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)

þ **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

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

For the transition period from _____ to _____

Commission File Number: 000-01649

NEWPORT CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	**94-0849175**
(State or other jurisdiction of incorporation or organization)	*(IRS Employer Identification No.)*

1791 Deere Avenue, Irvine, California 92606
(Address of principal executive offices) (Zip Code)
Registrant s telephone number, including area code: **(949) 863-3144**

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

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

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

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

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 o No þ

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

Indicate by check mark 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. o

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 o Accelerated filer þ

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ
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 terminolog 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.

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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

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

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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.

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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.

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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.	JDS Uniphase Corporation
	Coherent, Inc.	Jenoptik Laser Optik Systeme GmbH
	CVI Melles Griot	Rofin-Sinar Technologies, Inc.
	Excel Technology, Inc.	Trumpf Group
	IPG Photonics, Inc.	
Photonics Instruments	Agilent Technologies, Inc.	Ocean Optics, Inc.
	Coherent, Inc.	Ophir Optronics Ltd.
	CVI Melles Griot	Thorlabs, Inc.
	ILX Lightwave Corporation	
Light Sources and Spectroscopy Instrumentation	Andor Technology	Photon Technology International
	Acton Research Corporation	Spectral Products
	Ocean Optics, Inc.	Thorlabs, Inc.
Precision Micro-Positioning Devices, Systems and Subsystems	Aerotech Inc.	Physik Instrumente
	Bookham, Inc.	Rockwell Automation, Inc. (Anorad)
	Danaher Corporation	Sigma Koki Co., Ltd.
	Parker Hannifin Corporation	Thorlabs, Inc.
Vibration Isolation Systems and Subsystems	Kinetic Systems, Inc.	Thorlabs, Inc.
	Technical Manufacturing Corp.	
Optics, Optical Hardware and Opto-Mechanical Subassemblies and Subsystems	Bookham, Inc.	LINOS Photonics
	CVI Melles Griot	OptoSigma Corporation
	Corning Tropel Corporation	Thorlabs, Inc.
	Jenoptik Laser Optik Systeme GmbH	Zygo Corporation
Optical Filters	Bookham, Inc.	JDS Uniphase Corporation
	Barr Associates, Inc.	Omega Optical, Inc.
	Chroma Technology Corp.	Semrock, Inc.
	Ferroperm EMC Filters ApS	
Diffraction Gratings	Headwall Photonics, Inc.	Optometrics LLC
	Horiba Jobin Yvon Ltd.	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 cyclicality in capital spending, if we fail to introduce new products in a timely manner we may miss market upturns, or may fail to have our products or subsystems designed into our customers products. We may not be successful in acquiring, developing, manufacturing or marketing new products 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.

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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.

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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.

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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.

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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.

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Information Regarding Equity Compensation Plans

The following table sets forth information with respect to securities authorized for issuance under our equity compensation plans as of December 29, 2007:

Equity Compensation Plan Information

			Number of Securities