

NEWPORT CORP
Form 10-K
March 11, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549**

FORM 10-K

(Mark One)

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

For the fiscal year ended December 29, 2007

OR

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

For the transition period from _____ to _____

Commission File Number: 000-01649

NEWPORT CORPORATION

(Exact name of registrant as specified in its charter)

Nevada

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

94-0849175

(IRS Employer Identification No.)

1791 Deere Avenue, Irvine, California 92606

(Address of principal executive offices) (Zip Code)

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

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

| | |
|--|---|
| <p>Title of Each Class Common Stock, Par Value \$0.1167 per share</p> | <p>Name of Each Exchange on Which Registered The NASDAQ Stock Market LLC</p> |
|--|---|

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

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

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No
As of June 30, 2007, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately \$585.3 million, calculated based upon the closing price of the registrant's common stock as reported by the NASDAQ Global Market on such date.

As of March 5, 2008, 35,937,226 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 Annual Meeting of Stockholders to be held on May 20, 2008 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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

The forward-looking statements included herein are based on current expectations of our management based on available information and involve a number of risks and uncertainties, all of which are difficult or impossible to predict accurately and many of which are beyond our control. As such, our actual results may differ significantly from those expressed in any forward-looking statements. Factors that may cause or contribute to such differences include, but are not limited to, those discussed in more detail in Item 1 (Business) and Item 1A (Risk Factors) of Part I and Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations) of Part II of this Annual Report on Form 10-K. Readers should carefully review these risks, as well as the additional risks described in other documents we file from time to time with the Securities and Exchange Commission. In light of the significant risks and uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by us or any other person that such results will be achieved, and readers are cautioned not to place undue reliance on such forward-looking information. 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 manufacturing. We provide a broad portfolio of products to customers in these end markets, allowing us to offer them an end-to-end resource for products that make, manage and measure light.

As the demands of research and commercial applications for higher precision and miniaturization continue to increase, photonics, the science and technology of making, managing and measuring light, has become a key 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 it can accomplish faster, better or more economically.

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

lasers and laser technology, including solid-state, gas and dye lasers, high-power diode lasers, fiber lasers and amplifiers, and ultrafast laser systems;

optical components and subassemblies, including precision optics and opto-mechanical subassemblies, thin-film optical filters, ruled and holographic diffraction gratings and crystals;

photonics instruments and components, including optical meters, light sources, monochromators and spectroscopy instrumentation;

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high-precision positioning and vibration isolation products and systems; and

advanced automated manufacturing systems used in the manufacture of communications and electronics devices.

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 these integrated solutions, together with our broader portfolio of products and technologies, gives us a significant competitive advantage over our competitors.

For over four decades, we have serviced the needs of research laboratories for precision equipment. We have acquired a number of companies, which has led 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 systems for both research and commercial applications.

In February 2002, we acquired Micro Robotics Systems, Inc. (MRSI), a manufacturer of high-precision, fully-automated assembly and dispensing systems for back-end packaging applications in the semiconductor, microwave communications and fiber optic communications industries. MRSI has significant expertise in the design and manufacture of automated high-precision manufacturing systems. During the past two years, MRSI has focused its development efforts on automated laser-based manufacturing systems, particularly for disk drive and photovoltaic module manufacturing applications. MRSI is now part of our Photonics and Precision Technologies (PPT) Division.

In July 2004, we acquired Spectra-Physics, Inc. and certain related 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' photonics businesses with the existing businesses that comprised our former Industrial and Scientific Technologies Division to create our PPT Division.

Following the acquisition of Spectra-Physics, we conducted a strategic review of all of our businesses and concluded that our robotic systems operations in Richmond, California, which served the front-end semiconductor equipment industry with product lines including wafer-handling robots, load ports and equipment front-end modules, were no longer core to our overall strategy. Consequently, in the first quarter of 2005, our Board of Directors approved a plan to sell these operations. At that time, we classified our robotic systems operations as discontinued operations. We completed the sale of these operations in December 2005. The robotic systems operations represented a substantial portion of our former Advanced Packaging and Automation Systems (APAS) Division. As a result of our decision to divest these operations, we realigned our business segments to include all remaining operations of our former APAS Division within our PPT Division. Accordingly, our operations are now conducted through two divisions, our Lasers Division and our PPT Division.

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, including our acquired companies, 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 35, and Notes 2 and 3 of the Notes to Consolidated Financial Statements beginning on page F-13 of this Annual Report on Form 10-K.

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Our Markets

We sell our products, subsystems and systems to original equipment manufacturer (OEM) and end-user customers across a wide range of markets and applications, including:

Scientific Research. We are one of the world's leading suppliers of lasers and photonics products to scientific researchers. For more than forty-five years, we have worked closely with the research community to pioneer new applications and technologies. Today, we continue to help researchers break new ground in a variety of scientific research areas, including spectroscopy, ultrafast phenomena, multiphoton microscopy, terahertz imaging, optical coherence tomography, laser induced fluorescence, light detection and ranging (LIDAR) and nonlinear optics.

Microelectronics. Photonics technology addresses a number of vital applications in the microelectronics market, and is a key enabler of the industry roadmap driving smaller feature sizes with the increased functionalities needed for next-generation consumer technology products, including cellular phones, personal digital assistants and digital cameras. Our products are used in several key applications in this market, including semiconductor wafer inspection and metrology, memory yield enhancement, lithography, wafer dicing and scribing, wafer and component marking and resistor trimming, as well as in disk drive, printed circuit board, flat panel display and photovoltaic module manufacturing applications.

Life and Health Sciences. Photonics is increasingly becoming a key enabling technology in the life and health sciences market. We provide products for use in diagnostic and analytical instrumentation and cosmetic and therapeutic applications. 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 (MALDI-TOF) mass spectrometry, laser microdissection, DNA microarrays and blood analysis to enable advancements in the fields of molecular biology, proteomics and drug discovery. In addition, we supply high-power diode lasers to OEM customers for incorporation into laser systems for hair removal and a variety of dermatological and dental procedures.

Aerospace and Defense/Security. The drive for more technologically advanced weapons and sensors is producing increased investment in light-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 high-precision products are used by aerospace and defense engineers to develop, assemble, test and calibrate equipment for a wide range of applications, including target recognition and acquisition, LIDAR, range finding, missile guidance and advanced weapons development.

Industrial Manufacturing, Marking and Engraving. Our lasers and photonics products are used in a wide range of precision industrial manufacturing applications, including rapid prototyping, micromachining, heat-treating, welding and soldering, cutting, illumination, drilling and high-precision marking and engraving. We also offer laser solutions for image recording and graphics applications including pre-press (computer-to-plate), on-press, ultra-high speed printing, photo finishing and holography.

Table of Contents**Our Operating Divisions**

We operate our business in two divisions, our Lasers Division and our PPT Division, which are organized around our primary product categories.

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 across a wide range of markets and applications. Our lasers and laser-based systems include ultrafast lasers and amplifiers, diode-pumped solid-state lasers, diode lasers, high-energy pulsed lasers, tunable lasers, gas lasers, and fiber lasers and amplifiers. We have established close relationships with OEM customers involved in microelectronics, life and health sciences and industrial manufacturing. In addition to supplying our existing lasers and laser systems to these customers, we also work closely with our OEM and industrial customers to develop laser and laser system designs optimized for their product and technology roadmaps. We offer our end-user customers a full range of laser technology solutions and accessories.

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 | Mai Tai® one box femtosecond Ti:sapphire lasers Tsunami® ultrafast Ti:sapphire lasers Opal® femtosecond optical parametric oscillator (OPO) Spitfire® Pro ultrafast Ti:sapphire amplifier TOPAS automated ultrafast optical parametric amplifier (OPA) Solstice One Box Ultrafast Amplifier | Femtosecond spectroscopy Materials processing Multiphoton microscopy Optical coherence tomography Semiconductor metrology Terahertz imaging Time-resolved photoluminescence |

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| Category | Products | Representative Applications |
|---|--|--|
| Diode-Pumped Solid State Q-Switched Lasers | BL series low power lasers V-series high-repetition lasers Tristar high repetition rate UV laser Navigator lasers HIPPO high-power lasers Pulseo high peak power UV laser Explorer low-power UV lasers Empower green/UV lasers | Diamond processing Disk texturing Laser microdissection Matrix-assisted laser desorption/ionization Memory yield enhancement systems Microelectronics material processing Pump source for Ti:sapphire lasers Rapid prototyping Resistor trimming Sapphire scribing Silicon micromachining Solar cell manufacturing Wafer marking |
| Diode-Pumped Solid State Continuous Wave (CW) and Quasi-CW Lasers | Millennia® Pro i/s CW lasers MG series CW solid state green lasers Reveal CW forensic lasers Centennia® CW thin-disk lasers Excelsior low power CW lasers Vanguard quasi-CW solid state UV lasers 3900S and Matisse® CW tunable Ti:sapphire lasers Cyan compact low power CW lasers | Flow cytometry Forensic investigations Image recording Laser cooling Materials processing Optical trapping Raman imaging Semiconductor wafer inspection and metrology Solar cell manufacturing Spectroscopy Ti:Sapphire pumping |

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| Category | Products | Representative Applications |
|--|---|--|
| Diode Lasers | Open heatsink diode laser bars Multi-bar modules Fiber-coupled diode laser bars Fiber-coupled single emitter diodes Open heatsink single emitter diodes Integra industrial diode laser systems | Graphics and printing Hair removal Material heat treatment and processing Medical, therapeutic and cosmetic procedures Pump source for solid state and fiber lasers Soldering and welding |
| High Energy Pulsed Nd:YAG and Tunable Lasers | Quanta-Ray® PRO, LAB and PIV series pulsed Nd:YAG lasers Quanta-Ray® INDI series compact Nd:YAG lasers MOPO® series High Energy optical parametric oscillator (OPO) Tunable dye lasers | Flat-panel display manufacturing Laser ablation Laser cleaning LIDAR Mass spectrometry Particle imaging velocimetry combustion diagnostics Plastic and ceramic component marking Remote sensing Spectroscopy |
| Gas Lasers | Air-cooled argon ion lasers Water-cooled ion laser systems Nitrogen lasers | Confocal microscopy DNA sequencing Flow cytometry Laser doppler anemometry Raman spectroscopy Semiconductor wafer inspection Spectroscopy Holography Laser-doppler velocimetry Lithography Fluorescence immunoassay Matrix-assisted laser desorption/ionization |

Table of Contents*Fiber Laser Business Group*

During 2006, we established a Fiber Laser business group within our Lasers Division, which is engaged in the development of fiber laser and fiber amplifier technology. We introduced the first product from this group, the Pantera quasi-continuous wave mode-locked high-power ultraviolet laser, in the fourth quarter of 2007. The fiber laser and fiber amplifier products from this group incorporate our leading-edge capabilities in diode lasers, fiber coupling, frequency conversion, optics and photonics packaging.

Photonics and Precision Technologies Division

Our PPT Division's products and systems are used in applications across all of our target end markets. In addition, we sell subsystems to OEM customers that integrate our products into their systems, particularly for microelectronics and life and health sciences applications. The products sold by this division include photonics instruments and systems, precision micro-positioning systems and subsystems, vibration isolation systems and subsystems, optics, optical hardware, opto-mechanical subassemblies and crystals. The PPT Division also offers automated systems and subsystems for advanced applications in the manufacturing of communications and electronic devices, including disk drives, photovoltaic cells and microwave, optical, radio frequency (RF) and multi-chip modules.

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 | Optical meters | Characterization of light emitted by lasers, light emitting diodes and broadband light sources Chemical composition analysis Colorimetry Optical power and energy measurement for free space and fiber-directed laser light Solar cell characterization and measurements Testing and characterization of optical fibers and passive fiber optic components Spectroscopy |
| | Laser diode instruments | |
| | Light sources | |
| | Solar simulators | |
| | Solar cell test instruments | |
| | Photonics test systems | |
| | Optical detectors | |
| | Dispersive and Fourier transform (FT) spectrometers | |
| | Monochromators and spectrographs | |
| | Ultrafast laser pulse measurement systems | |

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| Category | Products | Representative Applications |
|---|--|---|
| Precision Micro-Positioning Devices, Systems and Subsystems | Precision air-bearing motion systems Motorized linear and rotation stages Motorized actuators and optics mounts Custom multi-axis positioning systems Motion controllers and drivers Manual linear and rotation stages Fiber alignment stages and accessories Micrometers and adjustment screws | High-precision positioning and motion control apparatus for manufacturing, in-process inspection and final test applications High-precision positioning systems for thin-film solar panel manufacturing Laser system alignment and beam steering for inspection, laser processing and communications Precision positioning of semiconductor wafers for metrology and fabrication Precision alignment in fiber optic, telecommunication and laser device assembly Sample or sensor manipulation for imaging and microscopy Sample sorting and sequencing for DNA research Tracking and targeting test systems for aerospace and defense/security applications |
| Vibration Isolation Systems and Subsystems | Optical tables and support systems Workstations Active and passive isolation systems Active vibration damping systems Honeycomb, granite and rigid structures Elastomeric mounts | Foundation platforms for laser systems Isolated platform for semiconductor lithography equipment Reduction of impact of external vibration sources on high-precision research, manufacturing test and assembly systems Scanning electron microscope, |

atomic force microscope, and
optical
microscope base isolation
Workstation platforms for
fiber optic device fabrication
Workstation platforms for
microscopy and other advanced
imaging
applications

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| Category | Products | Representative Applications |
|--|--|---|
| Optics and Optical Hardware | Lenses Mirrors Prisms and windows Thin-film filters and coatings Filters and attenuators Collimators Ultrafast laser optics Beamsplitters and polarization optics Ruled and holographic diffraction gratings Optical mounts Bases and brackets Posts and rod systems Beam routing and enclosing systems Laser-to-fiber couplers Educational kits | Analytical instrumentation for life and health sciences Components for research and product development activities Deep ultraviolet optics for semiconductor lithography, wafer inspection and wafer processing Development and manufacture of laser systems Electro-optic sensors and imaging systems for defense/security applications High-precision alignment of optical instruments Optical measurement and communications systems Spectroscopy Ultrafast laser, terahertz imaging and laser fusion research |
| Opto-Mechanical Subassemblies and Subsystems | Laser beam delivery and imaging assemblies Integrated electro-optic-mechanical subsystems Objective lens systems Refractive beam shaper assemblies Fast steering mirrors Laser beam attenuators | Analytical instrumentation for life and health sciences High-speed cell sorting for genomic research Laser beam delivery systems for solar cell manufacturing Laser beam stabilization for industrial metrology Light detection and ranging Optical coherence tomography for non-invasive diagnostics Optical data storage Semiconductor mask patterning Semiconductor wafer defect inspection Thin-film measurement of semiconductor wafers |

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| Category | Products | Representative Applications |
|--------------------------------|--|--|
| Crystals | Optical crystals Scintillation crystals Crystal imaging arrays Electro optics | Infrared spectroscopy (FT-IR) for quality assurance Optical and acoustic applications including frequency doubling, optical modulators and Q switches X-ray detection such as steel thickness gauging X-ray imaging for security, industrial and medical applications |
| Advanced Manufacturing Systems | Automated manufacturing/assembly systems Automated dispensing systems | Automated manufacturing and assembly of microelectronic and optoelectronic devices High-speed, high-accuracy automated dispensing applications for microwave modules, optical modules, hybrid circuits, multi-chip modules and semiconductor packaging High-speed, high-accuracy laser texturing of disk drive media |

Integrated Solutions

Our PPT Division also designs, develops and manufactures integrated 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 accelerate the time to market and enhance the performance of their equipment or instrumentation 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, disk drive manufacturing, photovoltaic cell manufacturing, and in life and health sciences applications such as flow cytometry and optical coherence tomography.

Financial information regarding our business segments and our operations by geographic area is included in Note 17 of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K beginning on page F-33. 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 35.

Table of Contents**Sales and Marketing**

We market and sell our products and services through our direct domestic and international sales organizations, an international network of independent distributors and sales representatives, our product catalogs and our web site. Our domestic and international sales organizations are comprised of teams of field sales persons, which work closely with key account managers, product and applications specialists and other internal sales support personnel based primarily in Irvine, California; Mountain View, California; Stratford, Connecticut; Germany; France and Japan. We have aligned our domestic and international sales organizations along our two key categories of customers: end-users and OEM customers. These two categories of customers require very different selling approaches and support requirements. Our OEM subsystem and capital equipment customers often have unique technical specifications and manufacturing processes, and may require specific system, subsystem or component designs. This requires close cooperation between our sales personnel and distributors and our operations and engineering staff, and can result in long sales cycles for our subsystem and capital equipment products. Within our two key categories of customers, our sales personnel are organized into groups based on their special knowledge and expertise relating to specific product lines and markets. While these sales groups focus their attention and selling efforts in their areas of expertise, our entire sales organization collaborates closely to combine all of our areas of knowledge and expertise to offer integrated solutions to our customers.

We also actively market and sell our products in certain markets outside of North America through independent sales representatives and distributors. We have written agreements with most of our representatives and distributors. In some cases we have granted representatives and distributors exclusive authorization to sell certain of our products in a specific geographic area. These agreements generally have terms of one year which automatically renew on an annual basis, and are generally terminable by either party for convenience following a specified notice period. Most distributor agreements are structured to provide distributors with sales discounts below the list price. Representatives are generally paid commissions for sales of products. No single independent representative or distributor accounted for more than 5% of our net sales in 2007.

We also market our standard products through our product catalogs and our web site. Our principal marketing tool for the scientific research market is our comprehensive product catalog, The Newport Resource®. This catalog provides detailed product information as well as extensive technical and applications data. We mail this catalog to approximately 40,000 existing and potential customers. The Newport Resource is published in English, French and German. 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. Our 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 site is widely used by our customers to review information about our technologies, products and services.

We operate a Technology and Applications Center (TAC) at our Irvine, California headquarters. The TAC is staffed with experienced photonics researchers who develop innovative ways to utilize our lasers and other photonics products together in leading-edge research applications such as multiphoton microscopy, Coherent Anti-Stokes Raman Scattering (CARS) microscopy and ultrafast spectroscopy. The TAC produces application notes and kits for these applications, publishes technical papers in scientific and technical journals, and also provides our research and development teams with ideas for new products and product enhancements. We believe that the TAC reinforces our position as a technology leader in the photonics industry, and that it serves as an important sales tool by performing actual experiments to demonstrate how our products will perform in our customers' applications.

We also operate an Applications Laboratory at the Mountain View, California facility of our Lasers Division, which provides support to our global sales and marketing team by conducting feasibility studies with prospective customers' material processing applications using our laser and photonics products. This laboratory is staffed with experienced laser material processing engineers, and has demonstrated the performance of our products and integrated solutions in a wide range of advanced laser processing applications.

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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, 2008, we had approximately 240 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 \$42.6 million, or 9.6% of net sales, in 2007, \$42.0 million, or 9.2% of net sales, in 2006, and \$35.9 million, or 8.9% of net sales, in 2005. Research and development expenses attributable to our Lasers Division were \$23.3 million, or 12.6% of net sales to that segment, in 2007, \$22.4 million, or 11.8% of net sales to that segment, in 2006, and \$18.3 million, or 10.4% of net sales to that segment, in 2005. Research and development expenses attributable to our PPT Division were \$19.3 million, or 7.4% of net sales to that segment, in 2007, \$19.6 million, or 7.5% of net sales to that segment, in 2006, and \$17.6 million, or 7.8% of net sales to that segment, in 2005.

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 adverse effect on our business, operating results or financial condition.

Customers

We sell our products to thousands of customers worldwide, in a wide range of diverse end markets, including scientific research, microelectronics (which is comprised primarily of semiconductor capital equipment, computer peripherals and photovoltaic customers), aerospace and defense/security, life and health sciences and industrial manufacturing. We believe that our customer diversification minimizes our dependence on any single industry or group of customers. In 2007, no single customer represented 10% or more of our consolidated net sales, or 10% or more of our net sales by either our Lasers Division or our PPT Division. In certain of our end markets, including the microelectronics market, a limited number of customers account for a significant portion of our sales to those markets. We believe that our relationships with these key customers are good. However, if our key customers discontinue or reduce their relationships with us, or suffer downturns in their businesses, it could have a significant negative impact on our financial results on a short-term basis, and our business and results of operations could be harmed going forward if we are unable to sufficiently expand our customer base to replace the lost business.

Table of Contents**Competition**

The primary end markets that we serve include: scientific research, aerospace and defense/security; microelectronics (which is comprised primarily of semiconductor capital equipment, computer peripherals and photovoltaic customers); life and health sciences; and industrial manufacturing. These markets are intensely competitive and characterized by rapidly changing technology. A small number of competitors are dominant in certain of these markets. The products and systems developed and manufactured by both our PPT Division and our Lasers Division serve all of our targeted end markets. The following table summarizes our primary competitors for our principal product categories:

| Product Category | | Primary Competitors |
|---|--|---|
| Lasers | Bookham, Inc. Coherent, Inc. CVI Melles Griot Excel Technology, Inc. IPG Photonics, Inc. | JDS Uniphase Corporation Jenoptik Laser Optik Systeme GmbH Rofin-Sinar Technologies, Inc. Trumpf Group |
| Photonics Instruments | Agilent Technologies, Inc. Coherent, Inc. CVI Melles Griot ILX Lightwave Corporation | Ocean Optics, Inc. Ophir Optronics Ltd. Thorlabs, Inc. |
| Light Sources and Spectroscopy Instrumentation | Andor Technology Acton Research Corporation Ocean Optics, Inc. | Photon Technology International Spectral Products Thorlabs, Inc. |
| Precision Micro-Positioning Devices, Systems and Subsystems | Aerotech Inc. Bookham, Inc. Danaher Corporation Parker Hannifin Corporation | Physik Instrumente Rockwell Automation, Inc. (Anorad) Sigma Koki Co., Ltd. Thorlabs, Inc. |
| Vibration Isolation Systems and Subsystems | Kinetic Systems, Inc. Technical Manufacturing Corp. | Thorlabs, Inc. |
| Optics, Optical Hardware and Opto-Mechanical Subassemblies and Subsystems | Bookham, Inc. CVI Melles Griot Corning Tropol Corporation Jenoptik Laser Optik Systeme GmbH | LINOS Photonics OptoSigma Corporation Thorlabs, Inc. Zygo Corporation |
| Optical Filters | Bookham, Inc. Barr Associates, Inc. Chroma Technology Corp. Ferroperm EMC Filters ApS | JDS Uniphase Corporation Omega Optical, Inc. Semrock, Inc. |
| Diffraction Gratings | Headwall Photonics, Inc. Horiba Jobin Yvon Ltd. | Optometrics LLC Spectrogon |

In certain of our product lines, particularly our precision motion systems 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;

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pricing;

customer service and support;

breadth of product portfolio;

customer relationships;

ability to manufacture and deliver products on a timely basis;

ability to customize products to customer specifications; 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. 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.

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 maintain approximately 220 patents in the U.S. and foreign jurisdictions, and we have approximately 85 additional patent applications pending. These issued patents 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. We cannot guarantee that the steps we take to protect our rights will prevent any misappropriation of our products or technology. This is particularly the case in foreign jurisdictions, 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 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 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.

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Manufacturing

We manufacture lasers and laser systems at our domestic facility located in Mountain View, California, and at our international facilities in Ottawa, Ontario and Stahnsdorf, Germany. We manufacture diode lasers in Tucson, Arizona. We manufacture instruments, components, subassemblies and systems at domestic facilities located in Irvine, California; Stratford, Connecticut; Franklin, Massachusetts; North Billerica, Massachusetts; and Rochester, New York, and at international facilities in Beaune-la Rolande, France; Brigueuil, France; Margate, United Kingdom; and Wuxi, China. In addition, we subcontract the manufacture of various products and components to a number of third-party subcontractors.

Our manufacturing processes are diverse and consist of: purchasing raw materials, principally stainless steel, aluminum and glass; processing the raw materials into components, subassemblies and finished products; purchasing components, assembling and testing components and subassemblies; and, for our larger products, assembling the subassemblies and components into integrated 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 our name and logo.

We currently procure various components and materials, such as the sheet steel used in some of our vibration isolation tables, and the laser crystals used in certain of our laser products, 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 such 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.

Backlog

Our consolidated backlog of orders totaled \$153.8 million at December 29, 2007 and \$130.2 million at December 30, 2006. As of December 29, 2007, \$126.4 million of our consolidated backlog was scheduled to be shipped on or before January 3, 2009. Orders for many of the products we sell to semiconductor equipment 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.

Investments

From time to time, we make investments in companies having operations or technologies in areas which are within or adjacent to our strategic focus when acquired. We currently hold minority ownership interests in a number of small, privately-held companies. These investments are designed to further our strategic objectives and to support our key business initiatives. We want to support growth in new technologies, particularly those related to our strategic markets, in order to create and expand markets for our products. At December 29, 2007, the total carrying value of all of our minority interest investments was \$2.9 million.

Investments in technology companies involve significant risks, including the risks that such companies may be unable to raise additional required operating capital on acceptable terms or at all, or may not achieve or maintain market acceptance of their technology or products. In the event that any of such risks occurs, the value of our investment could decline significantly. In addition, because there is no public market for the securities we have

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acquired, our ability to liquidate our investments is limited, and such markets may not develop in the future. In the event that we are required to write down the carrying value of one or more of our investments in the future, our earnings could be materially and adversely affected.

Employees

As of February 29, 2008, we had approximately 2,000 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. 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). Comparable authorities exist in other countries. Some of our operations require environmental permits and controls to prevent and reduce air and water pollution, and these permits are subject to modification, renewal and revocation by issuing authorities. Future developments, administrative actions or liabilities relating to environmental matters could have a material adverse effect on our business, results of operations or financial condition.

Although we believe that our safety procedures for using, handling, storing and disposing of such materials comply with the standards required by state and federal laws and regulations, we cannot completely eliminate the risk of accidental contamination or injury from these materials. In the event of such an accident involving such materials, we could be liable for damages and such liability could exceed the amount of our liability insurance coverage (if any) and the resources of our business.

Our Mountain View, California facility 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, along with several other entities with facilities located near the Mountain View, California facility, have been identified as Responsible Parties with respect to this Superfund site, due to releases of hazardous substances during the 1960s and 1970s. The site is mature, and investigations and remediation efforts have been ongoing for approximately 25 years. Spectra-Physics and the other Responsible Parties have entered into a cost-sharing agreement covering the costs of remediating the off-site groundwater impact. We have established reserves relating to the estimated cost of these remediation efforts, however our ultimate costs of remediation are difficult to predict. In addition, while we are not aware of any unresolved property damage or personal injury claims relating to this site, such claims could be made against us in the future. While 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 certain environmental liabilities relating to this site, this indemnity may not cover all liabilities

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relating to this site. In such event, 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. 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, and because such products are sold under our brand name, we will likely be directly or contractually subject to such regulations in the case of many of our products. Also, 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.

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. We will also provide electronic or paper copies of such reports free of charge, upon request made to our Corporate Secretary.

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 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 for our products;

the timing of product shipments within a given quarter;

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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;

variations in the mix of products we sell;

timing and level of scrap and warranty expenses;

changes in our pricing policies or in the pricing policies of our competitors or suppliers;

the availability and cost of key components and raw materials we use to manufacture our products;

our ability to manufacture a sufficient quantity of our products to meet customer demand;

our ability to retain and attract key employees;

changes in our effective tax rates;

changes in interest rates;

fluctuations in foreign currency exchange rates; and

our levels of expenses.

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 quarterly results to be lower than the results of previous quarters.

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 quarter could shift to another period due to changes in the anticipated timing of customers' purchase decisions or rescheduled delivery dates requested by our customers. 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 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 inability to adjust spending quickly to compensate for the shortfall.

Due to these and other factors, we believe that quarter-to-quarter comparisons of results from 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.

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, wafer 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. The continuing uncertainty in this market severely limits our ability to predict our business prospects or financial results in this market.

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During industry downturns, our revenues from this market may decline suddenly and significantly. Our ability to rapidly and effectively reduce our cost structure in response to such downturns is limited by the fixed nature of many of our expenses in the near term and by our need to continue our investment in next-generation product technology and to support and service our products. In addition, due to the relatively long manufacturing lead times for some of the 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 sales to the microelectronics market, 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, computer peripherals and photovoltaics customers) constituted 27.8%, 32.4% and 28.8% of our consolidated net sales for the years 2007, 2006, and 2005, 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 56.3%, 58.2% and 53.7% of our sales to this market for the years 2007, 2006, and 2005, respectively, with one customer making up a substantial portion of such percentage in each of such years. No single customer in this market comprised 10% or more of our consolidated net sales in 2007, 2006 or 2005. 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 front-end 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 semiconductor capital equipment market to grow would have a significant negative effect on our business and results of operations.

Difficulties in executing our acquisitions could adversely impact our business.

We have and will continue to acquire businesses, and the efficient and effective integration of our acquired businesses into our organization is critical to our growth. 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;

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the difficulty in leveraging the acquired company's and our combined technologies and capabilities across all product lines and customer bases; and

our ability to retain key customers, suppliers and employees of an acquired company.

Our failure to 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 material 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 should the operating results of one of our divisions differ negatively from the assumptions used in evaluating goodwill for impairment. While we believe our assumptions are reasonable, the operating income of our Lasers Division has been less than anticipated. If our Lasers Division does not achieve our expected level of profitability in the future, we may be required to recognize a goodwill impairment charge.

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 and new product introductions and enhancements. 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 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. In addition, because certain of our markets experience severe cyclicalities 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 on a timely or cost-effective basis. If we fail to adequately introduce new, competitive products 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, including microelectronics, scientific research, aerospace and defense/security, life and health sciences, and industrial manufacturing. 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.

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. These customers often perform, or require us to perform extensive configuration, testing and evaluation of our products before committing to purchasing them. The sales cycle for our capital equipment, system and subsystem products from initial contact through shipment typically varies, is difficult to predict and can last more than one year. The orders comprising our backlog are generally subject to rescheduling without penalty or cancellation without penalty other than reimbursement for certain material

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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 certain of our products, particularly lasers, 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 many customers until the next 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 significant risks from doing business in foreign countries.

Our business is subject to risks inherent in conducting business internationally. For the years ended December 29, 2007, December 30, 2006, and December 31, 2005, our international revenues accounted for approximately 49.7%, 47.6% and 46.6%, 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. 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 business globally;

- the actions of U.S. and foreign regulatory authorities, including embargoes, export restrictions, tariffs, trade restrictions and trade barriers, license requirements, currency controls and other rules and regulations applicable to the importing and exporting of our products, which are complicated and potentially conflicting and may impose strict and severe penalties for noncompliance;

- longer accounts receivable collection periods;

- overlapping, differing or more burdensome tax structures;

- adverse currency fluctuations;

- differing protection of intellectual property;

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

- increased risk of exposure to terrorist activities.

In addition, 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 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.

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

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customers who have developed or may develop products that are competitive to ours, or who engage subcontract manufacturers to manufacture subassembly products 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. 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 could negatively affect our operating results. If we do not respond adequately to competitive challenges, our business and results of operations would 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. The patent and trademark law 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.

We have experienced, and may in the future experience, intellectual property infringement claims, which could be costly and time consuming to defend.

We have from time to time received communications from third parties alleging that we are infringing certain trademarks, patents or other intellectual property rights held by them. Whenever such claims arise, we evaluate their merits. 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 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 such claims of this kind may have a material adverse effect on our business, financial condition or results of operations.

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 operations. 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, and we have experienced attrition in certain management, engineering, manufacturing and product marketing positions. If we are unable to hire sufficient

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numbers of employees with the experience and skills we need or to retain our employees, our business and results of operations would be harmed.

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

We obtain some of the materials used to build our products, systems and subsystems, such as the sheet steel used in some of our vibration isolation tables, and the laser crystals used in certain of our laser products, 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 could occur, which would harm our business and results of operations.

Our products could contain defects, which would increase our costs and harm our business.

Certain 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. 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, adjustments to recognize additional cost of sales may be required in future periods.

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;

damage to our brand 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.

Table of Contents**Our convertible debt imposes significant financial obligations upon us, and certain provisions of our convertible notes could discourage a change in control.**

In February 2007, we issued \$175 million of convertible subordinated notes. The notes are subordinated to all of our existing and future senior indebtedness. The notes mature on February 15, 2012 and bear interest at a rate of 2.5% per year, payable in cash semiannually in arrears on February 15 and August 15 of each year. These notes are included in long-term debt in our consolidated balance sheet. Holders of the notes may convert their notes under certain specified circumstances which may occur prior to maturity, and upon conversion, a holder will receive cash in lieu of shares of our common stock for the value of the notes, as determined in the manner set forth in the indenture governing the notes. We may also be required to deliver additional cash or common stock or a combination of cash and common stock upon conversion.

Our ability to meet our semiannual interest payment obligations under the notes and our cash payment obligations upon maturity or conversion of the notes will depend upon our future performance and ability to generate substantial cash flow from operations, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control. If we are unable to meet our obligations or otherwise are obligated to repay the notes prior to maturity, our available cash would be depleted, perhaps seriously, and our ability to fund operations may be harmed.

In addition, certain provisions of our convertible notes could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, which include a change in control, holders of the notes will have the right, at their option, to require us to repurchase all of their notes or any portion of the principal amount of such notes. The magnitude of the amount of any repurchase could discourage a third party from acquiring us.

Proposed accounting changes for convertible debt securities, such as our convertible subordinated notes, may adversely affect our financial results.

The Financial Accounting Standards Board (FASB) has issued a proposed FASB Staff Position (FSP) No. APB 14-a, *Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (Including Partial Cash Settlement)*. If adopted by the FASB, the FSP would change the required method of accounting for net share settled convertible securities, by requiring that issuers of such securities account for a net share settled convertible security as if it were a separate debt and equity security. The effect of this change would be to require issuers to record additional non-cash interest expense equal to the difference between the interest rate at which the issuer could issue non-convertible subordinated debt and the interest rate applicable to the net share settled convertible security, thereby significantly increasing the total interest expense relating to the net share settled convertible security. As currently proposed, the FSP would require the new accounting method to be applied retrospectively to all periods presented. The FASB is not expected to issue final guidance with respect to the proposed FSP until at least the end of the first quarter of 2008. If the proposed FSP is adopted by the FASB, we would be required to record significant additional before-tax, non-cash interest expense in each period from the issuance of the convertible subordinated notes until the earlier of their conversion or redemption or their maturity in 2012. This would adversely affect our results of operations, and could adversely impact the trading price of our common stock.

Our products are subject to potential product liability claims which, if successful, could adversely affect our results of operations.

We are exposed to significant risks for product liability claims if 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.

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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.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides a framework for companies to assess and improve their internal control systems. Auditing Standard No. 5 provides the professional standards and related performance guidance for auditors to attest to and report on the effectiveness of internal control over financial reporting under Section 404. Management's assessment of internal controls over financial reporting requires management to make subjective judgments, some of which will be in areas that may be open to interpretation. As such, the report may be uniquely difficult to prepare, and our auditors may not agree with our assessments.

If we are unable to assert each year that our internal control over financial reporting is effective (or if our auditors are unable to attest that our internal control over financial reporting is effective), we could lose investor confidence in the accuracy and completeness of our financial reports, 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, all of which could have a material adverse effect on our business, financial condition and results of operations.

Difficulties in implementing a new global information technology system could harm our business.

We are in the process of implementing a new global information technology system. Our worldwide operations had been managed and monitored with a number of different and in some cases incompatible legacy software systems, many of which were implemented long before we acquired these operations. We anticipate that our new system will enable the more centralized, streamlined and efficient operation and monitoring of our business. The implementation is proceeding in stages across our various facilities. We commenced the initial phase of the implementation in 2006 and currently expect to complete it in 2008. Following completion of this initial phase, we expect to continue to implement enhancements and improvements to the new system. We have incurred and expect to continue to incur significant financial and resource costs in connection with the implementation of the new system, and our business has been and will continue to be subject to many difficulties as we replace the various legacy software systems that we currently use to manage and monitor our operations. These difficulties include disruption of our operations, loss of data, and the diversion of our management and key employees' attention away from other business matters. The difficulties associated with the implementation, and our failure to realize the anticipated benefits from the implementation, could harm our business, results of operations and cash flows.

Compliance with environmental regulations and potential environmental liabilities could adversely affect our financial results.

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). 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

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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 state and federal laws and regulations, we cannot completely eliminate the risk of accidental contamination or injury from these materials. In the event of such an accident involving such materials, we could be liable for damages and such liability could exceed the amount of our liability insurance coverage (if any) and the resources of our business.

Our Mountain View, California facility 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, along with several other entities with facilities located near the Mountain View, California facility, have been identified as Responsible Parties with respect to this Superfund site, due to releases of hazardous substances during the 1960s and 1970s. The site is mature, and investigations and remediation efforts have been ongoing for approximately 25 years. Spectra-Physics and the other Responsible Parties have entered into a cost-sharing agreement covering the costs of remediating the off-site groundwater impact. We have established reserves relating to the estimated cost of these remediation efforts, however our ultimate costs of remediation are difficult to predict. In addition, while we are not aware of any unresolved property damage or personal injury claims relating to this site, such claims could be made against us in the future. While Thermo has agreed in connection with our purchase of Spectra-Physics to indemnify us, subject to certain conditions, for certain environmental liabilities relating to this site, this indemnity may not cover all liabilities relating to this site. In such event, 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 and 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, and because such products are sold under our brand name, we will likely be directly or contractually subject to such regulations in the case of many of our products. Also, 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.

Table of Contents**Natural disasters or power outages could disrupt or shut down our operations, 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. We currently have comprehensive business continuation plans for our global information technology systems and for most of our operations and facilities, and we are in the process of formulating such plans for our remaining operations and facilities. Despite these contingency plans, if any of our facilities 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

None.

Item 2. Properties

Our corporate headquarters is located in Irvine, California. We lease this facility under a lease expiring in February 2012. Our primary manufacturing operations for each of our divisions are located in the following facilities:

| Division | Primary Facility Locations | Approximate Facility Size |
|--------------------------------------|-----------------------------------|----------------------------------|
| Lasers | Mountain View, California | 159,000 square feet |
| | Tucson, Arizona | 81,000 square feet |
| | Ottawa, Ontario | 19,000 square feet |
| | Stahnsdorf, Germany | 12,000 square feet |
| Photonics and Precision Technologies | Irvine, California | 273,000 square feet |
| | Franklin, Massachusetts | 56,000 square feet |
| | Rochester, New York | 55,000 square feet |
| | North Billerica, Massachusetts | 38,000 square feet |
| | Stratford, Connecticut | 32,000 square feet |
| | Beaune-la Rolande, France | 86,000 square feet |
| | Brigueuil, France | 44,000 square feet |
| | Wuxi, China | 30,000 square feet |
| Margate, United Kingdom | 16,500 square feet | |

We own portions of our Mountain View, California, Rochester, New York and Beaune-la Rolande, France facilities, and we own our Brigueuil, France and Margate, United Kingdom facilities. We lease all other facilities under leases with expiration dates ranging from 2008 to 2018. In addition to these primary facilities, we lease a number of other facilities worldwide for administration, sales and/or service. 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.

Table of Contents**Item 4. Submission of Matters to a Vote of Security Holders**

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 29, 2007.

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, 2008, we had approximately 930 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 29, 2007 | \$ 15.68 | 12.42 |
| September 29, 2007 | 16.28 | 11.85 |
| June 30, 2007 | 16.84 | 14.40 |
| March 31, 2007 | 21.34 | 15.96 |
| December 30, 2006 | 22.83 | 15.84 |
| September 30, 2006 | 18.59 | 13.94 |
| July 1, 2006 | 19.83 | 15.44 |
| April 1, 2006 | 20.18 | 13.50 |

Dividends

We declared no dividends on our common stock during 2007 or 2006. 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.

Table of Contents**Purchases of Equity Securities**

The following table reflects purchases made by us during the quarter ended December 29, 2007, of equity securities that are registered by us pursuant to Section 12 of the Securities Exchange Act of 1934, as amended:

| Period⁽¹⁾ | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number (or Approximate Dollar Value of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
|---------------------------------------|--|--|---|--|
| September 30, 2007 - October 27, 2007 | | | | |
| October 28, 2007 - November 24, 2007 | 386,092 ⁽²⁾ | \$12.93 | 386,092 | 1,056,717 |
| November 25, 2007 - December 29, 2007 | | | | |
| Totals | 386,092 | \$12.93 | 386,092 | |

(1) The periods reported conform to our fiscal calendar which consists of two periods of four weeks and one period of five weeks in each fiscal quarter.

(2) Represents shares of our common stock repurchased in open market transactions under a share repurchase program approved by our Board of Directors in May 2006. A

total of 4.2 million shares has been authorized for repurchase under this program. As of December 29, 2007, we had purchased a total of 3.1 million shares and 1.1 million shares remained available for purchase under this program. This program has no fixed expiration date but may be terminated by our Board of Directors at any time. Purchases may be made under this program from time to time in the open market or in privately negotiated transactions. The timing of any future purchases will depend upon factors including our share price, cash balances, expected cash requirements and general business and market conditions.

Table of Contents**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 29, 2007:

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 ⁽¹⁾ | 4,108,854 | \$ 18.09 | 4,553,800 |
| Equity Compensation Plans Not Approved by Security Holders ⁽²⁾ | 288,340 | \$ 47.70 | |
| Total | 4,397,194 | | 4,553,800 |

- (1) The number of shares reflected in column (a) for equity compensation plans approved by security holders includes outstanding options to purchase 2,966,904 shares of our common stock, which were issued under our 1992 Stock Incentive Plan and our 2001 Stock Incentive Plan, and outstanding restricted stock units representing the right to receive

upon vesting an aggregate of 1,141,950 shares of our common stock, which were issued under our 2006 Performance-Based Stock Incentive Plan. Substantially all of the outstanding restricted stock units are subject to performance conditions and are not expected to vest. Any restricted stock units that do not vest will become available for future grant. The weighted-average exercise price reflected in column (b) for equity compensation plans approved by security holders represents the weighted-average exercise price of the options to purchase 2,966,904 shares of our common stock. The restricted stock units representing the right to receive an aggregate of 1,141,950 shares of our common stock were awarded without payment of any purchase price.

- (2) The number of shares reflected in column (a) for equity compensation plans not approved by security holders

consists of
outstanding options
to purchase shares
of our common
stock issued under
our 1999 Stock
Incentive Plan
having a
weighted-average
exercise price of
\$47.70, and
excludes
outstanding options
to purchase 134,637
shares of our
common stock
having a
weighted-average
exercise price of
\$2.66, which were
granted to
employees and
non-employees
upon the
assumption and
conversion of
former options to
purchase shares of
common stock of
Micro Robotics
Systems, Inc.
(MRSI) in
connection with our
acquisition of MRSI
in February 2002.
The options granted
in connection with
our acquisition of
MRSI were granted
outside of a plan
pursuant to
individual
nonqualified stock
option agreements,
and, therefore, no
additional securities
are available for
future grants.

Equity Compensation Plans Not Approved by Security Holders

In November 1999, our Board adopted our 1999 Stock Incentive Plan (1999 Plan), pursuant to which nonqualified options to purchase shares of our common stock were granted to employees (excluding officers and members of our

Board) from November 1999 until May 2001. In May 2001, upon the approval by our stockholders of our 2001 Stock Incentive Plan, the 1999 Plan was terminated for the purposes of future grants. As of December 29, 2007, options to purchase a total of 288,340 shares of our common stock were outstanding under the 1999 Plan. All options granted under the 1999 Plan were granted at an exercise price equal to the fair market value of the common stock on the grant date, and generally vest in 25% increments on each of the first four anniversaries of the grant date. No option is exercisable more than ten years following the grant date. The right to exercise an option will terminate earlier in the event of termination of the continuous service (as defined in the option agreement) of the employee.

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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 29, 2007, with the cumulative total return on \$100 invested in each of (i) the Nasdaq Market Index and (ii) our peer group. The graph assumes all investments were made at market value on December 31, 2002 and the reinvestment of all dividends.

The peer group reflected in the graph represents a combination of all companies comprising the Semiconductor Equipment & Materials Industry Group (834) Index and the Scientific & Technical Instruments Industry Group (837) Index, published by Hemsco, Inc., with these indices weighted one-third (1/3) and two-thirds (2/3), 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.

Table of Contents**Item 6. Selected Financial Data**

The table below presents selected consolidated financial data of Newport and our subsidiaries as of and for the years ended December 29, 2007, December 30, 2006, December 31, 2005, January 1, 2005 and December 31, 2003. The consolidated balance sheet data as of December 29, 2007 and December 30, 2006, and the consolidated statement of operations data for the years ended December 29, 2007, December 30, 2006 and December 31, 2005 have been derived from our audited consolidated financial statements included in this Annual Report on Form 10-K. The consolidated balance sheet data as of December 31, 2005, January 1, 2005 and December 31, 2003 and the consolidated statement of operations data for the years ended January 1, 2005 and December 31, 2003 have been derived from our audited consolidated financial statements, which are not included in this Annual Report on Form 10-K.

The selected consolidated financial data set forth below should be read in conjunction with our consolidated financial statements and related notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this Annual Report on Form 10-K.

| | As of or for the Year Ended ⁽¹⁾⁽⁸⁾ | | | | |
|--|---|-------------------------|-------------------------|---------------------------|-------------------------|
| | December 29, 2007 | December 30, 2006 | December 31, 2005 | January 1, 2005 (2) | December 31, 2003 |
| <i>(In thousands, except percentages)</i> | | | | | |
| CONSOLIDATED STATEMENTS OF OPERATIONS: | | | | | |
| Net sales | \$445,197 | \$454,724 | \$403,733 | \$267,335 | \$118,373 |
| Cost of sales (3) | 259,636 | 256,756 | 234,480 | 178,335 | 78,225 |
| Gross profit | 185,561 | 197,968 | 169,253 | 89,000 | 40,148 |
| Selling, general and administrative expense | 116,476 | 114,533 | 102,002 | 71,354 | 35,328 |
| Research and development expense | 42,570 | 41,981 | 35,949 | 22,161 | 11,793 |
| Restructuring, impairment and other charges (3) | | | | 14,877 | 687 |
| Operating income (loss) | 26,515 | 41,454 | 31,302 | (19,392) | (7,660) |
| Interest and other income (expense), net (4) | 137 | (759) | (1,842) | (2,000) | 7,985 |
| Income (loss) from continuing operations before income taxes | 26,652 | 40,695 | 29,460 | (21,392) | 325 |
| Income tax provision (benefit) (5) | (17,229) | 2,193 | 3,746 | (979) | (812) |
| Income (loss) from continuing operations before extraordinary gain | 43,881 | 38,502 | 25,714 | (20,413) | 1,137 |
| Loss from discontinued operations, net of income tax benefits (3)(6) | | (1,075) | (16,973) | (61,023) | (14,297) |
| Extraordinary gain on settlement of litigation (7) | | | 2,891 | | |

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| | | | | | |
|--|-----------|-----------|-----------|-------------|-------------|
| Net income (loss) | \$ 43,881 | \$ 37,427 | \$ 11,632 | \$ (81,436) | \$ (13,160) |
| <i>Percentage of net sales:</i> | | | | | |
| Gross profit | 41.7% | 43.5% | 41.9% | 33.3% | 33.9% |
| Selling, general and administrative expense | 26.2% | 25.2% | 25.3% | 26.7% | 29.8% |
| Research and development expense | 9.6% | 9.2% | 8.9% | 8.3% | 10.0% |
| Restructuring, impairment and other charges | | | | 5.6% | 0.6% |
| Operating income (loss) | 5.9% | 9.1% | 7.7% | (7.3)% | (6.5)% |
| Income (loss) from continuing operations before extraordinary gain | 9.9% | 8.5% | 6.4% | (7.6)% | 1.0% |
| Net income (loss) | 9.9% | 8.2% | 2.9% | (30.5)% | (11.1)% |

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| <i>(In thousands, except per share and worldwide employment figures)</i> | As of or for the Year Ended | | | | |
|--|------------------------------------|--------------------------|--------------------------|------------------------|--------------------------|
| | December 29, 2007 | December 30, 2006 | December 31, 2005 | January 1, 2005 | December 31, 2003 |
| PER SHARE INFORMATION: | | | | | |
| <i>Basic net income (loss) per share:</i> | | | | | |
| Income (loss) from continuing operations before extraordinary gain | \$ 1.14 | \$ 0.95 | \$ 0.62 | \$ (0.50) | \$ 0.03 |
| Loss from discontinued operations, net of income taxes | | (0.03) | (0.41) | (1.49) | (0.37) |
| Extraordinary gain on settlement of litigation | | | 0.07 | | |
| Net income (loss) | \$ 1.14 | \$ 0.92 | \$ 0.28 | \$ (1.99) | \$ (0.34) |
| <i>Diluted net income (loss) per share:</i> | | | | | |
| Income (loss) from continuing operations before extraordinary gain | \$ 1.12 | \$ 0.91 | \$ 0.60 | \$ (0.50) | \$ 0.03 |
| Loss from discontinued operations, net of income taxes | | (0.02) | (0.40) | (1.49) | (0.36) |
| Extraordinary gain on settlement of litigation | | | 0.07 | | |
| Net income (loss) | \$ 1.12 | \$ 0.89 | \$ 0.27 | \$ (1.99) | \$ (0.33) |
| <i>Shares used in computation of income (loss) per share:</i> | | | | | |
| Basic | 38,479 | 40,698 | 41,281 | 40,838 | 38,685 |
| Diluted | 39,058 | 42,167 | 42,716 | 40,838 | 39,939 |
| Total stockholders equity per diluted share | \$ 10.35 | \$ 10.32 | \$ 8.82 | \$ 10.17 | \$ 10.98 |
| BALANCE SHEET INFORMATION: | | | | | |
| Cash and marketable securities | \$143,864 | \$ 85,413 | \$ 71,022 | \$108,182 | \$267,302 |
| Working capital | \$275,696 | \$200,808 | \$150,318 | \$181,999 | \$374,315 |
| Total assets | \$689,947 | \$593,015 | \$529,406 | \$578,468 | \$468,219 |
| Short-term obligations | \$ 12,402 | \$ 9,481 | \$ 12,559 | \$ 17,186 | \$ |
| Long-term obligations (includes obligations under capital leases) | \$176,487 | \$ 52,125 | \$ 51,372 | \$ 48,453 | \$ 1,884 |
| Stockholders equity | \$404,445 | \$434,953 | \$376,583 | \$415,509 | \$438,409 |
| MISCELLANEOUS STATISTICS: | | | | | |
| Common shares outstanding at year end | 36,918 | 41,458 | 40,036 | 43,023 | 39,033 |
| Average worldwide employment | 1,943 | 1,940 | 1,978 | 1,352 | 834 |
| Sales per employee | \$ 229 | \$ 234 | \$ 204 | \$ 198 | \$ 142 |

- (1) We use a conventional 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 2007 (referred to herein as 2007) ended on December 29, 2007, fiscal year 2006 (referred to herein as 2006) ended on December 30, 2006, fiscal year 2005 (referred to herein as 2005) ended on December 31, 2005, fiscal year 2004 (referred to herein as 2004) ended on January 1, 2005 and fiscal year 2003 (herein referred to as 2003) ended on December 31, 2003.
- (2) In July 2004, we acquired Spectra-Physics and the transaction was accounted for using the purchase

method. The Company's results of operations for 2004 included the results of operations of Spectra-Physics from July 16, 2004, the closing date of the acquisition.

- (3) In 2004, we determined that goodwill and other intangible assets of our former APAS Division were impaired and recorded impairment charges of \$56.6 million related to goodwill and \$2.7 million related to other acquired intangible assets, of which \$1.8 million is included in *cost of sales*, \$13.4 million is included in *restructuring, impairment and other charges* and \$44.1 million is included in *loss from discontinued operations, net of income taxes* for 2004. In addition, as a result of the acquisition of

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Spectra-Physics, we determined that we had duplicate fixed assets that were not needed in our operations and an intangible asset that was no longer strategic to our business. As a result, we recorded impairment charges of \$3.8 million, of which \$1.5 million is included in *cost of sales*, \$1.1 million is included in *restructuring, impairment and other charges* and \$1.2 million is included in *loss from discontinued operations, net of income taxes* for 2004.

- (4) For 2004, such amounts included a \$1.4 million write-down of a minority interest investment made in prior years in a manufacturer of precision mechanical components due to other-than-temporary impairment in value. In addition, 2004 included a realized loss of \$1.7 million on sales of marketable securities prior to their maturity in order to fund the cash portion of the purchase price for the Spectra-Physics

acquisition.

- (5) We established a valuation allowance in 2002 against our deferred tax assets, due to uncertainty as to the timing and ultimate realization of those assets. In 2007, we reduced our valuation allowance against our deferred tax assets by \$19.8 million. Additionally, in 2006, 2005 and 2004, we reduced our tax contingency reserve by \$2.2 million, \$0.2 million and \$3.0 million, respectively. See further discussion in Note 13 of the Notes to Consolidated Financial Statements regarding the reduction in our valuation allowance in 2007.
- (6) In 2005, our Board of Directors approved a plan to sell our robotic systems operations and, in 2002, approved a plan to sell our operations in Plymouth, Minnesota and our Industrial Metrology Systems Division. These divestitures have been accounted for as discontinued operations for all periods presented. See further discussion related to the divestiture of our

robotic systems
operations in Note 3
of the Notes to
Consolidated
Financial Statements.

- (7) In March 2005, we settled a dispute arising out of our acquisition of MRSI. As a result of this settlement, we recorded an extraordinary gain of \$2.9 million in the first quarter of 2005.
- (8) Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Table of Contents**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions that we consider reasonable. When used in this report, the words *anticipates, believes, can, continue, could, would, estimates, expects, intends, may, plans, potential, predicts, should,* 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 1A (Risk Factors) of Part I of this Annual Report on Form 10-K.

Overview

We are a global supplier of advanced technology lasers, components, instruments, subsystems and systems to markets where high-precision, efficient manufacturing, test, measurement and assembly are critical. Our wide range of products are used worldwide in industries including scientific research, microelectronics, aerospace and defense/security, life and health sciences and industrial manufacturing. We operate within two distinct business segments, our Lasers Division and our PPT Division. Both of our divisions offer a broad array of advanced technology products and services to original equipment manufacturer and end-user customers across a wide range of applications and 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

In November 2006, we acquired from Picarro, Inc. and Picarro Canada, Inc. (collectively, Picarro) certain assets and liabilities of Picarro's Laser Products business, which designs and manufactures solid-state lasers primarily for the life and health sciences market. This acquired business has become a part of our Lasers Division. The transaction was accounted for using the purchase method. Our results of operations for 2006 included the results of operations of this acquired business from November 3, 2006, the closing date of the acquisition. See further discussion regarding this transaction in Note 2 of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K.

Divestitures

Following our acquisition of Spectra-Physics in July 2004, we conducted a strategic review of all of our businesses and concluded that our robotic systems operations in Richmond, California, which served the front-end semiconductor equipment industry with product lines including wafer-handling robots, load ports and equipment front-end modules, were no longer core to our overall strategy. Consequently, in the first quarter of 2005, our Board of Directors approved a plan to sell these operations, and the sale was completed in the fourth quarter of 2005 for \$0.5 million in cash and a note receivable of \$6.6 million. These operations have been reflected as discontinued operations for all periods presented. In 2006, we increased the loss on the sale of these operations and recorded an adjustment of \$1.1 million, net of income taxes.

The net sales and loss before income taxes from discontinued operations were as follows:

| | Year Ended | |
|--------------------------|-------------------------|-------------------------|
| | December 30, 2006 | December 31, 2005 |
| (In thousands) | | |
| Net sales | \$ | \$ 8,835 |
| Loss before income taxes | \$(1,106) | \$(17,823) |

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The realized losses recognized on the disposal of these operations were \$1.0 million and \$8.5 million for 2006 and 2005, respectively.

Unless otherwise indicated, Management's Discussion and Analysis of Financial Condition and Results of Operations excludes discontinued operations and relates only to continuing operations.

Extraordinary Gain

In March 2005, we settled a dispute arising out of our acquisition of MRSI. As a result of this settlement, we recorded an extraordinary gain of \$2.9 million in the first quarter of 2005. Pursuant to the terms of the settlement agreement, 114,691 shares of our common stock, which were being held in escrow, were returned to us and cancelled. Such shares had been issued to the former MRSI stockholders at the time of the acquisition of MRSI, or had been issued upon the exercise of options to purchase our common stock which had been granted at the time of the acquisition in connection with the assumption and conversion of options to purchase MRSI common stock. In addition, outstanding options to purchase 21,606 shares of our common stock were cancelled and the exercise prices of all remaining outstanding options which had been granted in connection with the MRSI acquisition were increased to reflect an adjustment to the total consideration paid for the acquisition.

Fiscal Year End

We use a conventional 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 2007 (referred to herein as 2007) ended on December 29, 2007, fiscal year 2006 (referred to herein as 2006) ended on December 30, 2006 and fiscal year 2005 (referred to herein as 2005) ended on December 31, 2005. Fiscal years 2007, 2006 and 2005 each consisted of 52 weeks and fiscal year 2008 will consist of 53 weeks.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our consolidated financial statements included in this Annual Report on Form 10-K, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. On an ongoing basis, we evaluate these estimates and assumptions, including those related to revenue recognition, allowances for doubtful accounts, inventory reserves, warranty obligations, asset impairment, pension liabilities, income taxes and stock-based compensation expense. We base these 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 on Form 10-K. Below is a summary of those accounting policies that involve the most significant judgments, assumptions and estimates used in the preparation of our financial statements. These judgments, assumptions and estimates by their nature involve risks and uncertainties, and may prove to be inaccurate. In the event that any of our estimates or assumptions are 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 (which typically occurs upon shipment from our facilities), or delivery of the service has been completed, provided that persuasive evidence of an arrangement exists, the fee is fixed or determinable and collectibility is reasonably assured. 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 fair value, determined based upon the price that

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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 training is deferred until the service is completed. Revenue for extended service contracts is recognized over the related contract periods.

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

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 collectibility of customer receivables on an ongoing basis by reviewing past due invoices and assessing the current creditworthiness of each customer. A considerable amount of judgment is required in assessing the ultimate realization of these receivables.

Certain of our Japanese customers provide us with promissory notes on the due date of the receivable. The payment dates of the promissory notes range between 60 and 150 days from the original receivable due date. For balance sheet presentation purposes, amounts due to us under such promissory notes are reclassified from accounts receivable to current notes receivable. At December 29, 2007 and December 30, 2006, *notes receivable, net* totaled \$3.8 million and \$4.9 million, respectively. Subsequently, 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 Statement of Financial Accounting Standards (SFAS) No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (a replacement of FASB Statement No. 125)*. The principal amount of the promissory notes sold with recourse is included in both *notes receivable, net* and *short-term obligations* until the underlying note obligations are ultimately satisfied through payment by the customers to the banks. At December 29, 2007 and December 30, 2006, the principal amount of such promissory notes included in *notes receivable, net* and *short-term obligations* in the accompanying consolidated balance sheets totaled \$1.9 million and \$2.4 million, respectively.

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.

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. 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

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inventory to net realizable value, resulting in a charge to cost of sales which could 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. Products of this division sold to original equipment manufacturer (OEM) customers generally carry longer warranties, typically 15 to 24 months. Products sold by our Lasers Division typically carry warranties that vary by product and product component, but that generally range from 90 days to two years. In certain cases, such warranties for Lasers Division products are limited by either a set calendar period or a maximum amount of usage of the product, whichever occurs first. Defective products will 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.

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. We hold minority interests in companies having operations or technologies in areas which are within or adjacent to our strategic focus when acquired, all of which are privately held and whose values are difficult to determine. We record an investment impairment charge if we believe an investment has experienced a decline in value that is other than temporary. Future changes in our strategic direction, adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment's current carrying value, thereby possibly requiring an impairment charge in the future.

We perform annual impairment tests of our goodwill and other intangible assets in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. Under SFAS No. 142, goodwill is not amortized but is subject to impairment tests based upon a comparison of the fair value of each of our reporting units, as defined, and the carrying value of the reporting units' net assets, including goodwill. SFAS No. 142 requires a review of goodwill and other intangible assets 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 review as of the beginning of the fourth quarter of each year. 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. However, we aggregate components if they have similar economic characteristics. For any acquisition, we allocate goodwill to the applicable reporting unit at the completion of the purchase price allocation through specific identification, and reallocate goodwill if the reporting units change. We test each of our reporting units to determine whether the goodwill and other intangible assets are impaired by comparing the respective fair values of goodwill and/or other intangible assets to their respective carrying values. Fair value is determined using a combination of a comparative company analysis, a comparative transaction analysis and a discounted cash flow analysis. We have not made any material changes in our impairment loss assessment methodology and the estimates and assumptions used represent management's best estimate. However, if actual results are less than the projected income or other estimates and assumptions, particularly in our Lasers Division, we may be required to record impairment charges in the future.

Table of Contents***Income Taxes***

We utilize the asset and liability method of accounting for income taxes as set forth in SFAS No. 109, *Accounting for Income Taxes*. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws themselves are subject to change as a result of changes in fiscal policy, changes in legislation, evolution of regulations and court rulings. Therefore, the actual liability for U.S. or 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 on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. In accordance with the provisions of SFAS No. 109, a valuation allowance for deferred tax assets is recorded to the extent we cannot determine that the ultimate realization of the net deferred tax assets is more likely than not. Realization of deferred tax assets is principally dependent upon the achievement of future taxable income, the estimation of which requires significant management judgment. We achieved cumulative profitability for the three years ended December 29, 2007. Moreover, our management has forecasted that we will recognize income from continuing operations in the United States and permanent differences between such income from continuing operations and our taxable income for U.S. federal income tax purposes for at least the next two successive fiscal years. Accordingly, we released \$19.8 million of our valuation allowance against our U.S. deferred tax assets. Our judgments regarding future profitability may change due to many factors, including future market conditions and our ability to successfully execute our business plans and/or tax planning strategies. These changes, if any, may require material adjustments to these deferred tax asset balances. Due to uncertainties surrounding the realization of our cumulative federal and state net operating losses, we have retained a valuation allowance against a portion of our gross deferred tax assets.

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

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109*, which requires income tax positions to meet a more-likely-than-not recognition threshold to be recognized in the financial statements. Under FIN 48, 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 multinational 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.

Table of Contents**Stock-Based Compensation**

We account for stock-based compensation in accordance with SFAS No. 123 (Revised 2004), *Share-Based Payment* (SFAS No. 123R). Under the fair value recognition provision of SFAS No. 123R, stock-based compensation cost is estimated at the grant date based on the fair value of the award. We estimate the fair value of stock options granted using the Black-Scholes-Merton option pricing model and a single option award approach. The fair value of restricted stock and restricted stock unit awards is based on the closing market price of our common stock on the date of grant. A substantial portion of our awards vest based upon the achievement of certain annual financial performance goals established by the Compensation Committee of our Board of Directors. We record an expense relating to such awards over the vesting period based on the likelihood of achieving the performance goals. We estimate the achievement of such goals in each reporting period to determine the amount of such compensation expense. Estimating the likelihood of achievement of performance goals requires significant judgment. As such performance goals are primarily based on annual operating results, we must estimate the likelihood of achievement of such goals based on forecasted results of operations. If our actual results of operations differ from our estimates, we may need to increase or decrease stock-based compensation related to performance-based awards.

The fair value of time-based awards, adjusted for estimated forfeitures, is amortized on a straight-line basis over the requisite service period of the award, which is generally the vesting period. The fair value of performance-based awards, adjusted for estimated forfeitures and estimated achievement of performance goals, is amortized using the graded vesting method over the requisite service period of the award, which is generally the vesting period.

Stock-Based Compensation Costs

Prior to January 1, 2006, we applied the intrinsic value based method of accounting prescribed by Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* and related Interpretations in accounting for our stock-based compensation and complied with the disclosure provisions of SFAS No. 123, *Accounting for Stock-Based Compensation*, as amended. Accordingly, no compensation expense was recognized for employee stock options with exercise prices greater than or equal to our stock price at the date of grant, and no compensation expense was recognized for purchases under our Employee Stock Purchase Plan (Purchase Plan). Costs related to restricted stock awards, determined based on the fair market value of the shares at the date of grant, net of estimated forfeitures, were recognized as compensation expense ratably over the vesting period.

Effective January 1, 2006, we adopted SFAS No. 123R, which requires that we recognize compensation expense related to the fair value of our stock-based compensation awards. We recognize compensation expense for stock-based awards, net of estimated forfeitures, using the straight-line method for time-based awards and the graded vesting method for performance-based awards, over the requisite service period of the awards. Under SFAS No. 123R, the Purchase Plan, as amended effective January 1, 2006, is considered a non-compensatory plan, and we are not required to recognize compensation expense for the purchases made under the Purchase Plan.

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

| (In thousands) | Year Ended | | |
|---|-------------------------|-------------------------|-------------------------|
| | December 29, 2007 | December 30, 2006 | December 31, 2005 |
| Cost of sales | \$ 425 | \$ 516 | \$ |
| Selling, general and administrative expense | 3,005 | 5,935 | 463 |
| Research and development expense | 238 | 464 | |
| | \$3,668 | \$ 6,915 | \$ 463 |

Stock-based compensation expense for the year ended December 31, 2005 included amortization of restricted stock awards which were granted prior to the adoption of SFAS No. 123R and accounted for under APB Opinion No. 25.

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In March 2006, our Board of Directors adopted our 2006 Performance-Based Stock Incentive Plan (2006 Plan), which was approved by our stockholders in May 2006. The 2006 Plan authorizes us to grant up to 6,000,000 shares of our common stock, which includes the number of shares that had been available for future grant under our 2001 Stock Incentive Plan (2001 Plan) at the time the 2006 Plan was approved. This number of shares is subject to adjustments as to the number and kind of shares in the event of stock splits, stock dividends or certain other similar changes in our capital structure. Upon the approval of the 2006 Plan by our stockholders, the 2001 Plan was terminated for purposes of future grants. The 2006 Plan permits the grant of stock appreciation rights, restricted stock, restricted stock units, incentive stock options and non-qualified stock options. We expect to utilize restricted stock and restricted stock units to a greater extent than stock options and stock appreciation rights in granting stock-based awards in the future. Any stock options or stock appreciation rights granted under the 2006 Plan will have exercise prices or base values not less than the fair market value of the Company's common stock on the date of grant and terms of not more than seven years.

The vesting of substantially all awards granted to directors under the 2006 Plan occurs over a period of one year. The vesting of substantially all awards granted to officers and employees under the 2006 Plan occurs over a period of three years, conditioned on the achievement of annual performance goals established by the Compensation Committee of our Board of Directors at the time of grant. Generally, our performance-based awards provide that if the performance goals are not achieved in full for the initial applicable annual performance period, then fifty percent of the awards tied to such performance goals that do not vest will carry over and be eligible for vesting, subject to the achievement of certain performance goals for the next annual performance period. All awards are subject to forfeiture if employment or other service terminates prior to the vesting of the awards.

At December 29, 2007, the total compensation cost related to unvested stock-based awards granted to employees, officers and directors under our stock-based benefit plans that had not yet been recognized was \$1.5 million (net of estimated forfeitures of \$0.1 million). Such amount excludes compensation expense associated with awards that are subject to performance conditions, which we do not expect will vest. This future compensation expense will be amortized, using the straight-line method for time-based awards and the graded vesting method for performance-based awards, over a weighted-average period of 1.1 years. The actual compensation expense that we will recognize in the future related to stock-based awards will be adjusted for subsequent forfeitures and will be adjusted based on our determination as to the extent to which performance conditions applicable to any stock-based awards will be achieved. At December 29, 2007, there were 1.0 million performance-based restricted stock units outstanding with a weighted average grant date fair value of \$15.44 per share, which were not expected to vest. If our estimates regarding the achievement of performance conditions applicable to such performance-based awards are inaccurate, the amount of our stock-based compensation expense could increase significantly in future periods, which could materially affect our results of operations.

Table of Contents**Results of Operations for the Years Ended December 29, 2007, December 30, 2006 and December 31, 2005**

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

| | Percentage of Net Sales For the Year Ended | | |
|---|---|-------------------------|-------------------------|
| | December 29, 2007 | December 30, 2006 | December 31, 2005 |
| Net sales | 100.0% | 100.0% | 100.0% |
| Cost of sales | 58.3 | 56.5 | 58.1 |
| Gross profit | 41.7 | 43.5 | 41.9 |
| Selling, general and administrative expense | 26.2 | 25.2 | 25.3 |
| Research and development expense | 9.6 | 9.2 | 8.9 |
| Operating income | 5.9 | 9.1 | 7.7 |
| Interest and other income (expense), net | 0.1 | (0.2) | (0.4) |
| Income from continuing operations before income taxes | 6.0 | 8.9 | 7.3 |
| Income tax provision (benefit) | (3.9) | 0.4 | 0.9 |
| Income from continuing operations before extraordinary gain | 9.9 | 8.5 | 6.4 |
| Loss from discontinued operations, net of income tax benefits | | (0.3) | (4.2) |
| Extraordinary gain on settlement of litigation | | | 0.7 |
| Net income | 9.9% | 8.2% | 2.9% |

In the following discussion regarding our results of operations, due to changes in our market classifications for certain of our customers and product applications, certain prior period amounts have been reclassified among our end markets to conform to the current period presentation.

Net Sales

For 2007, 2006 and 2005, our net sales totaled \$445.2 million, \$454.7 million and \$403.7 million, respectively. Net sales decreased \$9.5 million, or 2.1%, in 2007 compared with 2006. Net sales by our PPT Division decreased \$2.1 million, or 0.8%, and net sales by our Lasers Division decreased \$5.6 million, or 3.0%, during this period. The remainder of the decrease was due to \$1.8 million of revenue which we received in 2006 in connection with the licensing of certain intellectual property, which did not recur during 2007. The decrease in net sales in 2007 compared with 2006 was due primarily to a decrease in sales to the microelectronics market, offset in part by increases in sales to all of our other end markets, particularly the life and health sciences market. Net sales increased \$51.0 million, or 12.6%, in 2006 compared with 2005. Net sales by our PPT Division increased \$34.2 million, or 15.0%, and net sales by our Lasers Division increased \$15.0 million, or 8.5%, during this period. The remainder of the increase in net sales in 2006 was due to the \$1.8 million of licensing revenue discussed above. The increase in sales in 2006 compared with 2005 resulted from stronger sales to customers in all of our end markets, particularly in the microelectronics and life and health sciences markets.

Net sales to the scientific research, aerospace and defense/security markets were \$160.0 million, \$155.6 million and \$152.0 million for 2007, 2006 and 2005, respectively. The increase of \$4.4 million, or 2.8%, in 2007 compared

with 2006 was due primarily to increased sales by our PPT Division of standard products and to a higher level of sales for major research programs, offset in part by lower sales by our Lasers Division. The increase of \$3.6 million, or 2.4%, in 2006 compared with 2005 was due primarily to increased sales by our PPT Division, offset significantly by lower sales of certain of our laser products in the first half of 2006. Generally, our net sales to these markets by each of our divisions may fluctuate from period to period due to the timing of large sales relating to major research programs and, in some cases, these fluctuations may be offsetting between our divisions or between such periods.

Net sales to the microelectronics market were \$123.8 million, \$147.3 million and \$116.2 million for 2007, 2006 and 2005, respectively. The decrease of \$23.5 million, or 15.9%, in 2007 compared with 2006 was due primarily to

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sales of laser-based disk texturing systems in 2006 that did not recur in 2007, and to the cyclical downturn in the semiconductor equipment industry, which accounts for the majority of our sales in this market, which resulted in lower sales to customers in this market by both our PPT and Lasers Divisions. The increase of \$31.1 million, or 26.7%, in 2006 compared with 2005 was due primarily to strong overall market conditions in 2006, particularly in the front-end semiconductor equipment market, which led to higher demand for the products sold by both our Lasers and PPT Divisions to this market. This increase was also attributable to \$1.8 million in revenue that we received in 2006 in connection with the licensing of certain intellectual property relating to products for this market.

Net sales to the life and health sciences market were \$81.8 million, \$75.2 million and \$64.6 million for 2007, 2006 and 2005, respectively, representing an increase of \$6.6 million, or 8.8%, in 2007 compared with 2006 and an increase of \$10.6 million, or 16.4%, in 2006 compared with 2005. The increases in sales in both periods were due primarily to increased demand for products sold by both our Lasers and PPT Divisions to customers in this market due to the growing adoption by this market of photonics technology, as well as increased adoption by customers of our laser and optical component and subassembly products for analytic, imaging, therapeutic and cosmetic applications.

Net sales to our industrial and other end markets were \$79.6 million, \$76.6 million and \$70.9 million for 2007, 2006 and 2005, respectively. The increase of \$3.0 million, or 3.8%, in 2007 compared with 2006 was due primarily to increased sales by our Lasers Division of products for materials processing applications and increased sales by our PPT Division of products for telecommunications applications. The increase of \$5.7 million, or 8.1%, in 2006 compared with 2005 was due primarily to increased sales in our PPT Division to customers in these markets.

Geographically, net sales were as follows:

| | Year Ended | | Increase / (Decrease) | Percentage Increase / (Decrease) |
|---|-------------------------|-------------------------|--------------------------|--|
| | December 29, 2007 | December 30, 2006 | | |
| <i>(In thousands, except percentages)</i> | | | | |
| United States | \$223,891 | \$238,433 | \$(14,542) | (6.1)% |
| Europe | 112,695 | 99,968 | 12,727 | 12.7 |
| Pacific Rim | 80,946 | 91,277 | (10,331) | (11.3) |
| Other | 27,665 | 25,046 | 2,619 | 10.5 |
| Total sales | \$445,197 | \$454,724 | \$ (9,527) | (2.1)% |

| | Year Ended | | Increase | Percentage Increase |
|---|-------------------------|-------------------------|----------|------------------------|
| | December 30, 2006 | December 31, 2005 | | |
| <i>(In thousands, except percentages)</i> | | | | |
| United States | \$238,433 | \$215,600 | \$22,833 | 10.6% |
| Europe | 99,968 | 86,054 | 13,914 | 16.2 |
| Pacific Rim | 91,277 | 81,635 | 9,642 | 11.8 |
| Other | 25,046 | 20,444 | 4,602 | 22.5 |
| Total sales | \$454,724 | \$403,733 | \$50,991 | 12.6% |

Overall, sales in 2007 to international customers, primarily in Europe, benefited from the weaker U.S. Dollar. Our sales to customers in the Pacific Rim decreased in 2007 compared with 2006, due primarily to lower sales to customers in the microelectronics market resulting from sales of laser-based disk texturing systems to a customer in this region in 2006 that did not recur in 2007, as well as from the cyclical downturn in the semiconductor equipment

industry. The increase in international sales in 2006 compared with 2005 resulted from stronger sales to customers in all of our end markets, particularly in the microelectronics and life and health sciences markets.

The results of our international operations are subject to currency fluctuations. As the value of the U.S. dollar weakens relative to other currencies, sales in those currencies convert to more U.S. dollars; conversely, when the value of the U.S. dollar strengthens relative to other currencies, sales in those countries convert to fewer U.S. dollars. As noted above, our net sales to international customers in 2007 were positively impacted by the weaker U.S. Dollar.

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We expect net sales to be lower in the first quarter of 2008 compared with the fourth quarter of 2007 due to the historical seasonality in the scientific research market and the continued weakness in the semiconductor equipment industry. Our business is subject to risks arising from market conditions in our primary end markets, as well as from general economic conditions.

We expect that our sales to the scientific research, aerospace and defense/security markets will be down in the first quarter of 2008 compared with the fourth quarter of 2007 due to the traditional seasonal pattern in the scientific research market. Overall, we expect that our sales to these markets will fluctuate from period to period in line with changes in overall research and defense spending levels and the timing of sales of our products for major research programs, but will increase over time as we increase our penetration of these markets.

We expect our sales to the microelectronics market in the first quarter of 2008 to be similar to the fourth quarter of 2007 due to the continued weakness in the semiconductor equipment industry, offset in part by stronger demand for our products by customers in other parts of this market, including solar cell manufacturing. We experienced the slowdown in the semiconductor equipment market during 2007 and anticipate that this will continue for the near term based on forecasts from our customers and the general U.S. economy; however, the duration and extent of this market downturn is difficult to predict and represents an uncertainty with respect to our future operating results.

We expect our sales to the life and health sciences market in the first quarter of 2008 to be similar to or slightly higher than the fourth quarter of 2007. In general, we expect our sales to this market to fluctuate on a quarter to quarter basis in the near term due to our concentration of significant OEM customers in this market and the timing of their orders, but to increase over time as we increase our penetration of this market and as consumers drive higher demand for our customers' products.

Gross Margin

Gross margin was 41.7%, 43.5% and 41.9% for 2007, 2006 and 2005, respectively. The decrease in gross margin in 2007 compared with 2006 was due primarily to operating inefficiencies in our Lasers Division and to our lower total sales volume. In addition, we received \$1.8 million of revenue and gross profit from licensing of certain intellectual property in 2006, which did not recur in 2007.

Gross margin for 2006 was positively impacted compared with 2005 by the operating leverage provided by the higher sales volume, due primarily to higher absorption of fixed overhead, by the addition of the \$1.8 million of revenue and gross profit received in 2006 from the licensing of certain intellectual property, and by cost savings resulting from our global sourcing activities.

In the first quarter of 2008, we expect gross margin to improve slightly compared with the fourth quarter of 2007, due primarily to improved operating efficiencies.

Selling, General and Administrative (SG&A) Expense

SG&A expense totaled \$116.5 million, or 26.2% of net sales, \$114.5 million, or 25.2% of net sales, and \$102.0 million, or 25.3% of net sales, during 2007, 2006 and 2005, respectively. The increase in SG&A expense in 2007 compared with 2006 was due primarily to an increase in salary costs of \$4.5 million resulting from annual merit increases and payments of severance, an increase in benefit expenses of \$2.6 million and \$2.4 million of incremental consulting and depreciation expenses related to our SAP implementation. Such increases were offset in part by a decrease of \$7.3 million in expenses relating to our performance-based incentive and equity compensation programs due to certain performance criteria not being met.

The increase in absolute dollars in 2006 compared with 2005 was due in part to the impact in 2006 of \$5.9 million of incremental non-cash expense related to our equity incentive programs, which we began expensing in 2006 in accordance with SFAS No. 123R. The increase was also attributable to higher salary costs due to annual merit salary increases and the addition of new employees, higher variable selling expenses and incentive compensation due to higher sales and profitability levels, and payments of severance. These increases were offset in

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part by the realization of a gain of \$1.4 million resulting from the sale of certain non-core patents, which reduced SG&A expense in 2006.

We expect that SG&A expense will be similar to or slightly higher in the first quarter of 2008 compared with the fourth quarter of 2007. We expect that our SG&A expense will be higher during the remainder of the year as a result of stock compensation expense relating to new equity awards that we expect to grant late in the first quarter of 2008. In general, we expect that SG&A expense will vary as a percentage of sales in the future based on our sales level in any given period. Because the majority of our SG&A expense is fixed in the short term, these changes in SG&A expense will likely not be in proportion to the changes in net sales.

Research and Development (R&D) Expense

R&D expense totaled \$42.6 million, or 9.6% of net sales, \$42.0 million, or 9.2% of net sales, and \$35.9 million, or 8.9% of net sales during 2007, 2006 and 2005, respectively. The R&D expense increases in both 2007 compared with 2006 and in 2006 compared with 2005 were due to increased investment in new product development programs, particularly in advanced laser development.

We expect that R&D expense in the first quarter of 2008 will be similar to the fourth quarter of 2007. We believe that the continued development and advancement of our key products and technologies is critical to our future success, and we intend to continue to invest in key R&D initiatives, while working to ensure that the efforts are focused and the funds are deployed efficiently. In general, we expect that R&D expense as a percentage of net sales will vary in the future based on our sales level in any given period. Because of our commitment to continued product development, and because the majority of our R&D expense is fixed in the short term, changes in R&D expense will likely not be in proportion to the changes in net sales.

Interest and Other Income (Expense), Net

Interest and other income, net, was \$0.1 million in 2007, and interest and other expense, net was \$0.8 million and \$1.8 million in 2006 and 2005, respectively. The improvement in 2007 compared with 2006 was due primarily to our sale of \$175 million of convertible subordinated notes in February 2007. This financing increased our cash balances significantly, which together with higher average interest income rates earned on these balances, resulted in an increase in interest income of \$3.5 million in 2007. This increase in interest income was offset in part by an increase in interest expense of \$1.7 million related to the convertible notes. In addition, in the second quarter of 2006, in connection with the closure of our sales office in Canada and the resulting liquidation of our investment in the associated entity, we recognized a gain of \$0.9 million related to previously accumulated translation adjustments, which did not recur in 2007.

The reduction in interest and other expense, net in 2006 compared with 2005 was due primarily to higher interest income, a loss due to the write-down of an investment in 2005 of \$0.5 million, which did not recur in 2006, and the gain of \$0.9 million recognized in 2006 related to the closure of our Canadian office as discussed above, offset in part by other net foreign exchange losses which we incurred in 2006.

Income Taxes

Our effective tax rates from continuing operations were a tax benefit of 64.6% for 2007 and tax expense of 5.4% and 12.7% for 2006 and 2005, respectively. The tax benefit for 2007 was due primarily to the release of \$19.8 million of the valuation allowance recorded against our deferred tax assets. In addition, in 2007, our subsidiary in France concluded an income tax audit for the years 2003 to 2005 and, based on the favorable conclusion of this audit, we recognized an income tax benefit of \$0.7 million. Such benefits were offset in part by certain required state income taxes and taxes in certain foreign jurisdictions. Until such time that the valuation allowance recorded against our deferred tax assets is fully released, the Federal tax provision related to future earnings, should they occur, will be offset substantially by a reduction in the valuation allowance related to our net operating loss carryforwards.

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During 2006, we reduced our tax contingency reserve by \$2.2 million due to the expiration of the statutory audit period related to certain income tax contingencies, as well as a determination that certain income tax contingency reserves were no longer necessary.

In June 2006, the FASB issued FIN 48, which provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. We adopted the provisions of FIN 48 effective as of December 31, 2006, the first day of the first quarter of 2007. As a result of applying the provisions of FIN 48, our reserve for uncertain tax positions increased by \$2.9 million, deferred income tax assets increased by \$1.1 million, and shareholders' equity decreased by \$1.8 million as of December 31, 2006. As of December 29, 2007, we had \$6.9 million of gross unrecognized tax benefits and the total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$4.8 million. We accrue interest and penalties related to unrecognized tax benefits in our provision for income taxes. Such amounts were not significant as of December 29, 2007.

Liquidity and Capital Resources

Our cash and cash equivalents and marketable securities balances increased to \$143.8 million as of December 29, 2007 from \$85.4 million as of December 30, 2006. The increase was primarily attributable to the proceeds raised through our convertible debt offering and cash generated from operations, offset in part by repayment of long-term debt and repurchases of our common stock.

Net cash provided by our operating activities of \$35.4 million for 2007 consisted of our income of \$43.9 million and net non-cash charges of \$10.1 million, offset in part by a decrease in working capital of \$18.6 million. Such non-cash charges consisted of \$21.3 million for depreciation and amortization, \$4.5 million for the provision for losses on inventories and \$3.7 million for stock-based compensation, offset in part by \$19.7 million for deferred income taxes attributable primarily to the partial release of our valuation allowance. The decrease in working capital consisted of an increase of \$22.7 million in inventory, a decrease of \$5.0 million in payroll and related expenses due primarily to a reduction in annual performance bonus payments and an increase of \$2.2 million in prepaid expenses and other assets, offset in part by a decrease of \$9.9 million in accounts receivable due to improved collection efforts, an increase of \$1.1 million in accounts payable due primarily to timing of payments and an increase of \$1.0 million in accrued expenses and other liabilities.

Net cash used in investing activities in 2007 of \$22.8 million consisted of purchases of property and equipment of \$18.7 million and net purchases of marketable securities of \$4.1 million.

Net cash provided by financing activities in 2007 of \$39.1 million consisted primarily of proceeds from the issuance of \$175.0 million of convertible subordinated notes, and \$5.1 million received as consideration for the issuance of common stock in connection with the exercise of stock options and participation in our employee stock purchase plan. Cash received was offset in part by cash used for payment of expenses associated with our convertible notes offering totaling \$5.6 million, for repayment of \$48.4 million in long-term debt, and for the repurchase of 5.4 million shares of our common stock for approximately \$87.0 million, including the cancellation of 0.1 million shares of our common stock in connection with the payment of \$1.9 million for taxes owed by employees upon the exercise of stock options and the vesting of restricted stock units issued to such employees under our stock incentive plans.

At December 29, 2007, we had cash and cash equivalents of \$88.7 million and marketable securities of \$55.1 million. The majority of the marketable securities are invested in one portfolio managed by a professional investment management firm, under the oversight of our senior financial management team. This portfolio manager invests the funds allocated in accordance with our Investment Policy, which is reviewed regularly by our senior financial management and the Audit Committee of our Board of Directors. We expect that our cash balances will fluctuate in the future based on factors such as cash used in or provided by ongoing operations, acquisitions or divestitures, investments in other companies, share repurchases, capital expenditures and contractual obligations, and changes in interest rates.

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At December 29, 2007, we had a total of three lines of credit, including one domestic revolving line of credit and two revolving lines of credit with Japanese banks. In addition, we had two other agreements with Japanese banks under which we sell trade notes receivable with recourse.

Our domestic revolving line of credit has a total credit limit of \$5.0 million and expires on December 1, 2008. Certain cash equivalents held at this lending institution collateralize this line of credit, which bears interest at either the prevailing prime rate (7.25% at December 29, 2007), or the prevailing London Interbank Offered Rate (4.65% at December 29, 2007) plus 1.25%, at our option, and carries an unused line fee of 0.25% per year. At December 29, 2007, there were no balances outstanding under this line of credit, with \$4.0 million available, after considering outstanding letters of credit totaling \$1.0 million.

Our two revolving lines of credit with Japanese banks totaled 1.7 billion yen (\$14.9 million at December 29, 2007) and expire as follows: \$5.3 million on March 31, 2008, \$7.0 million on May 3, 2008 and \$2.6 million on June 30, 2008. These lines are not secured and bear interest at the prevailing bank rate. At December 29, 2007, we had \$10.5 million outstanding and \$4.4 million available for borrowing under these lines of credit. Amounts outstanding under these revolving lines of credit are included in *short-term obligations* in the accompanying consolidated balance sheets. Our two other agreements with Japanese banks, under which we sell trade notes receivable with recourse, totaled 550 million yen (\$4.8 million at December 29, 2007), have no expiration dates and bear interest at the bank's prevailing rate. At December 29, 2007, we had \$1.9 million outstanding and \$2.9 million available for the sale of notes receivable under these agreements. Amounts outstanding under these agreements are included in *short-term obligations* in the accompanying consolidated balance sheets. The weighted average interest rate on all of our Japanese borrowings as of December 29, 2007 was 1.8%.

In 2006, our Board of Directors approved a share repurchase program, authorizing the purchase of up to 4.2 million shares of our common stock. During 2007, we purchased an aggregate of 3.1 million shares of our common stock under this program in the open market at an average price of \$14.35 per share for a total of \$45.1 million. During the first quarter of 2008, we repurchased an additional 1.1 million shares of common stock under this program in the open market at an average price of \$10.78 per share for a total of \$11.4 million, which completed our purchases under this program.

In February 2007, we issued \$175 million of convertible subordinated notes due 2012, which notes bear interest at a rate of 2.5% per year, payable in cash semiannually in arrears on February 15 and August 15 of each year. The notes were offered to qualified institutional buyers, as defined in, and in reliance on, Rule 144A of the Securities Act of 1933, as amended. The sale of the notes generated net proceeds of \$169.4 million after deducting offering fees and expenses. We used \$40.0 million of the net proceeds from the offering to repurchase 2.1 million shares of our common stock at a purchase price of \$18.86 per share. Such repurchase was not made under our existing share repurchase program. We used \$48.2 million of the net proceeds from the offering to prepay all of our long-term debt owed to Thermo pursuant to the note originally issued as part of the purchase price for Spectra-Physics in 2004. We intend to use the remaining proceeds from the offering for working capital and other general corporate purposes, which may include potential acquisitions or additional share repurchases.

During 2008, we expect to use \$15 million to \$18 million of cash for capital expenditures.

We believe our current working capital position, together with our expected future cash flows from operations will be adequate to fund our operations in the ordinary course of business, anticipated capital expenditures, debt payment requirements and other contractual obligations for the foreseeable future. However, this belief is based upon many assumptions and is subject to numerous risks (see *Risk Factors* on pages 17-27), and there can be no assurance that we will not require additional funding in the future.

Except for the aforementioned capital expenditures, we have no present agreements or commitments with respect to any material acquisitions of other businesses, products, product rights or technologies or any other material capital expenditures. However, we will continue to evaluate acquisitions of and/or investments in products, technologies, capital equipment or improvements or companies that complement our business and may make such acquisitions and/or investments in the future. Accordingly, there can be no assurance that we will not need to obtain

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additional sources of capital in the future to finance any such acquisitions and/or investments. There can be no assurance that any such financing would be available, or that, if available, such financing would be obtainable on terms favorable to us and would not be dilutive.

Contractual Obligations

We lease certain of our manufacturing and office facilities and equipment under non-cancelable leases, certain of which contain renewal options. In addition to the base rent, we are generally required to pay insurance, real estate taxes and other operating expenses relating to such facilities.

As of December 29, 2007, we had no material purchase obligations. Our long-term debt, and capital and operating lease obligations at December 29, 2007 were as follows:

| <i>(In thousands)</i> | Capital Leases | Long-Term Debt | Operating Leases | Total Obligations |
|-----------------------------------|---------------------------|---------------------------|-----------------------------|------------------------------|
| Payments Due By Period: | | | | |
| 2008 | \$ 199 | \$ 4,375 | \$ 9,158 | \$ 13,732 |
| 2009 | 198 | 4,375 | 6,638 | 11,211 |
| 2010 | 197 | 4,375 | 4,961 | 9,533 |
| 2011 | 196 | 4,375 | 4,211 | 8,782 |
| 2012 | 195 | 177,188 | 1,869 | 179,252 |
| Thereafter | 1,039 | | 3,276 | 4,315 |
| | | | | |
| Total minimum payments | 2,024 | 194,688 | \$30,113 | \$226,825 |
| | | | | |
| Less amount representing interest | (537) | (19,688) | | |
| | | | | |
| Present value of obligation | \$1,487 | \$175,000 | | |

We have subleased certain of our facilities. Future minimum rentals to be received by us under non-cancelable subleases at December 29, 2007 were as follows:

| <i>(In thousands)</i> | Operating Leases |
|---------------------------------|-----------------------------|
| Payments Due By Period: | |
| 2008 | \$1,157 |
| 2009 | 202 |
| 2010 | 194 |
| 2011 | 138 |
| 2012 | 12 |
| | |
| Total minimum sublease payments | \$1,703 |

We adopted FIN 48 during 2007, and the amount of gross unrecognized tax benefits at December 29, 2007 was \$6.9 million. We are not able to provide a detailed estimate of the timing of payments due to the uncertainty of when the related tax settlements are due.

New Accounting Standards

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands required disclosures regarding fair value measurements. SFAS No. 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not believe that the adoption of SFAS No. 157 in the first quarter of 2008 will have a material impact on our financial position or results of operations.

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

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*. SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 will be effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. We are currently evaluating the expected impact of the provisions of SFAS No. 160, but we do not believe that our adoption of SFAS No. 160 will have a material impact on our financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (Revised), *Business Combinations* (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for the manner in which the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS No. 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R applies to business combinations that are consummated on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We are currently evaluating the expected impact of the provisions of SFAS No. 141R, but we do not believe that our adoption of SFAS No. 141R will have a material impact on our financial position or results of operations.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Currency Risk

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

From time to time we use forward exchange contracts to mitigate the risks associated with certain foreign currency transactions entered into in the ordinary course of business, primarily foreign currency denominated receivables and payables. We do not engage in currency speculation. The forward exchange contracts generally require us to exchange U.S. dollars for foreign currencies at maturity, at rates agreed to at the inception of the contracts. If the counterparties to the exchange contracts (AA or A+ rated banks) do not fulfill their obligations to deliver the contracted currencies, we could be at risk for any currency related fluctuations. Transaction gains and losses are included in net income in our statement of operations. Net foreign exchange gains and losses were not

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material to our reported results of operations for the last three years. There were no forward exchange contracts outstanding at December 29, 2007 or December 30, 2006.

Our operating income from international operations totaled \$7.3 million, \$9.8 million and \$8.9 million for 2007, 2006 and 2005, respectively. As currency exchange rates change, translation of the statements of operations of international operations into U.S. dollars affects the year-over-year comparability of operating results. We do not generally hedge translation risks because cash flows from international operations are generally reinvested locally. We do not enter into hedges to minimize volatility of reported earnings because we do not believe they are justified by the exposure or the cost.

Changes in currency exchange rates that would have the largest impact on translating our future international operating income include the euro and Japanese yen. We estimate that a 10% change in foreign exchange rates would not have had a material effect on our reported net income for the year ended December 29, 2007. We believe that this quantitative measure has inherent limitations because, as discussed in the first paragraph of this section, it does not take into account any governmental actions or changes in either customer purchasing patterns or our financing and operating strategies.

Interest Rate Risk

The interest rates we pay on certain of our debt instruments are subject to interest rate risk. Our collateralized line of credit bears interest at either the prevailing prime rate, or the prevailing London Interbank Offered Rate plus 1.25%, at our option. Our revolving lines of credit and other credit agreements with Japanese banks bear interest at the lending bank's prevailing rate. Our convertible notes bear interest at a fixed rate of 2.5% per year and are not subject to interest rate risk. Our investments in marketable securities, which totaled \$55.1 million at December 29, 2007, are sensitive to changes in the general level of U.S. interest rates. We estimate that a 10% change in the interest rate earned on our investment portfolio or a 10% change in interest rates on our lines of credit would not have had a material effect on our net income for 2007.

Item 8. Financial Statements and Supplementary Data

The financial statements required by this item are included in Part IV, Item 15 of this Annual Report on Form 10-K and are presented beginning on page F-1. The supplementary financial information required by this item is included in Note 18, Supplementary Quarterly Consolidated Financial Data (Unaudited), of the Notes to Consolidated Financial Statements on page F-36.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures**Evaluation of Disclosure Controls and Procedures**

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

Table of Contents**Management's Annual Report on Internal Control over Financial Reporting*****Internal Control over Financial Reporting***

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

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

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

Management has evaluated the effectiveness of our internal control over financial reporting as of December 29, 2007. In conducting its evaluation, management used the framework set forth in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under such framework, our management has concluded that our internal control over financial reporting was effective as of December 29, 2007.

Attestation Report

Ernst & Young LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on our internal control over financial reporting. Such attestation report is included below under the heading *Attestation Report of Independent Registered Public Accounting Firm*.

Attestation Report of Independent Registered Public Accounting Firm***Report of Independent Registered Public Accounting Firm***

The Board of Directors and Stockholders of Newport Corporation

We have audited Newport Corporation's internal control over financial reporting as of December 29, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Newport Corporation's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on Newport Corporation's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material

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weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, Newport Corporation maintained, in all material respects, effective internal control over financial reporting as of December 29, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), consolidated balance sheets of Newport Corporation as of December 29, 2007 and December 30, 2006, and the related consolidated statements of operations, comprehensive income and stockholders' equity, and cash flows for each of the three years in the period ended December 29, 2007 of Newport Corporation and our report dated March 6, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP
Orange County, California
March 6, 2008

Changes in Internal Control Over Financial Reporting

During the fourth quarter of 2007, we discovered an inventory discrepancy at one of our locations that was not identified through our routine inventory cycle count process, which we had relied on as our primary control over the existence of inventory. We determined that this issue did not constitute a material weakness in our internal control over financial reporting. To ensure that the inventory was properly stated at year end, we performed a full physical inventory observation at year end and have implemented additional controls relating to inventory tracking. While we have enhanced our internal controls in this area, there were no changes in our internal control over financial reporting during the fourth quarter of the year ended December 29, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information

Not applicable.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of December 29, 2007 and delivered to stockholders in connection with our Annual Meeting of Stockholders to be held on May 20, 2008.

Item 11. Executive Compensation

The information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of December 29, 2007 and delivered to stockholders in connection with our Annual Meeting of Stockholders to be held on May 20, 2008.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

All information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of December 29, 2007 and delivered to stockholders in connection with our Annual Meeting of Stockholders to be held on May 20, 2008, with the exception of the information regarding securities authorized for issuance under our equity compensation plans, which is set forth in Item 5 of this Annual Report on Form 10-K under the heading Information Regarding Equity Compensation Plans and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of December 29, 2007 and delivered to stockholders in connection with our Annual Meeting of Stockholders to be held on May 20, 2008.

Item 14. Principal Accounting Fees and Services

The information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of December 29, 2007 and delivered to stockholders in connection with our Annual Meeting of Stockholders to be held on May 20, 2008.

PART IV

Item 15. Exhibits, Financial Statement Schedules

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

(1) Financial Statements.

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

(2) Financial Statement Schedules.

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

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(3) Exhibits.

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

| Exhibit Number | Description of Exhibit |
|---------------------------|---|
| 2.1 | Stock Purchase Agreement dated May 28, 2004 by and among the Registrant, Thermo Electron Corporation and other related parties (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on June 17, 2004). |
| 3.1 | Restated Articles of Incorporation of the Registrant, as amended to date (incorporated by reference to Exhibit 3.1 of the Registrant's Annual Report on Form 10-K for the year ended December 30, 2006). |
| 3.2 | Restated Bylaws of the Registrant, as amended to date (incorporated by reference to Exhibit 3.2 of the Registrant's Annual Report on Form 10-K for the year ended July 31, 1992). |
| 4.1 | Indenture, dated February 7, 2007, between the Registrant and Wells Fargo Bank, N.A. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 7, 2007). |
| 4.2 | Registration Rights Agreement, dated February 7, 2007, between the Registrant and Merrill, Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 7, 2007). |
| 4.3 | Form of 2.50% Convertible Subordinated Note due 2012 (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 7, 2007). |
| 10.1 | Lease Agreement dated March 27, 1991, as amended, pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.1 of the Registrant's Annual Report on Form 10-K for the year ended July 31, 1992). |
| 10.2 | First Amendment to Lease dated January 31, 2002, between the Registrant and IRP Muller Associates, LLC pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.2 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001). |
| 10.3 | Second Amendment to Lease dated September 28, 2004, between the Registrant and BCSD Properties, L.P. pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.5 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004). |
| 10.4* | 1992 Stock Incentive Plan (incorporated by reference to exhibit in the Registrant's 1992 Proxy Statement). |
| 10.5* | 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.11 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999). |
| 10.6* | |

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Amendment to 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-3, No. 333-40878, filed with the Securities and Exchange Commission on July 6, 2000).

10.7* 2001 Stock Incentive Plan (incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 27, 2001).

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| Exhibit Number | Description of Exhibit |
|---------------------------|---|
| 10.8* | Form of Nonqualified Stock Option Agreement under the Registrant's 2001 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.9 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002). |
| 10.9* | Form of Incentive Stock Option Agreement under the Registrant's 2001 Stock Incentive Plan (incorporated by reference to Exhibit 10.10 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002). |
| 10.10* | Form of Restricted Stock Agreement under the Registrant's 2001 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004). |
| 10.11* | Form of Nonqualified Stock Option Agreement between the Registrant and each of the former optionholders of Micro Robotics Systems, Inc. (incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form S-8, File No. 333-86268, filed with the Securities and Exchange Commission on April 15, 2002). |
| 10.12* | 2006 Performance-Based Stock Incentive Plan (incorporated by reference to Appendix B of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 10, 2006). |
| 10.13* | Form of Restricted Stock Unit Award Agreement to be used under the Registrant's 2006 Performance-Based Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2006). |
| 10.14* | Amended and Restated Employee Stock Purchase Plan, as amended (incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005). |
| 10.15* | Form of Severance Compensation Agreement between the Registrant and certain of its executive officers (incorporated by reference to Exhibit 10.14 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003). |
| 10.16* | Severance Compensation Agreement dated as of January 1, 2004, between the Registrant and Robert G. Deuster, Chairman and Chief Executive Officer (incorporated by reference to Exhibit 10.15 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003). |
| 10.17* | Severance Compensation Agreement dated as of January 1, 2004, between the Registrant and Robert J. Phillippy, President and Chief Operating Officer (incorporated by reference to Exhibit 10.16 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003). |
| 10.18* | Form of Indemnification Agreement between the Registrant and each of its directors and executive officers (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002). |
| 10.19* | |

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Separation Agreement, dated September 18, 2007, by and between the Registrant and Robert G. Deuster (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on September 20, 2007).

- 10.20 Business Loan Agreement dated September 25, 2002, by and between the Registrant and Bank of America, N.A. (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).

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| Exhibit Number | Description of Exhibit |
|---------------------------|---|
| 10.21 | Promissory Note dated September 25, 2002, payable by the Registrant to Bank of America, N.A. (incorporated by reference to Exhibit 10.4 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002). |
| 10.22 | Commercial Pledge Agreement dated September 25, 2002, by and between the Registrant and Bank of America, N.A. (incorporated by reference to Exhibit 10.5 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002). |
| 10.23 | Amendment No. 1 to Loan Documents dated August 21, 2003, between the Registrant and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003). |
| 10.24 | Amendment No. 2 to Loan Documents dated October 27, 2003, between the Registrant and Bank of America, N.A. (incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003). |
| 10.25 | Amendment No. 3 to Loan Documents dated November 30, 2004, between the Registrant and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2004). |
| 10.26 | Amendment No. 4 to Loan Documents dated January 6, 2006, between the Registrant and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 11, 2006). |
| 10.27 | Amendment No. 5 to Loan Documents dated December 1, 2006, between the Registrant and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 5, 2006). |
| 10.28 | Subordinated Promissory Note dated July 16, 2004 payable by the Registrant to Thermo Electron Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 20, 2004). |
| 21.1 | Subsidiaries of the Registrant. |
| 23.1 | Consent of Independent Registered Public Accounting Firm. |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 (the Exchange Act). |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act. |
| 32.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350. |

32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350.

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

Table of Contents**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on March 11, 2008.

NEWPORT CORPORATION

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

POWER OF ATTORNEY

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

| SIGNATURE | TITLE | DATE |
|---|--|----------------|
| <i>/s/ Robert J. Phillippy</i> Robert J. Phillippy | President and Chief Executive Officer (Principal Executive Officer) | March 11, 2008 |
| <i>/s/ Charles F. Cargile</i> Charles F. Cargile | Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer) | March 11, 2008 |
| <i>/s/ John D. Swancoat</i> John D. Swancoat | Vice President, Corporate Controller and Chief Accounting Officer | March 11, 2008 |
| <i>/s/ R. Jack Aplin</i> R. Jack Aplin | Director | March 11, 2008 |
| <i>/s/ Robert L. Guyett</i> Robert L. Guyett | Director | March 11, 2008 |
| <i>/s/ Michael T. O Neill</i> Michael T. O Neill | Director | March 11, 2008 |

| | | |
|---------------------------------|----------|----------------|
| <i>/s/ C. Kumar N. Patel</i> | Director | March 11, 2008 |
| C. Kumar N. Patel | | |
| <i>/s/ Kenneth F. Potashner</i> | Director | March 11, 2008 |
| Kenneth F. Potashner | | |
| <i>/s/ Richard E. Schmidt</i> | Director | March 11, 2008 |
| Richard E. Schmidt | | |
| <i>/s/ Peter J. Simone</i> | Director | March 11, 2008 |
| Peter J. Simone | | |

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INDEX TO FINANCIAL STATEMENTS AND SCHEDULE

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|--|------|
| <u>Report of Independent Registered Public Accounting Firm</u> | F-2 |
| <u>Consolidated statements of operations for the years ended December 29, 2007, December 30, 2006 and December 31, 2005</u> | F-3 |
| <u>Consolidated balance sheets at December 29, 2007 and December 30, 2006</u> | F-4 |
| <u>Consolidated statements of cash flows for the years ended December 29, 2007, December 30, 2006 and December 31, 2005</u> | F-5 |
| <u>Consolidated statements of comprehensive income and stockholders' equity for the years ended December 29, 2007, December 30, 2006 and December 31, 2005</u> | F-6 |
| <u>Notes to consolidated financial statements</u> | F-7 |
| <u>Financial Statement Schedule Schedule II Consolidated valuation accounts</u> | F-37 |
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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of Newport Corporation

We have audited the accompanying consolidated balance sheets of Newport Corporation as of December 29, 2007 and December 30, 2006, and the related consolidated statements of operations, comprehensive income and stockholders equity, and cash flows for each of the three years in the period ended December 29, 2007. Our audits also included the financial statement schedule listed in Item 15(a). These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Newport Corporation at December 29, 2007 and December 30, 2006, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 29, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 1, the Company adopted the provisions of the Financial Accounting Standards Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109, effective December 31, 2006.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Newport Corporation's internal control over financial reporting as of December 29, 2007, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 6, 2008 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Orange County, California

March 6, 2008

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

| | December 29, 2007 | Year Ended December 30, 2006 | December 31, 2005 |
|--|----------------------------------|---|----------------------------------|
| Net sales | \$445,197 | \$454,724 | \$403,733 |
| Cost of sales | 259,636 | 256,756 | 234,480 |
| Gross profit | 185,561 | 197,968 | 169,253 |
| Selling, general and administrative expense | 116,476 | 114,533 | 102,002 |
| Research and development expense | 42,570 | 41,981 | 35,949 |
| Operating income | 26,515 | 41,454 | 31,302 |
| Interest and other income (expense), net | 137 | (759) | (1,842) |
| Income from continuing operations before income taxes | 26,652 | 40,695 | 29,460 |
| Income tax provision (benefit) | (17,229) | 2,193 | 3,746 |
| Income from continuing operations before extraordinary gain | 43,881 | 38,502 | 25,714 |
| Loss from discontinued operations, net of income tax benefits of \$31 and \$850 for the year ended December 30, 2006 and December 31, 2005, respectively | | (1,075) | (16,973) |
| Extraordinary gain on settlement of litigation | | | 2,891 |
| Net income | \$ 43,881 | \$ 37,427 | \$ 11,632 |
| Basic income per share: | | | |
| Income from continuing operations before extraordinary gain | \$ 1.14 | \$ 0.95 | \$ 0.62 |
| Loss from discontinued operations, net of income tax benefits | | (0.03) | (0.41) |
| Extraordinary gain on settlement of litigation | | | 0.07 |
| Net income | \$ 1.14 | \$ 0.92 | \$ 0.28 |
| Diluted income per share: | | | |
| Income from continuing operations before extraordinary gain | \$ 1.12 | \$ 0.91 | \$ 0.60 |
| Loss from discontinued operations, net of income tax benefits | | (0.02) | (0.40) |
| Extraordinary gain on settlement of litigation | | | 0.07 |

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| | | | |
|------------|---------|---------|---------|
| Net income | \$ 1.12 | \$ 0.89 | \$ 0.27 |
|------------|---------|---------|---------|

Shares used in the computation of income per share:

| | | | |
|---------|--------|--------|--------|
| Basic | 38,479 | 40,698 | 41,281 |
| Diluted | 39,058 | 42,167 | 42,716 |

See accompanying notes.

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

| | December 29, 2007 | December 30, 2006 |
|--|----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 88,737 | \$ 35,930 |
| Marketable securities | 55,127 | 49,483 |
| Accounts receivable, net of allowance for doubtful accounts of \$1,381 and \$1,503, as of December 29, 2007 and December 30, 2006, respectively | 87,606 | 94,325 |
| Notes receivable, net | 3,821 | 4,868 |
| Inventories | 113,969 | 94,899 |
| Deferred income taxes | 6,248 | 2,031 |
| Prepaid expenses and other current assets | 13,603 | 11,639 |
| Total current assets | 369,111 | 293,175 |
| Property and equipment, net | 61,872 | 57,400 |
| Goodwill | 174,197 | 175,281 |
| Deferred income taxes | 16,932 | 781 |
| Intangible assets, net | 46,171 | 50,234 |
| Investments and other assets | 21,664 | 16,144 |
| | \$689,947 | \$593,015 |
| LIABILITIES AND STOCKHOLDERS EQUITY | | |
| Current liabilities: | | |
| Short-term obligations | \$ 12,402 | \$ 9,481 |
| Accounts payable | 33,319 | 31,376 |
| Accrued payroll and related expenses | 23,096 | 27,443 |
| Accrued expenses and other current liabilities | 24,598 | 24,067 |
| Total current liabilities | 93,415 | 92,367 |
| Long-term debt | 175,000 | 50,688 |
| Obligations under capital leases, less current portion | 1,381 | 1,346 |
| Accrued pension liabilities | 10,740 | 11,430 |
| Accrued restructuring costs and other liabilities | 4,966 | 2,231 |
| Commitments and contingencies | | |
| Stockholders' equity: | | |
| Common stock, par value \$0.1167 per share, 200,000,000 shares authorized; 36,917,734 and 41,457,632 shares issued and outstanding as of December 29, 2007 and December 30, 2006, respectively | 4,308 | 4,838 |

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| | | |
|---|-----------|-----------|
| Capital in excess of par value | 389,328 | 467,235 |
| Accumulated other comprehensive income | 10,243 | 4,410 |
| Retained earnings (accumulated deficit) | 566 | (41,530) |
| Total stockholders' equity | 404,445 | 434,953 |
| | \$689,947 | \$593,015 |

See accompanying notes.

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NEWPORT CORPORATION
Consolidated Statements of Cash Flows
(In thousands)

| | December 29, 2007 | Year Ended December 30, 2006 | December 31, 2005 |
|---|-------------------------|---------------------------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | \$ 43,881 | \$ 37,427 | \$ 11,632 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 21,260 | 19,494 | 19,283 |
| Stock-based compensation expense | 3,668 | 6,915 | 463 |
| Loss on disposal of business | | 958 | 8,539 |
| Provision for losses on inventories | 4,501 | 2,411 | 1,986 |
| Provision for doubtful accounts, net | 190 | 697 | (199) |
| Investment write-down | | | 454 |
| Provision for restructuring and related charges | | | 135 |
| Gain on sale of patents | | (1,425) | |
| Realized foreign exchange translation gain | | (915) | |
| (Gain) loss on disposal of property and equipment | 198 | 45 | (518) |
| Extraordinary gain on settlement of litigation | | | (2,891) |
| Deferred income taxes, net | (19,679) | 704 | (922) |
| Increase (decrease) in cash, net of acquisitions and divestitures, due to changes in: | | | |
| Accounts and notes receivable | 9,862 | (17,972) | (14,290) |
| Inventories | (22,712) | (19,804) | (3,717) |
| Prepaid expenses and other assets | (2,193) | (3,028) | (1,227) |
| Accounts payable | 1,147 | 4,483 | 659 |
| Accrued payroll and related expenses | (5,032) | 4,373 | (891) |
| Accrued expenses and other liabilities | 996 | (4,991) | (1,559) |
| Accrued restructuring costs and purchase accounting reserves | (712) | (1,019) | (3,002) |
| Net cash provided by operating activities | 35,375 | 28,353 | 13,935 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Purchase of property and equipment | (18,705) | (18,894) | (11,638) |
| Proceeds from the sale of property and equipment | | 237 | 806 |
| Business acquisitions, net of cash acquired | | (7,118) | |
| Purchase of marketable securities | (58,061) | (46,034) | (265,775) |
| Proceeds from the sale of marketable securities | 54,013 | 38,691 | 290,296 |
| Proceeds from the sale of business, patents and equity investments | | 1,425 | 2,382 |
| Net cash provided by (used in) investing activities | (22,753) | (31,693) | 16,071 |

CASH FLOWS FROM FINANCING ACTIVITIES:

| | | | |
|--|------------------|------------------|------------------|
| Proceeds from the issuance of convertible debt | 175,000 | | |
| Debt issuance costs | (5,563) | | |
| Repayment of long-term debt and obligations under capital leases | (48,403) | (87) | (270) |
| Short term borrowings (repayments), net | 14 | (2,576) | 1,384 |
| Proceeds from the issuance of common stock under employee plans | 5,064 | 11,931 | 5,454 |
| Purchases of the Company's common stock | (86,998) | (1,387) | (46,209) |
| Net cash provided by (used in) financing activities | 39,114 | 7,881 | (39,641) |
| Impact of foreign exchange rate changes on cash balances | 1,071 | 1,277 | (1,696) |
| Net increase (decrease) in cash and cash equivalents | 52,807 | 5,818 | (11,331) |
| Cash and cash equivalents at beginning of year | 35,930 | 30,112 | 41,443 |
| Cash and cash equivalents at end of period | \$ 88,737 | \$ 35,930 | \$ 30,112 |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | \$ 3,793 | \$ 3,124 | \$ 2,972 |
| Income taxes, net | \$ 3,488 | \$ 5,291 | \$ 2,916 |

See accompanying notes.

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NEWPORT CORPORATION
Consolidated Statements of Comprehensive Income and Stockholders' Equity
(In thousands)

| | Common Stock Shares | Common Stock Amount | Capital in excess of par value | Deferred stock compensation | Accumulated other comprehensive income | Retained earnings/ (accumulated deficit) | Total stockholders' equity |
|--|------------------------|------------------------|---|-----------------------------------|---|---|----------------------------------|
| January 1, 2005 | 43,023 | \$ 5,021 | \$ 493,986 | \$ (1,379) | \$ 8,470 | \$ (90,589) | \$ 415,509 |
| Net income | | | | | | 11,632 | 11,632 |
| Foreign currency translation loss | | | | | (5,871) | | (5,871) |
| Minimum pension liability adjustments, net of income tax benefit of \$224 | | | | | (1,220) | | (1,220) |
| Unrealized loss on marketable securities, net of reclassification adjustment | | | | | (116) | | (116) |
| Comprehensive income | | | | | | | 4,425 |
| Issuance of common stock under employee plans | 577 | 67 | 5,387 | | | | 5,454 |
| Repurchases of common stock | (3,404) | (397) | (45,812) | | | | (46,209) |
| Cancellation of common stock | (115) | (13) | (3,046) | | | | (3,059) |
| Cancellation of restricted stock | (45) | (6) | (594) | 600 | | | |
| Amortization of deferred compensation | | | | 463 | | | 463 |
| December 31, 2005 | 40,036 | 4,672 | 449,921 | (316) | 1,263 | (78,957) | 376,583 |
| Net income | | | | | | 37,427 | 37,427 |
| Foreign currency translation gain, net of reclassification adjustment | | | | | 2,466 | | 2,466 |
| Minimum pension liability adjustment, net of income tax of \$224 | | | | | 1,220 | | 1,220 |
| | | | | | 192 | | 192 |

| | | | | | | | |
|--|---------------|-----------------|-------------------|-----------|------------------|-----------------|-------------------|
| Unrealized gain on marketable securities, net of reclassification adjustment | | | | | | | |
| Comprehensive income | | | | | | | 41,305 |
| Adjustment to initially apply SFAS No. 158, net of income tax benefit of \$364 | | | | | (731) | | (731) |
| Issuance of common stock under employee plans | 1,504 | 175 | 11,756 | | | | 11,931 |
| Stock-based compensation expense | | | 6,948 | 304 | | | 7,252 |
| Repurchases of common stock | (81) | (9) | (1,378) | | | | (1,387) |
| Cancellation of restricted stock | (1) | | (12) | 12 | | | |
| December 30, 2006 | 41,458 | 4,838 | 467,235 | | 4,410 | (41,530) | 434,953 |
| Net income | | | | | | 43,881 | 43,881 |
| Foreign currency translation gain | | | | | 4,868 | | 4,868 |
| Unrecognized net pension gain, net of income tax of \$457 | | | | | 783 | | 783 |
| Unrealized gain on marketable securities | | | | | 182 | | 182 |
| Comprehensive income | | | | | | | 49,714 |
| Cumulative effect to prior year accumulated deficit related to the adoption of FASB Interpretation No. 48 (FIN 48) (Note 13) | | | | | | (1,785) | (1,785) |
| Issuance of common stock under employee plans | 842 | 98 | 4,966 | | | | 5,064 |
| Stock-based compensation expense | | | 3,497 | | | | 3,497 |
| Repurchases of common stock | (5,382) | (628) | (86,370) | | | | (86,998) |
| December 29, 2007 | 36,918 | \$ 4,308 | \$ 389,328 | \$ | \$ 10,243 | \$ 566 | \$ 404,445 |

See accompanying notes.

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NEWPORT CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Newport Corporation (Newport or the Company) is a global supplier of advanced technology lasers, components, instruments, subsystems and systems to markets where high-precision, efficient manufacturing, test, measurement and assembly are critical. The Company's wide range of products are used in mission-critical applications in industries including scientific research, microelectronics, aerospace and defense/security, life and health sciences and industrial manufacturing worldwide.

Basis of Presentation

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

The Company has adopted a conventional 52/53-week accounting fiscal year ending on the Saturday closest to December 31, and its fiscal quarters end on the Saturday closest to the end of each corresponding calendar quarter. Fiscal year 2007 (referred to herein as 2007) ended on December 29, 2007, fiscal year 2006 (referred to herein as 2006) ended on December 30, 2006 and fiscal year 2005 (referred to herein as 2005) ended on December 31, 2005.

Foreign Currency Translation

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

Derivative Instruments

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

There were no forward exchange contracts outstanding at December 29, 2007 or December 30, 2006.

Table of Contents*Cash and Cash Equivalents and Marketable Securities*

The Company considers cash-on-hand and highly liquid investments with an original maturity of three months or less at the date of purchase to be cash equivalents. Investments with original maturities exceeding three months at the date of purchase are classified as marketable securities. All marketable securities are classified as available for sale and are recorded at market value using the specific identification method; unrealized gains and losses are reflected in *accumulated other comprehensive income* in the accompanying consolidated balance sheets.

Accounts and Notes Receivable

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

Certain of the Company's Japanese customers provide the Company with promissory notes on the due date of the receivable. The payment dates of the promissory notes range between 60 and 150 days from the original receivable due date. For balance sheet presentation purposes, amounts due to the Company under such promissory notes are reclassified from accounts receivable to current notes receivable. At December 29, 2007 and December 30, 2006, *notes receivable, net* totaled \$3.8 million and \$4.9 million, respectively. Subsequently, certain of these promissory notes are sold with recourse to banks in Japan with which the Company regularly does business. The sales of these receivables have been accounted for as secured borrowings, as the Company has not met the criteria for sale treatment in accordance with Statement of Financial Accounting Standards (SFAS) No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities (a replacement of FASB Statement No. 125)*. The principal amount of the promissory notes sold with recourse is included in both *notes receivable, net* and *short-term obligations* until the underlying note obligations are ultimately satisfied through payment by the customers to the banks. At December 29, 2007 and December 30, 2006, the principal amount of such promissory notes included in *notes receivable, net* and *short-term obligations* in the accompanying consolidated balance sheets totaled \$1.9 million and \$2.4 million, respectively.

Concentrations of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash and cash equivalents, marketable securities, foreign exchange contracts and accounts receivable. The Company maintains cash and cash equivalents with and purchases its foreign exchange contracts from major financial institutions and performs periodic evaluations of the relative credit standing of these financial institutions in order to limit the amount of credit exposure with any one institution. The majority of the Company's marketable securities are managed by a professional investment management firm, under the oversight of the Company's senior financial management team. The portfolio manager invests the funds in accordance with the Company's investment policy, which, among other things, limits the amounts that may be invested with one issuer. Such policy is reviewed regularly by the Company's senior financial management team and the Audit Committee of the Company's Board of Directors. The Company's customers are concentrated in the scientific research, aerospace and defense/security, microelectronics, life and health sciences and industrial manufacturing markets, and their ability to pay may be influenced by the prevailing macroeconomic conditions present in these markets. Receivables from the Company's customers are generally unsecured. To reduce the overall risk of collection, the Company performs ongoing evaluations of its customers' financial condition. For the years ended December 29, 2007, December 30, 2006 and December 31, 2005, no customer accounted for 10% or more of the Company's net sales or 10% or more of the Company's gross accounts receivable as of the end of such year.

Table of Contents*Pension Plans*

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

Inventories

Inventories are stated at the lower of cost (determined on either a first-in, first-out (FIFO) or average cost basis) or fair market value and include materials, labor and manufacturing overhead. The Company writes down excess and obsolete inventory to net realizable value. Once the Company writes down the carrying value of inventory, a new cost basis is established, and the Company does not increase the newly established cost basis based on subsequent changes in facts and circumstances. In assessing the ultimate realization of inventories, the Company makes judgments as to future demand requirements and compares those requirements with the current or committed inventory levels. The Company records any amounts required to reduce the carrying value of inventory to net realizable value as a charge to cost of sales.

Property and Equipment

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

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

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

Intangible Assets, including Goodwill

Intangible assets, other than goodwill and trademarks and trade names, are amortized on a straight-line basis over their estimated useful lives as follows:

| | |
|------------------------|----------------|
| Developed technology | 10 to 18 years |
| Customer relationships | 10 years |
| Other | 3 years |

Trademarks and trade names are subject to annual impairment testing and are not amortized.

Goodwill represents the excess of the purchase price over the fair value of the net assets of acquired entities. The Company performs annual impairment tests of its goodwill and other intangible assets in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. Under SFAS No. 142, goodwill is not amortized but is subject to impairment tests based upon a comparison of the fair value of each of the Company's reporting units, as defined, and the carrying value of the reporting units' net assets, including goodwill. SFAS No. 142 requires a review of goodwill and other intangible assets for impairment at least annually or when circumstances exist that would indicate an impairment of such goodwill or other intangible assets. The Company performs the annual impairment review as of the beginning of the fourth quarter of each year. The Company determines its 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. However, the Company aggregates components if they have similar economic characteristics. For any acquisition, the Company allocates goodwill to the applicable reporting unit at the completion of the purchase price allocation through specific identification, and reallocates

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goodwill if the reporting units change. The Company tests each of its reporting units to determine whether the goodwill and other intangible assets are impaired by comparing the respective fair values of goodwill and/or other intangible assets to their respective carrying values. Fair value is determined using a combination of a comparative company analysis, a comparative transaction analysis and a discounted cash flow analysis.

Investments

The Company holds minority interest investments in companies having operations or technologies in areas which are within or adjacent to its strategic focus when acquired, all of which are privately held and whose values are difficult to determine. The Company accounts for minority interest investments in common stock under the cost method for investments in companies over which it does not have the ability to exercise significant influence and under the equity method for investments in companies over which it does have the ability to exercise significant influence. All of the Company's current minority interest investments are accounted for using the cost method.

Long-Lived Assets

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

Warranty

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

Environmental Reserves

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

Revenue Recognition

The Company recognizes revenue after title to and risk of loss of products have passed to the customer (which typically occurs upon shipment from the Company's facilities), or delivery of the service has been completed, provided that persuasive evidence of an arrangement exists, the fee is fixed or determinable and collectibility is reasonably assured. The Company recognizes revenue and related costs for arrangements with multiple deliverables, such as equipment and installation, as each element is delivered or completed based upon its relative fair value,

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determined based upon the price that would be charged on a standalone basis. If a portion of the total contract price is not payable until installation is complete, the Company does not recognize such portion as revenue until completion of installation; however, the Company does record the full cost of the product at the time of shipment. Revenue for training is deferred until the service is completed. Revenue for extended service contracts is recognized over the related contract periods.

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

Advertising

The Company expenses the costs of advertising as incurred, except for the costs of its product catalogs, which are accounted for as prepaid supplies until they are distributed to customers or are no longer expected to be used. Capitalized catalog costs were not material at December 29, 2007 and December 30, 2006. Advertising costs, including the costs of the Company's participation at industry trade shows, totaled \$4.0 million, \$4.1 million and \$3.9 million for 2007, 2006 and 2005, respectively.

Shipping and Handling Costs

The Company expenses the costs of shipping and handling as incurred. Shipping and handling costs of \$4.4 million, \$5.2 million and \$4.8 million are included in *selling, general and administrative expense* for 2007, 2006 and 2005, respectively.

Research and Development

All research and development costs are expensed as incurred.

Income Taxes

The Company utilizes the asset and liability method of accounting for income taxes as set forth in SFAS No. 109, *Accounting for Income Taxes*. Deferred income taxes are recognized for the future tax consequences of temporary differences using enacted statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Temporary differences include the difference between the financial statement carrying amounts and the tax bases of existing assets and liabilities and operating loss and tax credit carryforwards. In accordance with the provisions of SFAS No. 109, a valuation allowance for deferred tax assets is recorded to the extent the Company cannot determine that the ultimate realization of the net deferred tax assets is more likely than not.

In June 2006 the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes - An Interpretation of FASB Statement No. 109*, which provides detailed guidance for the financial statement recognition, measurement and disclosure of uncertain tax positions recognized in an enterprise's financial statements. Under FIN 48, income tax positions must meet a more-likely-than-not recognition threshold to be recognized in the financial statements upon the adoption of FIN 48 and in subsequent periods. The Company has adopted FIN 48 effective December 31, 2006 and the provisions of FIN 48 have been applied to all income tax positions commencing from that date. The Company's policy is to record interest and penalties associated with unrecognized tax benefits as income tax expense. The cumulative effect of applying the provisions of FIN 48 has been reported as an adjustment to the opening balance of the accumulated deficit as of December 31, 2006.

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Prior to 2007, the Company determined its tax contingencies in accordance with SFAS No. 5, *Accounting for Contingencies*. The Company recorded estimated tax liabilities to the extent the contingencies were probable and could be reasonably estimated.

Income per Share

Basic income per share is computed by dividing net income by the weighted average number of shares of common stock outstanding during the period, excluding unvested restricted stock. *Diluted* income per share is computed using the weighted average number of shares of common stock outstanding during the period plus the dilutive effects of common stock equivalents (restricted stock, restricted stock units and stock options) outstanding during the period, determined using the treasury stock method.

Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with SFAS No. 123 (Revised 2004), *Share-Based Payment* (SFAS No. 123R). Under the fair value recognition provision of SFAS No. 123R, stock-based compensation cost is estimated at the grant date based on the fair value of the award. The Company estimates the fair value of stock options granted using the Black-Scholes-Merton option pricing model and a single option award approach. The fair value of restricted stock and restricted stock unit awards is based on the closing market price of the Company's common stock on the date of grant. A substantial portion of the Company's awards vest based upon the achievement of certain annual financial performance goals established by the Compensation Committee of our Board of Directors. The Company records an expense relating to such awards over the vesting period based on the likelihood of achieving the performance goals. The fair value of time-based awards, adjusted for estimated forfeitures, is amortized on a straight-line basis over the requisite service period of the award, which is generally the vesting period. The fair value of performance-based awards, adjusted for estimated forfeitures and estimated achievement of performance goals, is amortized using the graded vesting method over the requisite service period of the award, which is generally the vesting period.

Use of Estimates

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

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurement*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands required disclosures regarding fair value measurements. SFAS No. 157 will be effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not believe that the adoption of SFAS No. 157 in the first quarter of 2008 will have a material impact on its financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, Including an amendment of SFAS No. 115*. SFAS No. 159 expands the use of fair value accounting but does not affect existing standards which require assets and liabilities to be carried at fair value. Under SFAS No. 159, a company may elect to use fair value to measure certain financial assets and liabilities. The fair value election is irrevocable and is generally made on an instrument-by-instrument basis, even if a company has similar

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instruments that it elects not to measure based on fair value. At the adoption date, unrealized gains and losses on existing items for which fair value has been elected are reported as a cumulative adjustment to beginning retained earnings. Subsequent to adoption of SFAS No. 159, changes in fair value are recognized in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007 and may be adopted early. The Company has elected not to apply the provisions of SFAS No. 159, which are optional, to its eligible financial assets and financial liabilities. Accordingly, the initial application of SFAS No. 159 had no impact on the Company's financial position or results of operations.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51*. SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary is an ownership interest in the entity that should be reported as equity in the consolidated financial statements. SFAS No. 160 will be effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The Company is currently evaluating the expected impact of the provisions of SFAS No. 160, but does not believe that the adoption of SFAS No. 160 will have a material impact on its financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for the manner in which the acquirer of a business recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree. SFAS No. 141R also provides guidance for recognizing and measuring the goodwill acquired in the business combination and disclosure requirements to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R applies to business combinations that are consummated on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is currently evaluating the expected impact of the provisions of SFAS No. 141R, but does not believe that the adoption of SFAS No. 141R will have a material impact on its financial position or results of operations.

NOTE 2 ACQUISITIONS AND INVESTMENTS*Acquisition of Laser Product Business from Picarro*

In November 2006, the Company acquired from Picarro, Inc. and Picarro Canada, Inc. (collectively, Picarro) certain assets and liabilities of Picarro's Laser Products business, which designs and manufactures solid-state lasers primarily for the life and health sciences market. The acquired business has become a part of the Company's Lasers Division. The transaction was accounted for using the purchase method. The Company's results of operations for 2006 included the results of operations of the acquired business from November 3, 2006, the closing date of the acquisition. The aggregate purchase price was \$7.1 million in cash, including \$0.1 million in transaction costs, consisting primarily of professional fees related to the acquisition. The purchase price, which resulted in the recognition of goodwill of \$2.0 million, was determined by arms-length negotiation between the Company and Picarro, taking into consideration a number of factors, including the value of the assets and the historical and projected financial performance of Picarro's Laser Products business.

The Company finalized its purchase price allocation in the fourth quarter of 2006. However, in connection with the acquisition, management approved a plan to reduce the size of the facility space used for the operation of the acquired business, which resulted in establishing a reserve of \$0.5 million. During 2007, \$0.1 million in cash payments were made in connection with the plan and the Company recorded an adjustment of \$0.4 million to the reserve, which resulted in a reduction to goodwill. The goodwill of \$1.6 million is deductible for income tax purposes.

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

(In thousands)

Assets acquired and liabilities assumed:

| | |
|-----------------------------|----------|
| Current assets | \$ 1,613 |
| Goodwill | 1,584 |
| Purchased intangible assets | 3,300 |
| Other assets | 803 |
| Current liabilities | (600) |
| | \$ 6,700 |

The identifiable intangible assets will be amortized over a weighted average amortization period of 18 years, with estimated annual amortization of \$0.2 million.

Investments

The Company owns a minority interest in NEXX Systems, Inc., a privately-held developer of flip chip processing equipment for back-end semiconductor manufacturing applications. As of both December 29, 2007 and December 30, 2006, the Company's total investment was \$2.9 million and is reflected in *investments and other assets* in the accompanying consolidated balance sheets. The Company is accounting for this investment using the cost method of accounting.

NOTE 3 DIVESTITURES

Following the Company's acquisition of Spectra-Physics and certain related entities (collectively, Spectra-Physics) in 2004, the Company conducted a strategic review of all of its businesses and concluded that its robotic systems operations in Richmond, California, which served the front-end semiconductor equipment industry with product lines including wafer-handling robots, load ports and equipment front-end modules, were no longer core to the Company's overall strategy. Consequently, in the first quarter of 2005, the Company's Board of Directors approved a plan to sell these operations, and the sale was completed in the fourth quarter of 2005, for \$0.5 million in cash and a note receivable of \$6.6 million. The principal amount of such note is due in four equal annual installments, bears interest at an annual rate of 6.75% payable quarterly, and is reflected in *investments and other assets* in the accompanying consolidated balance sheets. The final payment, including all accrued but unpaid interest is due on December 31, 2010.

These operations have been reflected in discontinued operations for all periods presented. In 2006, the Company increased the loss on the sale of these operations and recorded an adjustment of \$1.1 million, net of income taxes. The net sales and loss before income taxes from discontinued operations were as follows:

| (In thousands) | Year Ended | |
|--------------------------|----------------------------------|----------------------------------|
| | December 30, 2006 | December 31, 2005 |
| Net sales | \$ | \$ 8,835 |
| Loss before income taxes | \$(1,106) | \$(17,823) |

The realized losses recognized on the disposal of these operations totaled \$1.0 million and \$8.5 million for 2006 and 2005, respectively.

Table of Contents**NOTE 4 MARKETABLE SECURITIES**

The Company's portfolio of marketable securities was as follows:

| (In thousands) | December 29, 2007 | December 30, 2006 |
|--|----------------------------------|----------------------------------|
| U.S. government and agency debt securities | \$ 13,063 | \$ 14,216 |
| Corporate debt securities | 13,970 | 13,696 |
| Equity securities | 16,478 | 13,436 |
| Asset-backed securities | 10,674 | 8,135 |
| Certificates of deposit | 942 | |
| | \$ 55,127 | \$ 49,483 |

All marketable securities were classified as available for sale and were recorded at market value using the specific identification method; unrealized gains and losses are reflected in *accumulated other comprehensive income* in the accompanying consolidated balance sheets. The aggregate fair value of available for sale securities and aggregate amount of unrealized gains and losses for available for sale securities at December 29, 2007 were as follows:

| (In thousands) | Aggregate Fair Value | Aggregate Amount of Unrealized Gains | Losses |
|--|---------------------------------|---|-----------------|
| U.S. government and agency debt securities | \$ 13,063 | \$ 102 | \$ (1) |
| Corporate debt securities | 13,970 | 11 | (98) |
| Equity securities | 16,478 | | |
| Asset-backed securities | 10,674 | 49 | (7) |
| Certificates of deposit | 942 | | |
| | \$ 55,127 | \$ 162 | \$ (106) |

| (In thousands) | Marketable Securities In Cumulative Unrealized Loss Positions | | | |
|--|--|----------------------------|---------------------------------|----------------------------|
| | Less Than 12 Months | | More Than 12 Months | |
| | Aggregate Fair Value | Unrealized Loss | Aggregate Fair Value | Unrealized Loss |
| U.S. government and agency debt securities | \$ 826 | \$ | \$ 269 | \$ (1) |
| Corporate debt securities | 8,047 | (84) | 4,409 | (14) |
| Asset-backed securities | 873 | (2) | 208 | (5) |
| Certificates of deposit | 942 | | | |
| | \$ 10,688 | \$ (86) | \$ 4,886 | \$ (20) |

The aggregate fair value of available for sale securities and the aggregate amount of unrealized gains and losses for available for sale securities at December 30, 2006 were as follows:

| (In thousands) | Aggregate Fair Value | Aggregate Amount of Unrealized | |
|--|---------------------------------|---|---------------|
| | | Gains | Losses |
| U.S. government and agency debt securities | \$14,216 | \$ 15 | \$ (63) |
| Corporate debt securities | 13,696 | 1 | (56) |
| Equity securities | 13,436 | | |
| Asset-backed securities | 8,135 | 5 | (28) |
| | \$49,483 | \$ 21 | \$ (147) |

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| (In thousands) | Marketable Securities In Cumulative Unrealized Loss Positions | | | |
|--|--|--------------------|-------------------------|--------------------|
| | Less Than 12 Months | | More Than 12 Months | |
| | Aggregate Fair Value | Unrealized Loss | Aggregate Fair Value | Unrealized Loss |
| U.S. government and agency debt securities | \$ 5,183 | \$ (12) | \$ 6,014 | \$ (51) |
| Corporate debt securities | 2,834 | (5) | 4,379 | (51) |
| Asset-backed securities | 5,444 | (19) | 760 | (9) |
| | \$13,461 | \$ (36) | \$11,153 | \$(111) |

The contractual maturities of available for sale securities were as follows:

| (In thousands) | December 29, 2007 | December 30, 2006 |
|--------------------|-------------------------|-------------------------|
| 0 1 Year | \$ 24,277 | \$ 24,608 |
| 1 2 Years | 11,820 | 8,073 |
| 2 3 Years | 8,094 | 5,498 |
| 3 5 Years | 4,576 | 5,704 |
| 5 10 Years | 1,598 | 389 |
| More than 10 years | 4,762 | 5,211 |
| | \$ 55,127 | \$ 49,483 |

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

| (In thousands) | December 29, 2007 | Year Ended December 30, 2006 | December 31, 2005 |
|-----------------------|-------------------------|---------------------------------------|-------------------------|
| Gross realized gains | \$ 17 | \$ 64 | \$ 95 |
| Gross realized losses | (24) | (26) | (136) |
| | \$ (7) | \$ 38 | \$ (41) |

NOTE 5 SUPPLEMENTAL BALANCE SHEET INFORMATION*Inventories*

Inventories were as follows:

| (In thousands) | December 29, 2007 | December 30, 2006 |
|-----------------------------------|----------------------|----------------------|
| Raw materials and purchased parts | \$ 77,360 | \$ 67,437 |
| Work in process | 15,611 | 15,888 |

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| | | |
|---|-----------|-----------|
| Finished goods | 44,142 | 34,944 |
| | 137,113 | 118,269 |
| Allowance for excess and obsolete inventory | (23,144) | (23,370) |
| | \$113,969 | \$ 94,899 |

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Table of Contents*Property and Equipment, net*

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

| (In thousands) | December 29, 2007 | December 30, 2006 |
|-------------------------------|------------------------------|------------------------------|
| Land | \$ 3,004 | \$ 2,978 |
| Buildings | 2,796 | 3,019 |
| Leasehold improvements | 30,820 | 29,036 |
| Machinery and equipment | 44,628 | 55,200 |
| Office equipment | 42,666 | 30,781 |
| | 123,914 | 121,014 |
| Less accumulated depreciation | (62,042) | (63,614) |
| | \$ 61,872 | \$ 57,400 |

Depreciation expense from continuing operations, including the amortization of assets under capital leases, totaled \$15.0 million, \$13.5 million and \$14.0 million for 2007, 2006 and 2005, respectively.

Accrued Warranty Obligations

The activity in accrued warranty obligations was as follows:

| (In thousands) | Year Ended | |
|------------------------------------|----------------------------------|----------------------------------|
| | December 29, 2007 | December 30, 2006 |
| Balance at beginning of year | \$ 5,159 | \$ 5,255 |
| Additions charged to cost of sales | 8,693 | 6,612 |
| Warranty claims | (8,005) | (6,708) |
| Balance at end of year | \$ 5,847 | \$ 5,159 |

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

Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities were as follows:

| (In thousands) | December 29, 2007 | December 30, 2006 |
|------------------------------|----------------------------------|----------------------------------|
| Deferred revenue | \$ 7,396 | \$ 7,986 |
| Accrued warranty obligations | 5,847 | 5,159 |
| Accrued sales tax | 2,031 | 1,039 |
| Other | 9,324 | 9,883 |
| | \$ 24,598 | \$ 24,067 |

Table of Contents*Accumulated Other Comprehensive Income*

Accumulated other comprehensive income consisted of the following:

| (In thousands) | December 29, 2007 | December 30, 2006 |
|---|----------------------------------|----------------------------------|
| Cumulative foreign currency translation gains | \$ 10,135 | \$ 5,267 |
| Unrecognized net pension gains (losses), net of taxes | 52 | (731) |
| Unrealized gains (losses) on marketable securities | 56 | (126) |
| | \$ 10,243 | \$ 4,410 |

NOTE 6 GOODWILL AND INTANGIBLE ASSETS

Goodwill, net by reportable segment was as follows:

| (In thousands) | December 29, 2007 | December 30, 2006 |
|--------------------------------------|------------------------------|------------------------------|
| Lasers | \$ 104,562 | \$ 105,380 |
| Photonics and Precision Technologies | 69,635 | 69,901 |
| | \$ 174,197 | \$ 175,281 |

During 2007, the Company recorded an adjustment of \$0.4 million to its purchase accounting reserve related to the acquisition of Picarro, which resulted in a corresponding reduction in goodwill. In addition, the Company recorded a reduction in goodwill of \$0.7 million due to the usage of a net operating loss carryforward from the acquisition of Spectra-Physics.

Intangible assets, excluding goodwill, were as follows:

| (In thousands) | December 29, 2007 | December 30, 2006 |
|--|----------------------------------|----------------------------------|
| Intangible assets subject to amortization: | | |
| Developed technology, net of accumulated amortization of \$6,443 and \$4,458 as of December 29, 2007 and December 30, 2006, respectively | \$ 21,357 | \$ 23,342 |
| Customer relationships, net of accumulated amortization of \$6,744 and \$4,794 as of December 29, 2007 and December 30, 2006, respectively | 12,756 | 14,706 |
| Other, net of accumulated amortization of \$230 and \$102 as of December 29, 2007 and December 30, 2006, respectively | 158 | 286 |
| | 34,271 | 38,334 |
| Intangible assets not subject to amortization: | | |
| Trademarks and trade names | 11,900 | 11,900 |
| Intangible assets, net | \$ 46,171 | \$ 50,234 |

Amortization expense related to intangible assets totaled \$4.1 million, \$3.8 million and \$4.0 million for 2007, 2006 and 2005, respectively.

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Estimated aggregate amortization expense for future fiscal years will be amortized over a weighted average life of 5.4 years as follows:

| (In thousands) | Estimated Aggregate Amortization Expense |
|-----------------------|---|
| 2008 | \$ 4,093 |
| 2009 | 3,935 |
| 2010 | 3,935 |
| 2011 | 3,934 |
| 2012 | 3,934 |
| Thereafter | 14,440 |
| | \$ 34,271 |

NOTE 7 INTEREST AND OTHER INCOME (EXPENSE), NET

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

| (In thousands) | December 29, 2007 | Year Ended December 30, 2006 | December 31, 2005 |
|--|----------------------------------|---|----------------------------------|
| Interest and dividend income | \$ 6,717 | \$ 3,247 | \$ 2,516 |
| Interest expense | (5,579) | (3,847) | (3,696) |
| Bank and portfolio asset management fees | (642) | (549) | (490) |
| Other, net | (359) | 390 | (172) |
| | \$ 137 | \$ (759) | \$ (1,842) |

NOTE 8 STOCK INCENTIVE PLANS AND STOCK-BASED COMPENSATION*Stock-Based Benefit Plans*

In March 2006, the Company's Board of Directors adopted the 2006 Performance-Based Stock Incentive Plan (2006 Plan) subject to approval of our stockholders, which was received in May 2006. The primary purpose of the 2006 Plan is to enhance the Company's ability to attract, motivate and retain the services of qualified employees, officers and directors, consultants and other service providers upon whose judgment, initiative and efforts the successful conduct and development of the Company's business largely depends.

The 2006 Plan authorizes the Company to grant up to 6,000,000 shares of common stock, which includes the number of shares that had been available for future grant under the Company's 2001 Stock Incentive Plan (2001 Plan) at the time the 2006 Plan was approved. This number of shares is subject to adjustments as to the number and kind of shares in the event of stock splits, stock dividends or certain other similar changes in the capital structure of the Company. Upon approval of the 2006 Plan by the Company's stockholders, the 2001 Plan was terminated for purposes of future grants.

The 2006 Plan permits the grant of stock appreciation rights, restricted stock, restricted stock units, incentive stock options and non-qualified stock options. Any stock options or stock appreciation rights granted under the 2006 Plan will have exercise prices or base values not less than the fair market value of the Company's common stock on the date of grant and terms of not more than seven years. The vesting of substantially all awards granted to directors under the

2006 Plan occurs over a period of one year. The vesting of substantially all awards granted to officers and employees under the 2006 Plan occurs over a period of three years, conditioned on the achievement of annual performance goals established by the Compensation Committee of the Company's Board of Directors. Generally, the Company's performance-based awards provide that if the performance goals are not achieved in full for the initial applicable annual performance period, then fifty percent of the awards tied to such performance goals that do

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not vest will carry over and be eligible for vesting, subject to the achievement of certain performance goals for the next annual performance period. All awards are subject to forfeiture if employment or other service terminates prior to the vesting of the awards.

The Company maintains an Employee Stock Purchase Plan (Purchase Plan) to provide employees of the Company with an opportunity to purchase common stock through payroll deductions. Prior to January 1, 2006, the Purchase Plan provided that the purchase price for the purchase of common stock in any offering period was 85% of the fair market value of the stock on the first day of the offering period or the last day of the offering period, whichever was lower. The Company amended the Purchase Plan effective January 1, 2006 to provide that the purchase price for the purchase of common stock in any offering period shall be 95% of the fair market value of the stock on the last day of the offering period. The purpose of the amendment was to eliminate the compensation expense which the Company would have been required to recognize in connection with future purchases under the Purchase Plan following the adoption of SFAS No. 123R on January 1, 2006.

In December 2005, the Company accelerated the vesting of out-of-the-money options to purchase 268,500 shares of the Company's common stock with exercise prices ranging from \$16.91 to \$24.09 per share. The decision to accelerate these options was made primarily to eliminate the future compensation expense associated with these out-of-the-money options that the Company would otherwise be required to recognize following the adoption of SFAS No. 123R on January 1, 2006.

Stock-Based Compensation Expense

SFAS No. 123R requires the Company to recognize compensation expense related to the fair value of its stock-based awards. The Company estimates the fair value of stock options at the date of grant using a Black-Scholes-Merton option-pricing model. The weighted-average fair values and underlying assumptions for 2006 and 2005 were as follows:

| | Year Ended | |
|------------------------------------|----------------------------------|----------------------------------|
| | December 30, 2006 | December 31, 2005 |
| Fair value | \$5.79 | \$ 7.38 |
| Expected annual volatility | 35.9% | 60.1% |
| Risk-free interest rate | 4.4% | 3.9% |
| Expected term (years) | 5.4 | 5.0 |
| Annualized expected dividend yield | | |

The Company did not grant any stock options during 2007.

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

| | Year Ended | | |
|---|----------------------------------|----------------------------------|----------------------------------|
| (In thousands) | December 29, 2007 | December 30, 2006 | December 31, 2005 |
| Cost of sales | \$ 425 | \$ 516 | \$ |
| Selling, general and administrative expense | 3,005 | 5,935 | 463 |
| Research and development expense | 238 | 464 | |
| | \$3,668 | \$ 6,915 | \$ 463 |

Stock-based compensation expense for 2005 included amortization of restricted stock awards which were granted prior to the adoption of SFAS No. 123R and accounted for under Accounting Principles Board Opinion No. 25. As required by SFAS No. 123R, the Company estimates the expected future forfeitures of stock options, restricted stock and restricted stock units and recognizes compensation expense for only those equity awards expected to vest,

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excluding the expected future forfeitures. If actual forfeitures differ from the Company's estimates, the amount of compensation expense recognized for the applicable period is cumulatively adjusted. The Company assumed a forfeiture rate of 12.4% in recognizing compensation expense for 2007 and 2006.

At December 29, 2007, the total compensation cost related to unvested stock-based awards granted to employees, officers and directors under the Company's stock-based benefit plans that had not yet been recognized was \$1.5 million (net of estimated forfeitures of \$0.1 million). Such amount excludes compensation expense associated with awards that are subject to performance conditions, which the Company does not expect will vest. This future compensation expense will be amortized, using the straight-line method for time-based awards and the graded vesting method for performance-based awards, over a weighted-average period of 1.1 years. The actual compensation expense that the Company will recognize in the future related to stock-based awards will be adjusted for subsequent forfeitures and will be adjusted based on the Company's determination as to the extent to which performance conditions applicable to any stock-based awards will be achieved. At December 29, 2007, there were 1.0 million performance-based restricted stock units outstanding with a weighted average grant date fair value of \$15.44 per share, which were not expected to vest.

Stock Options and Awards Activity

The following table summarizes stock option activity for the year ended December 29, 2007:

| | Number of Options (In thousands) | Weighted Average Exercise Price | Weighted Average Remaining Contractual Life (Years) | Aggregate Intrinsic Value (In thousands) |
|--|---|--|--|---|
| Outstanding at December 30, 2006 | 3,959 | \$ 18.59 | | |
| Granted | | | | |
| Exercised | (463) | \$ 8.32 | | |
| Forfeited (cancelled pre-vesting) | (82) | \$ 13.35 | | |
| Expired (cancelled post-vesting) | (24) | \$ 39.00 | | |
| Outstanding at December 29, 2007 | 3,390 | \$ 19.97 | 4.5 | \$ 3,063 |
| Vested and expected to vest at December 29, 2007 | 3,360 | \$ 20.03 | 4.5 | \$ 3,062 |
| Options Exercisable at December 29, 2007 | 3,146 | \$ 20.48 | 4.5 | \$ 3,057 |

During fiscal year 2007, 2006 and 2005, the intrinsic value of options exercised totaled \$3.0 million, \$16.9 million and \$2.0 million, respectively. The intrinsic value of options exercised is calculated as the difference between the market price on the date of exercise and the exercise price multiplied by the number of options exercised.

During fiscal year 2007, 2006 and 2005, the grant date fair value of options vested totaled \$3.1 million, \$3.5 million and \$10.6 million, respectively.

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The following table summarizes the Company's performance-based and time-based restricted stock unit activity for the year ended December 29, 2007:

| | Number of Shares (In thousands) | Weighted Average Grant Date Fair Value |
|----------------------------------|--|---|
| Outstanding at December 30, 2006 | 845 | \$ 15.54 |
| Granted | 822 | \$ 15.41 |
| Vested | (304) | \$ 15.65 |
| Forfeited | (221) | \$ 15.46 |
| Outstanding at December 29, 2007 | 1,142 | \$ 15.44 |

At December 29, 2007, 54,390 restricted stock units subject to time-based vesting were outstanding with a weighted average grant date fair value of \$15.45 and are included in the table above.

At December 29, 2007, the Company had reserved 9,085,631 shares of common stock for future issuance under its stock incentive plans and assumed stock options, which included 4,553,800 shares that were reserved for the future grant of stock-based awards under these plans, and had reserved 1,460,792 shares of common stock for future issuance under the Purchase Plan.

Pro Forma Disclosures

The following illustrates the effect on net income and net income per share as if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation for 2005:

| | Year Ended December 31, 2005 |
|---|---|
| (In thousands, except per share amounts) | |
| Net income reported | \$ 11,632 |
| Employee compensation expense under fair value method | (8,245) |
| Net income pro forma | \$ 3,387 |
| Basic net income per share reported | \$ 0.28 |
| Basic net income per share pro forma | \$ 0.08 |
| Diluted net income per share reported | \$ 0.27 |
| Diluted net income per share pro forma | \$ 0.08 |

For purposes of pro forma disclosure, the value of the stock options and purchases under the Purchase Plan was estimated using the Black-Scholes-Merton option-pricing model and was amortized on a straight-line basis over the respective vesting periods of the awards, assuming a 12.9% forfeiture rate.

NOTE 9 DEBT AND LINES OF CREDIT*Long-term convertible note*

In February 2007, the Company issued \$175 million of convertible subordinated notes. The notes were offered to qualified institutional buyers, as defined in, and in reliance on, Rule 144A of the Securities Act of 1933, as amended. The sale of the notes generated net proceeds of \$169.4 million after deducting offering fees and expenses. The notes are subordinated to all of the Company's existing and future senior indebtedness. The notes mature on February 15, 2012 and bear interest at a rate of 2.5%, or \$4.4 million, per year, payable in cash semiannually in arrears on February 15 and August 15 of each year. These notes are included in *long-term debt*, and offering fees

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and expenses of \$4.6 million, net of amortization of \$1.0 million, are included in *investments and other assets*, which will be amortized through February 15, 2012.

Holders may convert their notes based on a conversion rate of 41.5861 shares of the Company's common stock per \$1,000 principal amount of notes (equal to an initial conversion price of \$24.05 per share), only under the following circumstances: (i) if the closing price of the Company's common stock reaches, or the trading price of the notes fall below, specified thresholds for a specified number of trading days, (ii) if specified distributions to holders of the Company's common stock occur, (iii) if a fundamental change occurs or (iv) during the period from and including January 15, 2012 to, but excluding, the maturity date. Upon conversion, in lieu of shares of the common stock, for each \$1,000 principal amount of notes, a holder will receive an amount in cash equal to the lesser of (i) \$1,000 or (ii) the conversion value, determined in the manner set forth in the indenture. If the conversion value exceeds \$1,000, the Company will also deliver, at its election, cash or common stock or a combination of cash and common stock with respect to the remaining common stock deliverable upon conversion. If a special trigger event occurs, the Company will pay, to the extent described in the indenture for the notes, a make whole premium on notes converted after the special trigger event by increasing the conversion rate applicable to the notes. The conversion feature embedded in the convertible notes is not required to be bifurcated and accounted for separate from the notes.

The Company used \$40.0 million of the net proceeds from the offering to repurchase 2,120,000 million shares of the Company's common stock at a purchase price of \$18.86 per share, which shares were retired and returned to the status of authorized but unissued shares. The Company used \$48.2 million of the net proceeds from the offering to prepay all of its long-term debt owed to Thermo Fisher Scientific, Inc., formerly known as Thermo Electron Corporation (Thermo) pursuant to the note originally issued as part of the purchase price for Spectra-Physics in 2004.

Long-term debt

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

Lines of credit

At December 29, 2007 and December 30, 2006, the Company had a total of three lines of credit, including one domestic revolving line of credit and two revolving lines of credit with Japanese banks. Additionally, the Company has agreements with two Japanese banks under which it sells trade notes receivable with recourse.

The Company's domestic revolving line of credit has a total credit limit of \$5.0 million and expires December 1, 2008. Certain cash equivalents held at this lending institution collateralize this line of credit, which bears interest at either the prevailing prime rate (7.25% at December 29, 2007), or the prevailing London Interbank Offered Rate (4.65% at December 29, 2007) plus 1.25%, at the Company's option, and carries an unused line fee of 0.25% per year. At December 29, 2007, there were no balances outstanding under this line of credit, with \$4.0 million available, after considering outstanding letters of credit totaling \$1.0 million.

The two revolving lines of credit with Japanese banks totaled 1.7 billion yen (\$14.9 million at December 29, 2007) and expire as follows: \$5.3 million on March 31, 2008, \$7.0 million on May 3, 2008 and \$2.6 million on June 30, 2008. These lines are not secured and bear interest at the prevailing bank rate. At December 29, 2007, the Company had \$10.5 million outstanding and \$4.4 million available for borrowing under these lines of credit. Amounts outstanding are included in *short-term obligations* in the accompanying consolidated balance sheets.

The Company has agreements with two Japanese banks under which it sells trade notes receivable with recourse. These agreements allow the Company to sell receivables totaling up to 550 million yen (\$4.8 million at December 29, 2007), have no expiration dates and bear interest at the prevailing bank rate. At December 29, 2007,

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the Company had \$1.9 million outstanding and \$2.9 million available for the sale of notes receivable under these agreements. Amounts outstanding under these agreements are included in *short-term obligations* in the accompanying consolidated balance sheets, as the sale of these receivables has not met the criteria for sale treatment in accordance with SFAS No. 140. The weighted average interest rate on all of the Company's Japanese borrowings as of December 29, 2007 was 1.8%.

Total long-term debt was as follows:

| (In thousands) | December 29, 2007 | December 30, 2006 |
|--|------------------------------|----------------------------------|
| Line of credit due June 2008, interest at bank's prevailing rate (1.3% at December 30, 2006) | \$ | \$ 2,525 |
| Note payable due July 2009, interest at 5% payable quarterly | | 50,000 |
| Convertible notes due February 2012, interest at 2.5% semi-annually | 175,000 | |
| Subtotal | 175,000 | 52,525 |
| Less: unamortized discount on note payable | | (1,837) |
| Total long-term debt | \$ 175,000 | \$ 50,688 |

NOTE 10 NET INCOME PER SHARE

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

| (In thousands) | December 29, 2007 | Year Ended December 30, 2006 | December 31, 2005 |
|---|----------------------------------|---|----------------------------------|
| Numerator for basic and diluted net income per share: | | | |
| Income from continuing operations before extraordinary gain | \$ 43,881 | \$ 38,502 | \$ 25,714 |
| Loss from discontinued operations, net of income taxes | | (1,075) | (16,973) |
| Extraordinary gain on settlement of litigation | | | 2,891 |
| Net income | \$ 43,881 | \$ 37,427 | \$ 11,632 |
| Denominator for basic and diluted net income per share: | | | |
| Weighted average shares outstanding | 38,479 | 40,771 | 41,446 |
| Weighted unvested restricted stock outstanding | | (73) | (165) |
| Denominator for basic net income per share | 38,479 | 40,698 | 41,281 |
| Effect of dilutive securities: | | | |
| Employee stock options and restricted stock units | 579 | 1,396 | 1,270 |
| Restricted stock | | 73 | 165 |
| Denominator for diluted net income per share | 39,058 | 42,167 | 42,716 |

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For 2007, 2006 and 2005, 849,540 stock options with exercise prices ranging from \$16.02 to \$163.63, 545,340 stock options with exercise prices ranging from \$20.25 to \$163.63 and 1,679,392 stock options with exercise prices ranging from \$13.82 to \$163.63, respectively, were excluded from the computations of diluted net income per share, as their inclusion would be antidilutive. In addition, for 2007 and 2006, 1,078,280 and 529,960 restricted stock units representing shares that were issuable contingent upon the achievement of performance conditions were excluded from the computation of diluted net income per share, as the performance criteria had not been met as of December 29, 2007 and December 30, 2006, respectively.

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Table of Contents**NOTE 11 COMMITMENTS AND CONTINGENCIES**

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

Future minimum rental commitments under terms of these leases at December 29, 2007 were as follows:

| <i>(In thousands)</i> | Capital Leases | Operating Leases | Total Obligations |
|-----------------------------------|---------------------------|-----------------------------|------------------------------|
| Payments Due By Period: | | | |
| 2008 | \$ 199 | \$ 9,158 | \$ 9,357 |
| 2009 | 198 | 6,638 | 6,836 |
| 2010 | 197 | 4,961 | 5,158 |
| 2011 | 196 | 4,211 | 4,407 |
| 2012 | 195 | 1,869 | 2,064 |
| Thereafter | 1,039 | 3,276 | 4,315 |
| Total minimum payments | 2,024 | \$30,113 | \$32,137 |
| Less amount representing interest | (537) | | |
| Present value of obligation | \$1,487 | | |

The Company has subleased certain of its facilities. Future minimum rentals to be received by the Company under non-cancelable subleases at December 29, 2007 were as follows:

| (In thousands) | Operating Leases |
|---------------------------------|-----------------------------|
| Payments Due By Period: | |
| 2008 | \$1,157 |
| 2009 | 202 |
| 2010 | 194 |
| 2011 | 138 |
| 2012 | 12 |
| Total minimum sublease payments | \$1,703 |

Rental expense, net of sublease income, from continuing operations under all leases totaled \$8.9 million, \$8.1 million and \$8.6 million for 2007, 2006 and 2005, respectively.

Environmental Reserves

The Company's Mountain View, California facility 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, along with several other entities with facilities located near its Mountain View, California facility, have been identified as Responsible Parties with respect to this Superfund site, due to releases of hazardous substances during the 1960s and 1970s. The

site is mature, and investigations and remediation efforts have been ongoing for approximately 25 years. Spectra-Physics and the other Responsible Parties have entered into a cost-sharing agreement covering the costs of remediating the off-site groundwater contamination, pursuant to which Spectra-Physics is responsible for 30% of the remediation costs.

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At the time of the Company's acquisition of Spectra-Physics, it established a reserve to cover known costs relating to this site for which it was liable, the balance of which was immaterial at December 29, 2007. In connection with the acquisition, Thermo (Spectra-Physics' former parent) has agreed, subject to certain conditions, to indemnify the Company for additional costs relating to clean-up requirements or third party claims relating to this site that arise prior to July 16, 2014. The Company is unaware of any future expenses associated with this site for which it will be liable.

Other Contingencies

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

NOTE 12 EXTRAORDINARY GAIN ON SETTLEMENT OF LITIGATION

In 2005, the Company settled a dispute arising out of its acquisition of Micro Robotics Systems, Inc. (MRSI). As a result of this settlement, the Company recorded an extraordinary gain of \$2.9 million in the first quarter of 2005.

Pursuant to the terms of the settlement agreement, 114,691 shares of the Company's common stock, which were being held in escrow, were returned to the Company and cancelled. Such shares had been issued to the former MRSI stockholders at the time of the acquisition of MRSI, or had been issued upon the exercise of options to purchase the Company's common stock which had been granted at the time of the acquisition in connection with the assumption and conversion of options to purchase MRSI common stock. In addition, outstanding options to purchase 21,606 shares of the Company's common stock were cancelled and the exercise prices of all remaining outstanding options which had been granted in connection with the MRSI acquisition were increased to reflect an adjustment to the total consideration paid for the acquisition.

NOTE 13 INCOME TAXES

United States and foreign income from continuing operations before income taxes were as follows:

| | December 29, 2007 | Year Ended December 30, 2006 | December 31, 2005 |
|-----------------------|----------------------------------|---|----------------------------------|
| (In thousands) | | | |
| United States | \$20,540 | \$ 32,583 | \$ 23,002 |
| Foreign | 6,112 | 8,112 | 6,458 |
| | \$26,652 | \$ 40,695 | \$ 29,460 |

The income tax provision (benefit) based on income from continuing operations were as follows:

| | December 29, 2007 | Year Ended December 30, 2006 | December 31, 2005 |
|-----------------------|----------------------------------|---|----------------------------------|
| (In thousands) | | | |
| Current: | | | |
| Federal | \$ (116) | \$ (1,782) | \$ 78 |
| State | 637 | 234 | 1,090 |
| Foreign | 2,725 | 3,037 | 3,500 |
| | 3,246 | 1,489 | 4,668 |
| Deferred: | | | |
| Federal | (17,005) | | |

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| | | | |
|---------|------------|----------|----------|
| State | (2,843) | | |
| Foreign | (627) | 704 | (922) |
| | (20,475) | 704 | (922) |
| | \$(17,229) | \$ 2,193 | \$ 3,746 |

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The income tax provision (benefit) that was based on income from continuing operations differs from the amount obtained by applying the statutory tax rate as follows:

| (In thousands) | December 29, 2007 | Year Ended December 30, 2006 | December 31, 2005 |
|--|----------------------------------|---|----------------------------------|
| Income tax provision at statutory rate | \$ 9,328 | \$ 14,243 | \$ 10,311 |
| Increase (decrease) in taxes resulting from: | | | |
| Non-deductible expenses | 382 | 117 | 55 |
| State tax (net of federal benefit) | (1,473) | 55 | 720 |
| Foreign rate variance | (150) | 850 | (52) |
| Income tax credits | (763) | | |
| Valuation allowance | (25,154) | (10,792) | (7,063) |
| Increase (reduction) of tax contingency | 402 | (2,160) | (243) |
| Other, net | 199 | (120) | 18 |
| | \$(17,229) | \$ 2,193 | \$ 3,746 |

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

| (In thousands) | December 29, 2007 | December 30, 2006 |
|--|----------------------------------|----------------------------------|
| Deferred tax assets: | | |
| Net operating loss carryforwards | \$ 32,799 | \$ 40,892 |
| Accruals and reserves not currently deductible | 17,553 | 15,538 |
| Tax credit carryforwards | 15,554 | 16,956 |
| Capital loss carryforwards | 627 | 2,534 |
| Foreign deferred tax assets | 4,092 | 3,663 |
| Other basis differences | | 2,392 |
| Total gross deferred tax assets | 70,625 | 81,975 |
| Valuation allowance | (25,952) | (59,311) |
| | 44,673 | 22,664 |
| Deferred tax liabilities: | | |
| Intangible assets | 16,029 | 16,491 |
| Property and equipment | 4,461 | 3,954 |
| Other basis differences | 1,003 | 162 |
| Total deferred tax liabilities | 21,493 | 20,607 |

| | | |
|-------------------------|-----------|----------|
| Net deferred tax assets | \$ 23,180 | \$ 2,057 |
|-------------------------|-----------|----------|

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

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers taxable income in carryback years, the scheduled reversal of deferred tax

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liabilities, tax planning strategies and projected future taxable income in making this assessment. The Company's management has forecasted that the Company will recognize income from continuing operations in the United States and permanent differences between such income from continuing operations and its taxable income for U.S. federal income tax reporting purposes for at least the next two successive fiscal years. Accordingly, in December 2007, the Company released \$19.8 million of the valuation allowance against its U.S. deferred tax assets. As of December 29, 2007, due to uncertainties surrounding the realization of the cumulative federal, state, and foreign net operating losses sustained during 2004 and 2003, the Company has a valuation allowance of \$26.0 million against its deferred tax assets.

At December 29, 2007, the Company has gross federal, state, and foreign net operating loss carryforwards totaling approximately \$101.6 million, \$69.4 million, and \$3.7 million, respectively. Of the \$101.6 million and \$69.4 million federal and state net operating loss, respectively, \$16.2 million relates to tax deductions associated with certain stock compensation, the tax benefit of which will be credited to additional paid in capital when recognized. Federal net operating loss carryforwards begin to expire in 2020 and state net operating loss carryforwards begin to expire in 2010. The majority of the Company's foreign net operating loss carryforwards may be carried forward indefinitely, although some will begin to expire in 2010.

The Company is in the process of having a research and development (R&D) tax credit study completed by an outside advisor for the 2002-2007 tax years. The Company did not recognize any R&D tax credits in its tax returns for those years and has not recorded a deferred tax asset for these credits in its financial statements. If the Company had recorded a deferred tax asset for the anticipated R&D tax credits, the entire amount of the asset would be offset by a valuation allowance. The Company expects that the R&D tax credit study will be completed during 2008 at which time the related deferred tax asset will be recorded.

The Company has federal and state income tax credit carryforwards of \$9.8 million and \$8.2 million, which begin to expire in 2016 and 2008, respectively. The Company has federal capital loss carryforwards of approximately \$1.5 million, which begin to expire in 2009.

If the Company has an ownership change as defined under the Internal Revenue Code, utilization of its net operating loss and tax credit carryforwards may be subject to an annual limitation against taxable income in future periods. Undistributed earnings of the Company's historic and acquired foreign subsidiaries for which no federal or state liability has been recorded totaled \$20.9 million and \$23.1 million at December 29, 2007 and December 30, 2006, respectively. These undistributed earnings are considered to be indefinitely reinvested. Accordingly, no provision for federal and state income taxes or foreign withholding taxes has been provided on such undistributed earnings. Determination of the potential amount of unrecognized deferred federal and state income tax liability and foreign withholding taxes is not practicable because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credits would be available to reduce some portion of the federal liability.

In 2006, the FASB issued FIN 48, which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. FIN 48 also prescribes a recognition threshold and measurement of a tax position taken or expected to be taken in an enterprise's tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. Accordingly, the Company adopted FIN 48 effective December 31, 2006. As a result of adoption, the reserve for uncertain tax positions increased by \$2.9 million, deferred income tax assets increased by \$1.1 million, and shareholders' equity decreased by \$1.8 million. The Company had \$8.4 million of gross unrecognized tax benefits as of December 31, 2006. The total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$5.3 million as of December 31, 2006. The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes. Such amounts were not significant as of December 31, 2006.

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

(In thousands)

| | |
|---|----------|
| Unrecognized tax benefits at December 31, 2006 | \$ 8,399 |
| Gross increases for tax positions of prior years | 262 |
| Gross decreases for tax positions of prior years | (2,683) |
| Gross increases for tax positions of current year | 1,578 |
| Settlements | (660) |
| Lapse of statute of limitations | |
| Unrecognized tax benefits at December 29, 2007 | \$ 6,896 |

The Company had \$6.9 million of gross unrecognized tax benefits as of December 29, 2007. The total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$4.8 million as of December 29, 2007. The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes. Such amounts were not significant as of December 29, 2007. The Company anticipates it is reasonably possible that its unrecognized tax benefits may decrease by \$2.1 million within the next twelve months.

The Company is subject to audit by federal, state, local and foreign tax authorities in the ordinary course of business. During 2007, the Company's subsidiary in France concluded an income tax audit for the years 2003 to 2005. Based on the favorable conclusion of this audit, the company recognized an income tax benefit of \$0.7 million.

During 2006, the Company reduced its tax contingency reserve by \$2.2 million due to the expiration of the statutory audit period related to certain income tax contingencies, as well as a determination that certain income tax contingency reserves were no longer necessary.

During 2005, the Company concluded a state tax examination related to research and experimentation credit claims for refund for fiscal years 1998 and 1999. Based on favorable conclusion of this examination, the Company recorded a reduction in its tax contingency reserve of \$0.2 million.

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

| | |
|--------------|------------------------------|
| U.S. Federal | 2004 through current periods |
| California | 2003 through current periods |
| France | 2006 through current periods |
| Germany | 2001 through current periods |
| Japan | 2002 through current periods |

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

NOTE 14 STOCKHOLDERS' EQUITY TRANSACTIONS

In 2003, the Board of Directors of the Company approved a share repurchase program, authorizing the purchase of up to 3.9 million shares, or 10% of the Company's then-outstanding stock. In May 2005, the Company purchased an aggregate of 174,833 shares of its common stock in the open market at an average price of \$13.72 per share for a total of \$2.4 million. In June 2005, the Company purchased 3,220,300 shares of its common stock from Thermo that had been previously issued as part of the consideration for the acquisition of Spectra-Physics from Thermo in July 2004. The Company purchased the shares at a price of \$13.56 per share for a total of \$43.7 million.

In 2006, the Board of Directors of the Company approved a new share repurchase program, authorizing the Company to purchase up to 4.2 million shares of its common stock. This new program replaced the Company's previous repurchase program. During 2007, the Company repurchased 3.1 million shares of common stock under

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this program in the open market at an average price of \$14.35 per share for a total of \$45.1 million. During the first quarter of 2008, the Company repurchased an additional 1.1 million shares of common stock under this program in the open market at an average price of \$10.78 per share for a total of \$11.4 million, which completed its purchases under this program.

In February 2007, the Company repurchased approximately 2.1 million shares of its common stock at a purchase price of \$18.86 per share, for a total of approximately \$40.0 million, using a portion of the proceeds received from its issuance of convertible notes. Such repurchase was approved by the Company's Board of Directors in addition to the previously approved share repurchase program.

In 2007, 2006 and 2005, the Company received and cancelled 118,845, 80,686 and 9,293 shares of common stock, respectively, in payment by employees of the exercise price and taxes owed upon the exercise of stock options and taxes owed upon the vesting of restricted stock and restricted stock units issued to them under the Company's stock incentive plans. The value of these shares totaled \$1.9 million, \$1.4 million and \$0.1 million, respectively, at the time they were received.

NOTE 15 FAIR VALUES OF FINANCIAL INSTRUMENTS

The Company's financial instruments include cash and equivalents, marketable securities, investments, notes receivable, short-term obligations and long-term debt. The carrying amount of cash and equivalents and short-term obligations approximates fair value due to the short-term maturities of these instruments. The fair value of marketable securities was estimated based on quoted market prices at year-end. The fair value of investments which represent minority interest investments carried at cost, are estimated based upon the indicated fair value using the most recent valuation. The carrying value of the note receivable, which is related to the divestiture of the Company's robotic systems operations in Richmond, approximates fair value. The fair value of the Company's long-term debt was estimated based on the current rates for similar issues or on the current rates offered to the Company for debt of similar remaining maturities.

The estimated fair values of the Company's financial instruments were as follows:

| (In thousands) | December 29, 2007 | | December 30, 2006 | |
|---|-------------------|------------|-------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash and cash equivalents | \$ 88,737 | \$ 88,737 | \$35,930 | \$35,930 |
| Marketable securities | \$ 55,127 | \$ 55,127 | \$49,483 | \$49,483 |
| Investments | \$ 2,890 | \$ 3,633 | \$ 2,890 | \$ 3,633 |
| Note receivable related to sale of business | \$ 5,701 | \$ 5,701 | \$ 5,642 | \$ 5,642 |
| Short-term obligations | \$ 12,402 | \$ 12,402 | \$ 9,481 | \$ 9,481 |
| Long-term debt | \$175,000 | \$175,000 | \$50,688 | \$50,688 |

NOTE 16 EMPLOYEE BENEFIT PLANS*Defined Contribution Plan*

The Company sponsors a 401(k) defined contribution plan. Generally, all U.S. employees are eligible to participate in and contribute to this plan. The Company makes certain safe harbor matching contributions to this plan based on participating employees' contributions to the plan and their total compensation. Expense recognized in continuing operations for the plan totaled \$4.7 million, \$4.7 million and \$4.8 million for 2007, 2006 and 2005, respectively.

Table of Contents*Defined Benefit Pension Plans*

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

The measurement date for the amounts shown below was as of December 29, 2007, December 30, 2006 and December 31, 2005. Net periodic benefit costs for the plans in aggregate included the following components:

| (In thousands) | Year Ended | | |
|---|----------------------------------|----------------------------------|----------------------------------|
| | December 29, 2007 | December 30, 2006 | December 31, 2005 |
| Service cost | \$ 638 | \$ 641 | \$ 580 |
| Interest cost on projected benefit obligation | 654 | 599 | 590 |
| Expected return on plan assets | (183) | (162) | (150) |
| Recognized net actuarial loss | | 50 | |
| | \$1,109 | \$ 1,128 | \$ 1,020 |

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

| (In thousands) | December 29, 2007 | December 30, 2006 |
|--|----------------------------------|----------------------------------|
| Change in projected benefit obligation: | | |
| Benefit obligation, beginning of year | \$ 17,078 | \$ 16,048 |
| Service cost | 566 | 576 |
| Interest cost | 654 | 599 |
| Contributions by plan participants | 18 | 20 |
| Actuarial gains | (1,589) | (622) |
| Benefits paid | (1,942) | (865) |
| Currency translation adjustments | 962 | 1,322 |
| Projected benefit obligation, end of year | 15,747 | 17,078 |
| Change in plan assets: | | |
| Fair value of plan assets, beginning of year | 5,428 | 4,443 |
| Company contributions | 1,138 | 1,080 |
| Contributions by plan participants | 18 | 20 |
| Gain (loss) on plan assets | (157) | 322 |
| Benefits paid | (1,790) | (744) |
| Currency translation adjustments | 132 | 307 |

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| | | |
|--|------------|------------|
| Fair value of plan assets, end of year | 4,769 | 5,428 |
| Funded status | \$(10,978) | \$(11,650) |
| Amounts recognized in the balance sheet: | | |
| Current portion of pension liabilities | \$ (238) | \$ (220) |
| Accrued pension liabilities | \$(10,740) | \$(11,430) |
| Total accrued pension liabilities | \$(10,978) | \$(11,650) |
| Accumulated other comprehensive income | \$ (52) | \$ 731 |
| Deferred taxes | \$ (93) | \$ 364 |

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At December 29, 2007, the aggregate projected benefit obligation, accumulated benefit obligation and fair value of plan assets were \$15.7 million, \$14.3 million and \$4.8 million, respectively. At December 30, 2006, the aggregate projected benefit obligation, accumulated benefit obligation and fair value of plan assets were \$17.1 million, \$15.5 million and \$5.4 million, respectively.

Estimated benefit payments for the next 10 years at December 29, 2007 were as follows:

| (In thousands) | Estimated Benefit Payments |
|-----------------------|---|
| 2008 | \$ 1,891 |
| 2009 | 722 |
| 2010 | 625 |
| 2011 | 1,245 |
| 2012 | 1,008 |
| 2013-2017 | 5,438 |
| | \$10,929 |

The Company expects to contribute \$1.1 million to the plans during 2008.

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

| | December 29, 2007 | Year Ended December 30, 2006 | December 31, 2005 |
|---|----------------------------------|---|----------------------------------|
| Discount rate | 4.4% | 3.8% | 3.7% |
| Rate of increase in salary levels | 2.9% | 2.9% | 3.0% |
| Expected long-term rate of return on assets | 3.5% | 3.4% | 3.3% |

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

| | December 29, 2007 | December 30, 2006 |
|---|----------------------------------|----------------------------------|
| Discount rate | 4.5% | 3.9% |
| Rate of increase in salary levels | 3.0% | 2.9% |
| Expected long-term rate of return on assets | 3.5% | 3.4% |

In determining the expected long-term rate of return on plan assets, the Company considers the relative weighting of plan assets, the historical performance of total plan assets and individual asset classes, and economic and other indicators of future performance. In addition, the Company may consult with and consider the opinions of financial and other professionals in developing appropriate return benchmarks.

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

| December 29, 2007 | December 30, 2006 |
|----------------------------------|----------------------------------|
|----------------------------------|----------------------------------|

| | | |
|-------------------------------------|------|------|
| Cash | 32% | 34% |
| Bonds | 24 | |
| Pooled funds of insurance companies | 44 | 66 |
| | 100% | 100% |

The Company's pension assets invested in pooled funds of insurance companies were invested in debt securities, equity securities, real estate and cash. Asset management objectives included maintaining an adequate level of diversification to reduce interest rate and market risk and providing

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adequate liquidity to meet immediate and future benefit payment requirements. Such pooled funds may, from time to time, use derivatives, but only in a risk management capacity.

Other Pension-Related Assets

As of December 29, 2007 and December 30, 2006, the Company had assets with aggregate market values of \$6.6 million and \$5.8 million, respectively, which it has set aside in connection with its German pension plans. Such funds were being held and invested by the insurance company administering these plans, in accordance with German pension laws. As of December 29, 2007, such funds were invested in debt securities 84%, real estate 3% and equity securities 13%. As of December 30, 2006, such funds were invested in debt securities 89%, real estate 7% and equity securities 4%. Because these assets were not assets of the pension plan and could be accessed by the Company, they were not included in the funded status shown above. Such assets are included in *investments and other assets* in the accompanying consolidated balance sheets.

NOTE 17 BUSINESS SEGMENT INFORMATION

The operating segments reported below are the segments of the Company for which separate financial information is available and for which operating results are evaluated regularly by the Chief Executive Officer in deciding how to allocate resources and in assessing performance.

The Company develops, manufactures and markets its products within two distinct business segments, its Lasers Division and its PPT Division. In 2005, in connection with the decision to divest its robotic systems operations, the Company realigned its business segments to eliminate the previously reported Advanced Packaging and Automation Systems Division. Portions of this division were reclassified into the PPT Division and the balance has been reported in discontinued operations. All prior period financial information has been reclassified to reflect these new segments. In November 2006, the Company acquired from Picarro certain assets and liabilities of Picarro's Laser Products business, which designs and manufactures solid-state lasers targeted primarily at the life and health sciences markets. The acquired business has been included in the Company's Lasers Division.

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

The PPT Division's products and systems are used in applications that range from basic research and development activities to high-precision manufacturing. In addition, the division sells subsystems to third parties that integrate these products into larger systems, particularly for microelectronics and life and health sciences applications. The products sold by this division include photonics instruments and systems, precision micro-positioning systems and subsystems, vibration isolation systems and subsystems, optics, optical hardware, opto-mechanical subassemblies and crystals. The PPT Division also offers automated systems and subsystems for advanced applications in the manufacturing of communications and electronic devices, including disk drives, photovoltaic cells and microwave, optical, radio frequency and multi-chip modules.

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

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Selected segment financial information for the Company's reportable segments for the years ended December 29, 2007, December 30, 2006 and December 31, 2005 were as follows:

| (In thousands) | Lasers Division | PPT Division | Total |
|------------------------------------|----------------------------|-------------------------|--------------|
| Year ended December 29, 2007 | | | |
| Sales to external customers | \$ 185,186 | \$ 260,011 | \$ 445,197 |
| Depreciation and amortization | \$ 7,012 | \$ 6,127 | \$ 13,139 |
| Segment income | \$ 1,445 | \$ 54,397 | \$ 55,842 |
| Segment assets | \$ 271,504 | \$ 201,531 | \$ 473,035 |
| Expenditures for long-lived assets | \$ 2,548 | \$ 5,000 | \$ 7,548 |
| Year ended December 30, 2006 | | | |
| Sales to external customers | \$ 190,842 | \$ 262,132 | \$ 452,974 |
| Depreciation and amortization | \$ 7,480 | \$ 5,570 | \$ 13,050 |
| Segment income | \$ 8,042 | \$ 56,542 | \$ 64,584 |
| Segment assets | \$ 265,617 | \$ 234,036 | \$ 499,653 |
| Expenditures for long-lived assets | \$ 3,711 | \$ 5,400 | \$ 9,111 |
| Year ended December 31, 2005 | | | |
| Sales to external customers | \$ 175,871 | \$ 227,862 | \$ 403,733 |
| Depreciation and amortization | \$ 7,700 | \$ 5,453 | \$ 13,153 |
| Segment income | \$ 14,931 | \$ 40,279 | \$ 55,210 |
| Segment assets | \$ 253,550 | \$ 208,467 | \$ 462,017 |
| Expenditures for long-lived assets | \$ 4,744 | \$ 5,496 | \$ 10,240 |

The following reconciles segment income to consolidated income from continuing operations before income taxes:

| (In thousands) | December 29, 2007 | Year Ended December 30, 2006 | December 31, 2005 |
|---|----------------------------------|---|----------------------------------|
| Segment income | \$ 55,842 | \$ 64,584 | \$ 55,210 |
| Unallocated net sales (1) | | 1,750 | |
| Unallocated operating expenses | (29,327) | (24,880) | (23,908) |
| Interest and other income (expense), net | 137 | (759) | (1,842) |
| Consolidated income from continuing operations before income taxes | \$ 26,652 | \$ 40,695 | \$ 29,460 |

(1) 2006 includes revenue associated with licensing of certain intellectual property, which

was not
allocated to the
business
segments.

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

| (In thousands) | As of or for the Year Ended | | |
|---|------------------------------------|----------------------------------|----------------------------------|
| | December 29, 2007 | December 30, 2006 | December 31, 2005 |
| Depreciation and amortization for reportable segments | \$ 13,139 | \$ 13,050 | \$ 13,153 |
| Depreciation and amortization for assets held at corporate | 8,121 | 6,444 | 6,130 |
| Total depreciation and amortization | \$ 21,260 | \$ 19,494 | \$ 19,283 |
| Assets of reportable segments | \$473,035 | \$499,653 | \$462,017 |
| Assets held at corporate, primarily cash and cash equivalents and marketable securities | 216,912 | 93,362 | 67,389 |
| Total assets | \$689,947 | \$593,015 | \$529,406 |
| Expenditures for long-lived assets for reportable segments | \$ 7,548 | \$ 9,111 | \$ 10,240 |
| Expenditures for assets held at corporate | 11,157 | 9,783 | 917 |
| Expenditures for long-lived assets for discontinued operations | | | 481 |
| Total expenditures for long-lived assets | \$ 18,705 | \$ 18,894 | \$ 11,638 |

Selected financial information for the Company's operations by geographic area was as follows:

| (In thousands) | As of or for the Year Ended | | |
|------------------------------------|------------------------------------|----------------------------------|----------------------------------|
| | December 29, 2007 | December 30, 2006 | December 31, 2005 |
| Geographic area net sales: | | | |
| United States | \$223,891 | \$238,433 | \$215,600 |
| Europe | 112,695 | 99,968 | 86,054 |
| Pacific Rim | 80,946 | 91,277 | 81,635 |
| Other | 27,665 | 25,046 | 20,444 |
| | \$445,197 | \$454,724 | \$403,733 |
| Geographic area long-lived assets: | | | |
| United States | \$270,976 | \$272,210 | \$265,054 |
| Europe | 9,048 | 9,426 | 9,246 |
| Other | 2,216 | 1,279 | 404 |

\$282,240

\$282,915

\$274,704

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| (In thousands except per share data) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|---|--------------------------|---------------------------|--------------------------|---------------------------|
| Year Ended December 29, 2007: | | | | |
| Net sales | \$ 107,264 | \$ 110,904 | \$ 109,001 | \$ 118,028 |
| Gross profit | \$ 46,631 | \$ 49,061 | \$ 43,592 | \$ 46,277 |
| Net income | \$ 5,251 | \$ 7,963 | \$ 5,542 | \$ 25,125 |
| Basic income per share (1) | \$ 0.13 | \$ 0.20 | \$ 0.15 | \$ 0.68 |
| Diluted income per share (1) | \$ 0.13 | \$ 0.20 | \$ 0.15 | \$ 0.67 |

| (In thousands except per share data) | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
|--|--------------------------|---------------------------|--------------------------|---------------------------|
| Year Ended December 30, 2006: | | | | |
| Net sales | \$ 103,186 | \$ 112,369 | \$ 114,275 | \$ 124,894 |
| Gross profit | \$ 43,444 | \$ 49,760 | \$ 51,075 | \$ 53,689 |
| Income from continuing operations before extraordinary gain | \$ 6,330 | \$ 9,249 | \$ 10,488 | \$ 12,435 |
| Net income | \$ 5,678 | \$ 9,249 | \$ 10,287 | \$ 12,213 |
| Basic income from continuing operations before extraordinary gain per share (1) | \$ 0.16 | \$ 0.23 | \$ 0.26 | \$ 0.30 |
| Basic income per share (1) | \$ 0.14 | \$ 0.23 | \$ 0.25 | \$ 0.30 |
| Diluted income from continuing operations before extraordinary gain per share (1) | \$ 0.15 | \$ 0.22 | \$ 0.25 | \$ 0.29 |
| Diluted income per share (1) | \$ 0.14 | \$ 0.22 | \$ 0.25 | \$ 0.29 |

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

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NEWPORT CORPORATION
Schedule II
Consolidated Valuation Accounts

| (In thousands) | Balance at Beginning of Period | Additions Charged to Costs and Expenses (1) | Additions Charged to Other Accounts (2) | Write-Offs (3) | Other Charges Add/Deduct (4) | Balance at End of Period |
|--|--------------------------------------|--|---|-------------------|---------------------------------------|--------------------------------|
| Year Ended December 29, 2007: Deducted from asset accounts: | | | | | | |
| Allowance for doubtful accounts | \$ 1,503 | \$ 190 | \$ | \$ (397) | \$ 85 | \$ 1,381 |
| Reserve for inventory obsolescence | \$23,370 | \$4,501 | \$ | \$ (5,251) | \$ 524 | \$23,144 |
| Year Ended December 30, 2006: Deducted from asset accounts: | | | | | | |
| Allowance for doubtful accounts | \$ 1,402 | \$ 697 | \$ | \$ (629) | \$ 33 | \$ 1,503 |
| Reserve for inventory obsolescence | \$26,275 | \$3,508 | \$ 154 | \$ (7,059) | \$ 492 | \$23,370 |
| Year Ended December 31, 2005: Deducted from asset accounts: | | | | | | |
| Allowance for doubtful accounts | \$ 2,057 | \$ (234) | \$ | \$ (226) | \$ (195) | \$ 1,402 |
| Reserve for inventory obsolescence | \$30,324 | \$2,969 | \$ | \$ (5,964) | \$ (1,054) | \$26,275 |

(1) In 2005, the Company revised its method of estimating its allowance for doubtful accounts based upon the Company's

historical collections experience. As a result, the allowance for doubtful accounts was reduced by \$0.7 million in 2005.

- (2) Amounts represent beginning balances acquired through purchase acquisitions.
- (3) Amounts are net of recoveries.
- (4) Amounts reflect the effect of exchange rate changes on translating valuation accounts of foreign subsidiaries in accordance with Statement of Financial Accounting Standards No. 52, *Foreign Currency Translation* and certain reclassifications between balance sheet accounts.

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EXHIBIT INDEX

| Exhibit Number | Description of Exhibit |
|---------------------------|---|
| 2.1 | Stock Purchase Agreement dated May 28, 2004 by and among the Registrant, Thermo Electron Corporation and other related parties (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on June 17, 2004). |
| 3.1 | Restated Articles of Incorporation of the Registrant, as amended to date (incorporated by reference to Exhibit 3.1 of the Registrant's Annual Report on Form 10-K for the year ended December 30, 2006). |
| 3.2 | Restated Bylaws of the Registrant, as amended to date (incorporated by reference to Exhibit 3.2 of the Registrant's Annual Report on Form 10-K for the year ended July 31, 1992). |
| 4.1 | Indenture, dated February 7, 2007, between the Registrant and Wells Fargo Bank, N.A. (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 7, 2007). |
| 4.2 | Registration Rights Agreement, dated February 7, 2007, between the Registrant and Merrill, Lynch, Pierce, Fenner & Smith Incorporated (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 7, 2007). |
| 4.3 | Form of 2.50% Convertible Subordinated Note due 2012 (incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on February 7, 2007). |
| 10.1 | Lease Agreement dated March 27, 1991, as amended, pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.1 of the Registrant's Annual Report on Form 10-K for the year ended July 31, 1992). |
| 10.2 | First Amendment to Lease dated January 31, 2002, between the Registrant and IRP Muller Associates, LLC pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.2 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2001). |
| 10.3 | Second Amendment to Lease dated September 28, 2004, between the Registrant and BCSD Properties, L.P. pertaining to premises located in Irvine, California (incorporated by reference to Exhibit 10.5 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004). |
| 10.4* | 1992 Stock Incentive Plan (incorporated by reference to exhibit in the Registrant's 1992 Proxy Statement). |
| 10.5* | 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.11 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 1999). |
| 10.6* | Amendment to 1999 Stock Incentive Plan (incorporated by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-3, No. 333-40878, filed with the Securities and Exchange Commission on July 6, 2000). |
| 10.7* | 2001 Stock Incentive Plan (incorporated by reference to Appendix B to the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 27, 2001). |

- 10.8* Form of Nonqualified Stock Option Agreement under the Registrant's 2001 Stock Incentive Plan, as amended (incorporated by reference to Exhibit 10.9 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002).
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| Exhibit Number | Description of Exhibit |
|---------------------------|---|
| 10.9* | Form of Incentive Stock Option Agreement under the Registrant's 2001 Stock Incentive Plan (incorporated by reference to Exhibit 10.10 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2002). |
| 10.10* | Form of Restricted Stock Agreement under the Registrant's 2001 Stock Incentive Plan (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended October 2, 2004). |
| 10.11* | Form of Nonqualified Stock Option Agreement between the Registrant and each of the former optionholders of Micro Robotics Systems, Inc. (incorporated by reference to Exhibit 4.1 of the Registrant's Registration Statement on Form S-8, File No. 333-86268, filed with the Securities and Exchange Commission on April 15, 2002). |
| 10.12* | 2006 Performance-Based Stock Incentive Plan (incorporated by reference to Appendix B of the Registrant's Definitive Proxy Statement filed with the Securities and Exchange Commission on April 10, 2006). |
| 10.13* | Form of Restricted Stock Unit Award Agreement to be used under the Registrant's 2006 Performance-Based Stock Incentive Plan (incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 23, 2006). |
| 10.14* | Amended and Restated Employee Stock Purchase Plan, as amended (incorporated by reference to Exhibit 10.15 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2005). |
| 10.15* | Form of Severance Compensation Agreement between the Registrant and certain of its executive officers (incorporated by reference to Exhibit 10.14 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003). |
| 10.16* | Severance Compensation Agreement dated as of January 1, 2004, between the Registrant and Robert G. Deuster, Chairman and Chief Executive Officer (incorporated by reference to Exhibit 10.15 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003). |
| 10.17* | Severance Compensation Agreement dated as of January 1, 2004, between the Registrant and Robert J. Phillippy, President and Chief Operating Officer (incorporated by reference to Exhibit 10.16 of the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003). |
| 10.18* | Form of Indemnification Agreement between the Registrant and each of its directors and executive officers (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002). |
| 10.19* | Separation Agreement, dated September 18, 2007, by and between the Registrant and Robert G. Deuster (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed with the Securities and Exchange Commission on September 20, 2007). |
| 10.20 | Business Loan Agreement dated September 25, 2002, by and between the Registrant and Bank of America, N.A. (incorporated by reference to Exhibit 10.3 of the Registrant's Quarterly Report on |

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Form 10-Q for the quarter ended September 30, 2002).

- 10.21 Promissory Note dated September 25, 2002, payable by the Registrant to Bank of America, N.A. (incorporated by reference to Exhibit 10.4 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002).
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| Exhibit Number | Description of Exhibit |
|---------------------------|---|
| 10.22 | Commercial Pledge Agreement dated September 25, 2002, by and between the Registrant and Bank of America, N.A. (incorporated by reference to Exhibit 10.5 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002). |
| 10.23 | Amendment No. 1 to Loan Documents dated August 21, 2003, between the Registrant and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003). |
| 10.24 | Amendment No. 2 to Loan Documents dated October 27, 2003, between the Registrant and Bank of America, N.A. (incorporated by reference to Exhibit 10.2 of the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2003). |
| 10.25 | Amendment No. 3 to Loan Documents dated November 30, 2004, between the Registrant and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 3, 2004). |
| 10.26 | Amendment No. 4 to Loan Documents dated January 6, 2006, between the Registrant and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on January 11, 2006). |
| 10.27 | Amendment No. 5 to Loan Documents dated December 1, 2006, between the Registrant and Bank of America, N.A. (incorporated by reference to Exhibit 10.1 of the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on December 5, 2006). |
| 10.28 | Subordinated Promissory Note dated July 16, 2004 payable by the Registrant to Thermo Electron Corporation (incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on July 20, 2004). |
| 21.1 | Subsidiaries of the Registrant. |
| 23.1 | Consent of Independent Registered Public Accounting Firm. |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Securities Exchange Act of 1934 (the Exchange Act). |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) or Rule 15d-14(a) of the Exchange Act. |
| 32.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350. |
| 32.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(b) or Rule 15d-14(b) of the Exchange Act and 18 U.S.C. Section 1350. |

* This exhibit is identified as a

management
contract or
compensatory
plan or
arrangement
pursuant to
Item 15(a)(3) of
Form 10-K.