by our Lasers Division carry warranties that vary by product and product component, but that generally range from 90 days to two years. In certain cases, such warranties for Lasers Division products are limited by either a set time period or a maximum amount of usage of the product, whichever occurs first. Products sold by our Ophir Division generally carry a one-year warranty, except for laser beam profilers and dental CAD/CAM scanners, which generally carry a two-year warranty. Defective products will either be 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. 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. Short-term accrued warranty obligations, which expire within one year, are included in *accrued expenses and other current liabilities* and long-term warranty obligations are included in *deferred income taxes and other liabilities* in the accompanying consolidated balance sheets. Short-term warranty obligations were $4.3 million and $4.1 million as of December 31, 2011 and January 1, 2011, respectively. As of December 31, 2011 and January 1, 2011, the amounts accrued for long-term warranty obligations were not material.

Impairment of Assets

We assess the impairment of long-lived assets at least annually and whenever events or changes in circumstances indicate that 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 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 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

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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.

We determine our reporting units by identifying those operating segments or components for which discrete financial information is available which is regularly reviewed by the management of that unit. For any acquisition, we allocate goodwill to the applicable reporting unit at the completion of the purchase price allocation through specific identification.

Fair value 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 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, driven by assumed growth rates, 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. There was no goodwill impairment in 2011, 2010 or 2009.

Income Taxes

Our income tax expense (benefit), 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 foreign jurisdictions. Significant judgments and estimates are required in determining our consolidated income tax expense (benefit).

We utilize the asset and liability method of accounting for income taxes as set forth in ASC 740, *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 foreign 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 and operating loss and tax credit carryforwards. The effect of a change in tax rates on deferred taxes is recognized in income in the period that includes the enactment date. In accordance with the provisions of ASC 740, a valuation allowance for deferred tax assets is recorded to the extent 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.

Since 2002, we have maintained a valuation allowance against a significant 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. An explanation of adjustments made to our valuation allowance in 2009, 2010 and 2011 is included in the discussion of our results of operations under the heading Income Taxes on page 51 below.

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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 we expect the ultimate assessment to be. 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 options and 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 options and 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 options and 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.

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 installments on the first three anniversaries of the grant date. 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