NEWPORT CORP
Form 10-K
March 04, 2015
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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 January 3, 2015

OR

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

For the transition period from _____ to _____

Commission File Number: 000-01649

NEWPORT CORPORATION

(Exact name of registrant as specified in its charter)

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

1791 Deere Avenue, Irvine, California 92606

(Address of principal executive offices) (Zip Code)

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

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

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

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

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

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

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 ý No ¨

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

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

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

Large accelerated filer ý | Accelerated filer ¨ | Non-accelerated filer ¨ (Do not check if a smaller reporting company) | Smaller reporting company ¨

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

As of June 27, 2014, the last business day of the registrant s most recently completed second fiscal quarter, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $704.9 million, calculated based upon the closing price of the registrant s common stock as reported by the NASDAQ Global Select Market on such date.

As of February 28, 2015, 39,624,825 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 2015 Annual Meeting of Stockholders, which is expected to be held on May 19, 2015, are incorporated by reference into Part III of this Annual Report on Form 10-K. Only those portions of the Proxy Statement that are specifically incorporated by reference herein shall constitute a part of this Annual Report on Form 10-K.

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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 anticipate, believe, can, continue, could, estimate, expect, intend, may, plan, potential, predict, should, will, would, or the negative or other variations thereof or comparable terminology are intended to identify forward-looking statements. In addition, any statements that refer to projections of our future financial performance, trends in our businesses, or other characterizations of future events or circumstances are forward-looking statements.

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

PART I

ITEM 1. BUSINESS

General Description of Business

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

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

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

- lasers and laser technology, including solid-state lasers, ultrafast lasers and laser systems, tunable lasers, fiber lasers, and gas lasers;

- optical components and subassemblies, including precision laser optics and opto-mechanical subassemblies, optics and lens assemblies for thermal imaging, thin-film optical filters, and ruled and holographic diffraction gratings;

- photonics instruments, systems and components, including optical power and energy meters, light sources, optical detectors and modulators, laser beam profilers, monochromators, spectroscopy instrumentation, laser diode controllers and drivers, and laser diode burn-in and life test systems;

- high-precision positioning products and systems;

- vibration isolation products and systems; and

- three-dimensional non-contact measurement sensors and equipment.

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

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

Acquisitions

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

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

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

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

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

Divestitures

In 2010, we concluded that our Hilger Crystals Limited subsidiary, which we acquired in 2004 as part of our acquisition of Spectra-Physics, Inc. and related photonics entities (collectively, Spectra-Physics) and which manufactures infrared, x-ray and gamma ray synthetic crystals primarily for security applications, was not a strategic fit with our overall business. As a consequence, we sold all of the outstanding capital stock of Hilger Crystals Limited in July 2010.

In the third quarter of 2013, we determined that our advanced packaging systems business, which develops and manufactures automated packaging, die bonding, dispensing and laser-based systems used in the manufacture of solar panels and communications and electronics devices, no longer fit within our long-term strategy. As such, we developed a plan to sell the business in order to allow us to more efficiently deploy our resources to those areas that best leverage the core capabilities of our company. We completed the sale of this business in January 2014.

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

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Our Markets

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

- *Scientific Research*. We are one of the world s leading suppliers of lasers and other photonics products to scientific researchers. For more than fifty years, we have worked closely with the research community to pioneer new applications and technologies. Today, we continue to help researchers extend the frontiers of science in a variety of research areas, including spectroscopy, ultrafast phenomena, terahertz imaging, laser-induced fluorescence, chemical analysis, materials science, light detection and ranging (LIDAR) and nonlinear optics.

- *Microelectronics*. Photonics technology addresses a number of vital applications in the microelectronics market. It is a key technology used in the manufacture of semiconductors, flat panel displays and printed circuit boards, enabling the increased functionality, shrinking device dimensions and increased component density needed for next-generation electronic products, including smartphones, tablet computers, e-readers, personal media players and digital cameras. It is also a key technology deployed in the manufacture of light emitting diodes (LEDs) to help increase brightness and reduce manufacturing costs. In addition, photonics technology enables the manufacture of solar panels with higher efficiency and at a lower cost per watt as that industry strives to make solar power more cost competitive. Our products are used in several key applications in the microelectronics market, including semiconductor lithography, wafer inspection and metrology, reticle inspection, wafer dicing and scribing, wafer and component marking, glass processing for mobile devices, printed circuit board drilling and cutting, resistor trimming, flat panel display manufacturing, LED scribing, solar panel scribing and structuring, solar cell testing and characterization, and solar cell efficiency enhancement.

- *Life and Health Sciences*. Photonics is increasingly becoming an enabling technology in the life and health sciences market. We provide products for diagnostic and analytical instrumentation, bioimaging and medical procedures. Our products are used in applications such as optical coherence tomography, multiphoton and confocal microscopy, flow cytometry, matrix-assisted laser desorption/ionization time-of-flight mass spectrometry, laser microdissection, DNA microarrays and blood analysis to enable advancements in the fields of molecular biology, proteomics and drug discovery. Our products are also used in medical applications, including precision laser surgery, dental computer-aided design/computer-aided manufacturing (CAD/CAM) scanning and medical device manufacturing.

- *Industrial*. Our lasers, optics and other photonics products are used in applications across a wide range of industries, including precision manufacturing applications, automotive safety, industrial lasers, image recording and telecommunications. The precision manufacturing applications served by our products include rapid prototyping (3D printing), micromachining, heat-treating, welding and soldering, cutting, illumination, drilling, LIDAR, fiber optic device testing and high-precision marking and engraving.

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

missile guidance, and advanced weapons development.

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Our Operating Groups

Prior to 2013, we operated within three divisions: our Photonics and Precision Technologies (PPT) Division, our Lasers Division and our Ophir Division, which represented our reportable segments through the end of 2012. In January 2013, we reorganized our operations to create three new operating groups: our Photonics Group, our Lasers Group and our Optics Group, which have represented our reportable segments since the first quarter of 2013. The results of operations of our reportable segments for the year 2012, which are included in the accompanying financial statements and discussed elsewhere in this Annual Report on Form 10-K, have been restated to conform to our current reportable segments.

Our Lasers Group is substantially the same as our former Lasers Division. Our Photonics Group is comprised primarily of the photonics products and technologies of our former PPT Division and our former Ophir Division. Our Optics Group is comprised primarily of the optical components and integrated solutions products and technologies of our former PPT Division and our former Ophir Division.

Photonics Group

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

Products

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

Category	Products	Representative Applications
Photonics Instruments and Systems	• Electro-optic modulators • Laser beam profilers • Laser diode controllers • Laser diode burn-in and life-test systems • Light sources	• Analysis of optical power and energy profile of laser beams • Atom trapping and cooling, including Bose-Einstein Condensates • Characterization of cosmetic and pharmaceutical products • Characterization of light emitted by lasers, light emitting diodes and broadband

	• Monochromators and spectrographs • Optical power and energy detectors • Optical power and energy meters • Photonics test systems • Solar simulators • Solar cell test instruments • Spectrometers • Tunable external cavity diode lasers • Ultrafast laser pulse measurement systems	light sources • Chemical composition analysis • Colorimetry • Lifetime testing of laser diodes • Optical power and energy measurement for free space and fiber-directed laser light • Solar cell characterization and measurements • Spectroscopy • Testing and characterization of optical fibers and passive fiber optical components

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Category	Products	Representative Applications
Vibration Isolation Systems and Subsystems	• Active vibration damping systems • Elastomeric mounts • Honeycomb and granite structures • Optical tables, support systems and accessories • Vibration isolation systems • Workstations	• Foundation platforms for laser systems • Isolated platforms for semiconductor equipment • Reduction of impact of external vibration sources on high-precision research applications and manufacturing test and assembly systems • Scanning electron microscope, atomic force microscope, and optical microscope base isolation • Workstation platforms for fiber optic device fabrication and assembly • Workstation platforms for microscopy and other advanced imaging applications
Precision Positioning Devices, Systems and Subsystems	• Autocollimators • Custom multi-axis positioning systems • Fast steering mirrors • Fiber alignment stages and accessories • Hexapod positioning systems • Manual linear and rotation stages • Micrometers and adjustment screws • Motion controllers and drivers • Motorized linear and rotation stages • Motorized actuators and optical mounts	• High-precision positioning for manufacturing and in-process inspection, metrology and final test applications • High-precision positioning of semiconductor wafers for metrology and fabrication • High resolution non-contact metrology for angular measurements • Laser beam stabilization and pointing • Laser micro/nano-machining • Laser system alignment and beam steering for inspection, laser processing and communications • Precision alignment in fiber optic, telecommunication and laser device assembly

		• Nano-positioning and nano-focusing stages • Piezo motor actuators and stages • Precision air-bearing motion systems	• Sample or sensor manipulation for imaging and microscopy • Sample sorting and sequencing for DNA research • Solar cell test and characterization • Tracking and targeting test systems for defense and security applications

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Category	Products	Representative Applications
Optics and Opto-Mechanical Components	• Beam routing and enclosing systems • Beamsplitters and polarization optics • Collimators • Filters and attenuators • Laser-to-fiber couplers • Laser optics and optical components • Optical hardware including bases, brackets, posts and rod systems • Optical mounts • Prisms and windows • Refractive beam shaper assemblies	• Analytical instrumentation for life and health sciences applications • Cell sorting for genomic research • Development and manufacturing of laser systems • Electro-optic sensors and imaging systems for defense and security applications • High-precision alignment of optical instruments • Optical measurement and communications systems • Research in physical and biological sciences • Spectroscopy • Ultrafast laser, terahertz imaging and laser fusion research
Three-Dimensional Non-Contact Measurement Equipment	• 3D sensors • 3D scanning systems	• Dental CAD/CAM scanning for computerized design and manufacturing of crowns, bridges and other dental restorations • High-precision three-dimensional non-contact measurements • In process inspection and testing in manufacturing processes

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Lasers Group

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

Products

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

Category	Products	Representative Applications
Ultrafast Lasers and Systems	• InSight® DS+ tunable ultrafast lasers • Spirit® high repetition rate ultrafast lasers • Mai Tai® and Mai Tai DeepSee tunable ultrafast lasers • Tsunami® ultrafast lasers • Spitfire® Ace ultrafast amplifiers • Solstice® Ace one-box ultrafast amplifiers • FEMTOPOWER compact PRO and PRO CEP high-precision ultrafast amplifiers • FEMTOPOWER V PRO and V PRO CEP high-precision ultrafast two-stage amplifier systems • Inspire femtosecond optical parametric oscillators (OPOs)	• Attoscience • Femtosecond spectroscopy • Medical device manufacturing • Micro-machining and other high-precision materials processing applications • Multiphoton microscopy • Supercontinuum and high harmonic generation • Terahertz imaging • Time-resolved photoluminescence • Two-photon polymerization • Ultrafast laser surgery

	• TOPAS Prime, Spirit-OPA and Spirit-NOPA automated ultrafast optical parametric amplifiers (OPAs) • HighQ-2 and femtoTrain ultra compact femtosecond oscillators • FEMTOSOURCE high-precision femtosecond oscillators		

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Category	Products	Representative Applications
Fiber Lasers	• Quasar® high power UV and green hybrid fiber lasers • VGEN-ISP infrared MOPA (master oscillator power amplifier) fiber lasers • VGEN-QS infrared Q-switched fiber lasers • VGEN-G green fiber lasers • VGEN-SP and VGEN-ESP pulsed fiber lasers for LIDAR • VGEN-C and VGEN-T continuous wave (CW) fiber lasers	• Flat panel display manufacturing • Glass processing • Ceramic processing • Laser marking • Laser engraving • LED manufacturing • LIDAR remote sensing and mapping • Printed circuit board, flexible circuits, flip chips and high density interconnect manufacturing • Silicon wafer processing • Solar cells manufacturing
Diode-Pumped Solid State Q-Switched Lasers	• Talon® all-in-one lasers • Tristar high repetition rate UV lasers • Navigator lasers • HIPPO lasers • Pulseo® lasers • Explorer® compact lasers • Explorer One all-in-one compact lasers • Explorer XP all-in-one compact lasers • Empower® high pulse energy lasers	• Diamond processing • Disk texturing • Electronics and semiconductor packaging manufacturing • Flat panel display manufacturing • Laser microdissection • LED wafer scribing • Matrix-assisted laser desorption/ionization • Printed circuit board (PCB) manufacturing • Pump source for ultrafast lasers

			• Rapid prototyping (3D printing) • Resistor trimming • Semiconductor wafer and flat panel display marking • Semiconductor wafer inspection • Silicon micromachining • Solar cell manufacturing

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Category	Products	Representative Applications
Diode-Pumped Solid State Continuous Wave (CW) and Quasi-CW Lasers	• Millennia® eV and Millennia Edge high power CW green lasers • MG series CW green lasers • Excelsior® One low power CW lasers • Vanguard quasi-CW lasers • 3900S and Matisse® CW tunable lasers and WaveTrain® 2 frequency doubler	• Confocal microscopy • DNA sequencing • Flow cytometry • Image recording • Laser cooling • Materials processing • Optical trapping • Raman imaging • Semiconductor wafer inspection and metrology • Solar cell manufacturing • Ti:Sapphire laser pumping
High Energy Pulsed Nd:YAG and Tunable Lasers	• Quanta-Ray® pulsed Nd:YAG lasers • Scan Series high energy optical parametric oscillators (OPOs) • Precision Scan, Cobra Stretch and Cobra tunable dye lasers • Credo high-repetition rate dye lasers	• Flat-panel display manufacturing • Laser ablation • Laser cleaning • Laser shock processing • LIDAR • Mass spectrometry • Particle imaging velocimetry combustion diagnostics • Plastic and ceramic component marking • Remote sensing • Spectroscopy

Gas Lasers	• Air-cooled argon ion lasers	• Semiconductor wafer inspection

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Optics Group

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

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

Products

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

Category	Products	Representative Applications
Optics and Optical Components	CO2 and fiber laser optics Precision laser optics for infrared, visible and ultraviolet wavelengths Replicated mirrors Ruled and holographic diffraction gratings Thin-film filters and coatings	Analytical instrumentation for life and health sciences applications CO2 and fiber laser cutting, drilling and welding systems Development and manufacturing of laser systems Electro-optic sensors and imaging systems for defense and security applications Optical measurement and communications systems Semiconductor lithography, wafer and reticle inspection and wafer processing

		Spectroscopy
Optical Lens Assemblies	Optical lens assemblies and elements for cooled infrared cameras Optical lens assemblies and elements for uncooled infrared cameras Optical lenses for infrared radiometric/thermograph systems	Automotive safety systems Commercial security cameras Targeting and fire control systems Thermal imaging and observation systems

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Category	Products	Representative Applications
Opto-Mechanical Subassemblies and Subsystems	Integrated electro-opto-mechanical subsystems Laser beam attenuators Laser beam delivery and imaging assemblies Objective lens systems	Analytical instrumentation for life and health sciences applications Laser beam stabilization for industrial metrology Light detection and ranging Optical data storage Semiconductor mask patterning Semiconductor lithography, wafer and reticle inspection and wafer processing Thin-film measurement of semiconductor wafers

Financial information regarding our business segments and our operations by geographic area is included in Note 15 of the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K beginning on page F-39. A discussion of our net sales by end market and geographic area is included in Item 7 (Management s Discussion and Analysis of Financial Condition and Results of Operations) beginning on page 39. We discuss certain risks associated with doing business internationally in Risk Factors We face significant risks from doing business internationally on page 20.

Sales and Marketing

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

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

We also actively market and sell our products in certain markets through independent sales representatives and distributors. We have written agreements with substantially all of our representatives and distributors. In some cases we have granted representatives and distributors exclusive authorization to sell certain of our products in a specific geographic area. These agreements generally have terms of one year which automatically renew on an annual basis, and are generally terminable by either party for convenience following a specified notice period. Most distributor agreements are structured to provide distributors with sales discounts below the list price. Representatives are generally paid commissions for sales

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of products. No single independent representative or distributor accounted for more than 5% of our net sales in 2014, 2013 or 2012.

We also market our standard products and custom capabilities through our comprehensive websites. Our websites provide customers with access to the latest information regarding our products, technical/tutorial and application related materials, sales information and information request forms, and our Newport.com website also features an online store, giving customers the ability to purchase a majority of our standard products. Our websites are widely used by our customers to review information about our technologies, products and services. We also publish and distribute a variety of sales literature, product brochures and catalogs, which focus on specific products, applications and end markets.

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

Research and Product Development

We continually seek to improve our technological leadership position through internal research, product development and licensing, and acquisitions of complementary technologies. As of February 28, 2015, we had approximately 350 employees engaged in research and development. We continually work to enhance our existing products and to develop and introduce innovative new products to satisfy the needs of our customers. In addition, we regularly investigate new ways to combine components manufactured by our various operations to produce innovative technological solutions for the markets we serve.

Total research and development expenses were $58.4 million, or 9.6% of net sales, in 2014; $52.5 million, or 9.4% of net sales, in 2013; and $52.7 million, or 8.8% of net sales, in 2012. Research and development expenses attributable to our Photonics Group were $24.3 million, or 9.9% of net sales by that group, in 2014; $21.0 million, or 9.1% of net sales by that group, in 2013; and $20.9 million, or 8.8% of net sales by that group, in 2012. Research and development expenses attributable to our Lasers Group were $20.4 million, or 10.6% of net sales by that group, in 2014; $17.8 million, or 10.7% of net sales by that group, in 2013; and $19.0 million, or 10.4% of net sales by that group, in 2012. Research and development expenses attributable to our Optics Group were $13.7 million, or 8.3% of net sales by that group, in 2014; $13.7 million, or 8.4% of net sales by that group, in 2013; and $12.8 million, or 7.3% of net sales by that group, in 2012.

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

Customers

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

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impact on our financial results on a short-term basis. If we lose business from key customers and we are unable to sufficiently expand our customer base to replace the lost business or to reduce our cost structure accordingly, it would have a long-term negative impact on our business, financial condition and results of operations.

Competition

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

Product Category	Primary Competitors	
Diffraction Gratings	Headwall Photonics, Inc. Horiba, Ltd. (Horiba Jobin Yvon)	Dynasil Corporation (Optometrics) Spectrogon AB
Lasers	Coherent, Inc. GSI Group, Inc. (Excel Technology) IDEX Corporation (CVI Melles Griot) IPG Photonics, Inc. JDS Uniphase Corporation	Jenoptik AG Rofin-Sinar Technologies, Inc. Sacher Lasertechnik GmbH Toptica Photonics AG Trumpf Group
Laser Optics	II-VI Incorporated AMETEK, Inc. (Zygo Corporation) Corning Incorporated (Tropel) Edmund Optics, Inc. Excelitas Technologies (Qioptiq) IDEX Corporation (CVI Melles Griot)	Jenoptik AG Sigma Koki Co., Ltd. Sumitomo Electric Industries, Ltd. Thorlabs, Inc.
Light Sources and Spectroscopy Instrumentation	Abet Technologies, Inc.	Roper Industries (Princeton Instruments/Acton Research)

	Horiba, Ltd. (Horiba Jobin Yvon) Halma plc (Ocean Optics) Oxford Instruments (Andor Technology) Photon Technology International, Inc.	Sciencetech, Inc. Solar Light Company, Inc. Spectral Products Thorlabs, Inc.
Optical Filters	II-VI Incorporated Chroma Technology Corp. Ferroperm Optics A/S IDEX Corporation (Semrock)	JDS Uniphase Corporation Materion Corporation (Barr Associates) Omega Optical, Inc.
Optical Hardware and Opto-Mechanical Subassemblies and Subsystems	AMETEK, Inc. (Zygo Corporation) Corning Incorporated (Tropel) Edmund Optics, Inc. IDEX Corporation (CVI Melles Griot)	Jenoptik AG Excelitas Technologies (Qioptiq) Sigma Koki Co., Ltd. Thorlabs, Inc.
Optics for Thermal Imaging	II-VI Incorporated Corning Incorporated (Netoptix) BAE Systems (OASYS) Danaher Corporation (Janos Technology) Excelitas Technologies (Qioptiq)	General Dynamics (Axsys) Raytheon ELCAN Optical Technologies Temek Optics, Ltd. Umicore
Photonics Instruments	CINOGY Technologies GmbH Coherent, Inc. DataRay Inc. Duma Optronics Ltd. Gentec Electro Optics, Inc. Halma plc (Labsphere) IDEX Corporation (CVI Melles Griot)	Metrolux GmbH Picometrix, LLC PRIMES GmbH Sciencetech, Inc. Thorlabs, Inc. Yelo Limited

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

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

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

product features and performance;

quality and reliability of products;

pricing and availability;

customer service and support;

breadth of product portfolio;

customer relationships;

understanding of customer applications;

ability to manufacture and deliver products on a timely basis;

ability to customize products to customer requirements; and

ability to offer complete integrated solutions to OEM customers.

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

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

Intellectual Property and Proprietary Rights

Our success and competitiveness depends to an extent upon our ability to protect our proprietary technology. We protect our technology by controlling access to our proprietary information and by maintaining confidentiality agreements with our employees, consultants, customers and suppliers, and, in some cases, through the use of patents, trademark registrations and licenses. We currently maintain approximately 350 patents

worldwide, and we have approximately 130 additional patent applications pending. These patents and patent applications cover various aspects of products in many of

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

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

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

Manufacturing

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

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

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

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

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

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

Backlog

Our consolidated backlog of orders totaled $240.4 million at January 3, 2015, and $225.2 million at December 28, 2013. As of January 3, 2015, $169.3 million of our consolidated backlog was scheduled to be shipped on or before January 2, 2016. Orders for many of the products we sell to OEM customers, which comprise a significant portion of our sales, are often subject to rescheduling without penalty or cancellation without penalty other than reimbursement of certain labor and material costs. In addition, because we manufacture a significant portion of our standard catalog products for inventory, we often make shipments of these products upon or within a short time period following receipt of an order. As a result, our backlog of orders at any particular date may not be an accurate indicator of our sales for succeeding periods.

Employees

As of February 28, 2015, we had approximately 2,570 employees worldwide. We believe that our relationships with our employees are good.

Government Regulation

Product Safety Regulation

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

Environmental Regulation

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

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

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

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

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

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

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

Availability of Reports

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

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ITEM 1A. RISK FACTORS

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

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

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

- fluctuations in our customers capital spending, industry cyclicality (particularly in the semiconductor equipment industry), market seasonality (particularly in the scientific research market), levels of government funding available to our customers (particularly in the scientific research, defense and life and health sciences markets) and other economic conditions within the markets we serve;
- demand for our products and the products sold by our customers;
- the level of orders within a given quarter and preceding quarters;
- the timing and level of cancellations and delays of orders in backlog for our products;
- the timing of product shipments and revenue recognition within a given quarter;
- variations in the mix of products we sell;
- changes in our pricing practices or in the pricing practices of our competitors or suppliers;
- our timing in introducing new products;
- market acceptance of any new or enhanced versions of our products;
- timing of new product introductions by our competitors;
- timing and level of scrap and warranty expenses;
- the availability, quality and cost of components and raw materials we use to manufacture our products;
- our ability to manage capacity in response to customer demand;
- changes in our effective tax rates;
- changes in our capital structure, including cash, marketable securities and debt balances, and changes in interest rates;

changes in bad debt expense based on the collectability of our accounts receivable;

timing, type, and size of acquisitions and divestitures, and related expenses and charges;

fluctuations in currency exchange rates, particularly the euro and Japanese yen as compared with the U.S. dollar;

gains and losses related to derivative instruments;

our expense levels;

impairment of goodwill and amortization of intangible assets; and

fees, expenses and settlement costs or judgments against us relating to litigation.

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

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

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

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

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

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

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

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

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

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We face significant risks from doing business internationally.

Our business is subject to risks inherent in conducting business globally. For the years ended January 3, 2015, December 28, 2013, and December 29, 2012, our international revenues accounted for approximately 61.9%, 61.0%, and 59.1%, respectively, of total net sales, with a substantial portion of such sales originating in Europe, Japan and China. We expect that international revenues will continue to account for a significant percentage of total net sales for the foreseeable future, and that in particular, the proportion of our sales to Asian customers will continue to increase. Additionally, we have substantial international manufacturing, sales and administrative operations, with significant facilities and employee populations in Austria, China, France, Germany, Israel, Japan and Romania. Our international operations expose us to various risks, which include:

- adverse changes or instability in the political or economic conditions in countries or regions where we manufacture or sell our products;
- challenges of administering our diverse business and product lines globally;
- the actions of government regulatory authorities, including embargoes, export restrictions, tariffs, currency controls, trade restrictions and trade barriers, license requirements, environmental and other regulatory requirements and other rules and regulations applicable to the manufacture, import and export of our products, all of which are complicated and potentially conflicting, often require significant investments in cost, time and resources for compliance, and may impose strict and severe penalties for noncompliance;
- greater risk of violations of anti-corruption laws by our employees, sales representatives, distributors or other agents;
- longer accounts receivable collection periods;
- overlapping, differing or more burdensome tax structures;
- adverse currency exchange rate fluctuations;
- reduced or inconsistent protection of intellectual property;
- more complex and burdensome labor laws and practices in countries where we have employees;
- difficulties in staffing and managing each of our individual international operations; and
- increased risk of exposure to civil unrest, terrorist and military activities.

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

Further, fluctuations in currency exchange rates could result in declining profit margins for our products in international markets when the sales are translated into U.S. dollars, unless we act to increase the sales price in local currencies of our products in these markets, potentially making

our products less price competitive. Such exchange rate fluctuations could also increase the costs and expenses of our non-U.S. operations when translated into U.S. dollars or require us to modify our current business practices. If we experience any of the risks associated with international business, our business, financial condition and results of operations could be significantly harmed.

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

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

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

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

Our sales to the microelectronics market (which is comprised primarily of semiconductor capital equipment customers) constituted 25.4%, 23.4% and 23.3% of our consolidated net sales for the years 2014, 2013 and 2012, 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 60.7%, 55.5% and 53.4% of our sales to this market for the years 2014, 2013 and 2012, respectively, with two customers making up a substantial portion of such percentage in each of these years. No single customer in this market comprised 10% or more of our consolidated net sales in 2014, 2013 or 2012. If any of our principal customers discontinues its relationship with us, replaces us as a vendor for certain products or suffers downturns in its business, our business and results of operations would be harmed significantly. In addition, because a relatively small number of companies dominate the semiconductor equipment portion of this market, and because those companies rarely change vendors in the middle of a product s life cycle, it may be particularly difficult for us to replace these customers if we lose their business.

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

Additionally, we generate a significant amount of revenue from sales of infrared optics and lens assemblies to a limited number of customers in the defense market. Typically, these customers purchase products utilizing prime contracts or subcontracts under large, long-term government

defense programs. Although long-term, these programs and subcontracts will ultimately expire or may be terminated prior to expiration under certain circumstances. Upon expiration or termination, our customers may not elect to enter into additional contracts with us, or the government programs under which these contracts were issued may also end. In the event that any of these contracts terminates or expires and is not renewed and we fail to replace it with a comparable revenue source, our business, financial condition and results of operations will be harmed significantly.

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

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

- potentially incompatible cultural differences between the two companies;
- incorporating the acquired company s technology and products into our current and future product lines, and successfully generating market demand for these expanded product lines;
- potential additional geographic dispersion of operations;
- the diversion of our management s attention from other business concerns;
- the difficulty in achieving anticipated synergies and efficiencies;
- the difficulty in integrating disparate operational and information systems;
- unanticipated liabilities associated with the acquired company;
- the difficulty in leveraging the acquired company s and our combined technologies and capabilities across our product lines and customer base;
- potential sales disruptions as a result of integrating the acquired company s sales channels with our sales channels; and
- our ability to retain key customers, suppliers and employees of an acquired company.

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

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

We may incur significant charges in future periods to reflect additional costs associated with past acquisitions, including asset impairment charges and other costs related to divestiture of acquired assets or businesses. Such charges could also include impairment of goodwill associated with past acquisitions. For example, 2012 sales by our former Ophir Division were below the levels that we had originally forecasted. As a result of those sales levels and other factors, in the course of our annual evaluation of the goodwill and other intangible assets associated with our reporting units in the fourth quarter of 2012, we determined that goodwill and certain intangible and other assets associated

with our former Ophir Division were impaired. We therefore recorded an impairment charge of $130.9 million to write down the goodwill and certain intangible and other assets associated with that division. We believe that the assumptions we use in evaluating the goodwill associated with our business are reasonable; however, we may be required to recognize goodwill impairment charges in the future as a result of subsequent changes to the factors underlying such assumptions, and as a result of the criteria we are required to utilize in assessing whether impairment has occurred.

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

On July 18, 2013, we entered into a credit agreement with certain lenders, pursuant to which we obtained a new secured credit facility (credit facility) to refinance our prior credit facility. The credit facility consists of a revolving credit facility of $275 million with a term of five years. The credit agreement also provides us with the option to increase the aggregate principal amount of our loans in the form of additional revolving loans or a separate tranche of term loans, in an aggregate amount that does not exceed $50 million, in each case subject to certain terms and conditions contained in the

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credit agreement. Our ability to borrow funds under the credit facility is subject to certain conditions, including compliance with certain covenants and the continued accuracy of certain representations and warranties. Our obligations under the credit facility are collateralized by a security interest in substantially all of our assets and the assets of our U.S. subsidiaries, as well as a pledge of certain shares we hold in our non-U.S. subsidiaries.

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

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

materially change the nature of our business;

enter into transactions with affiliates;

incur or guarantee indebtedness;

pay dividends or repurchase stock;

merge, dissolve, liquidate or consolidate with or into another entity;

consummate asset sales, acquisitions or mergers;

prepay certain other indebtedness; or

make investments.

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

The credit agreement contains customary