NEWPORT CORP
Form 10-K
March 05, 2010

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 2, 2010
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 (State or other jurisdiction of incorporation or organization)	94-0849175 (IRS Employer Identification No.)

1791 Deere Avenue, Irvine, California 92606
(Address of principal executive offices) (Zip Code)

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

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

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 x

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

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

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 o 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. x

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

Large accelerated filer o	Accelerated filer x	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 x

As of July 4, 2009, the aggregate market value of the common stock held by non-affiliates of the registrant was approximately $196.2 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, 2010, 36,315,834 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 2010 Annual Meeting of Stockholders, which is expected to be held on May 18, 2010, 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 “anticipate,” “believe,” “can,” “continue,” “could,” “estimate,” “expect,” “intend,” “may,” “plan,” “potential,” “predict,” “should,” “will,” “would,” or the negative or other variations thereof o 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. 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 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, gas and dye lasers, tunable lasers 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, high-speed detectors and modulators, monochromators and spectroscopy instrumentation;
- high-precision positioning and vibration isolation products and systems; and
- advanced automated manufacturing systems used in the manufacture of solar panels, disk drive media and 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 integrated solutions, together with our broader portfolio of products and technologies, gives us a significant competitive advantage.

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

Acquisitions

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 became part of what is now our Photonics and Precision Technologies (PPT) Division, and contributed significant expertise to us in the design and manufacture of automated high-precision manufacturing systems. During the past four years, we have focused this expertise on developing automated laser-based manufacturing systems, particularly for disk drive and solar panel manufacturing applications.

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

In July 2009, we acquired the New Focus™ business of Oclaro, Inc. (Oclaro). The New Focus business expands our product offerings to include a number of new high-performance products, including opto-electronics, high-resolution actuators, high-speed detectors and modulators, opto-mechanics, tunable lasers, and custom-engineered solutions designed for OEM customers.

Divestitures

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, we sold these operations in December 2005.

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

We will continue to pursue acquisitions of companies, technologies and complementary product lines that we believe will further our strategic objectives. Conversely, from time to time, we review our different businesses to ensure that they are key to our strategic plans, and close or divest businesses that we determine are no longer of strategic importance. See Item 7 (Management's Discussion and Analysis of Financial Condition and Results of Operations – Overview) beginning on page 36, and Note 2 of the Notes to Consolidated Financial Statements beginning on page F-15, of this Annual Report on Form 10-K for additional information.

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 almost fifty 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, terahertz imaging, laser-induced fluorescence, chemical analysis, materials science, light detection and ranging (LIDAR) and nonlinear optics.

- Microelectronics. Photonics technology addresses a number of vital applications in the microelectronics market. It is a key enabler of the semiconductor industry roadmap driving smaller chip feature sizes with the increased functionalities needed for next-generation consumer technology products, including cellular phones, personal digital assistants and digital cameras. It is also a key technology enabling 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 wafer inspection and metrology, memory yield enhancement, lithography, wafer dicing and scribing, wafer and component marking, resistor trimming, thin-film solar panel scribing and edge deletion, solar cell testing and characterization, and LED scribing, as well as in disk drive, printed circuit board and flat panel display manufacturing applications.

- Life and Health Sciences. Photonics is increasingly becoming an enabling technology in the life and health sciences market. We provide products for diagnostic and analytical instrumentation and bioimaging. 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.

- Aerospace and Defense/Security. The drive for more technologically advanced weapons and sensors 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 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. Our lasers and other 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 applications.

Our Operating Divisions

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

Photonics and Precision Technologies Division

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

Our PPT Division also designs, develops and manufactures systems and subsystems that integrate our broad portfolio of products and technologies into solutions that meet the specific application requirements of our OEM and select end-user customers. With our expertise in the design, development and manufacture of these integrated solutions, we help our customers 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, solar cell manufacturing and disk drive manufacturing, and in life and health sciences applications such as flow cytometry, DNA sequencing and optical coherence tomography.

Products

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

Category	Products	Representative Applications
Photonics Instruments and Systems	• Electro-optic modulators • Laser diode controllers • Light sources • Monochromators and spectrographs • Optical power/energy detectors • Optical power/energy meters • Photonics test systems • Solar simulators • Solar cell test instruments • Spectrometers • Tunable external cavity diode lasers • Ultrafast laser pulse measurement systems	• 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 light sources • Chemical composition analysis • Colorimetry • 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

Category	Products	Representative Applications
Precision Positioning Devices, Systems and Subsystems	• Custom multi-axis positioning systems • Fast steering mirrors • Fiber alignment stages and accessories • Manual linear and rotation stages • Micromanipulators • Micrometers and adjustment screws • Motion controllers and drivers • Motorized linear and rotation stages • Motorized actuators and optical mounts • Nano-positioning and nano-focusing stages • Piezo motor actuators and stages • Precision air-bearing motion systems	• High-precision positioning for manufacturing and in-process inspection, metrology and final test applications • High-precision positioning for thin-film solar cell manufacturing • High-precision positioning of semiconductor wafers for metrology and fabrication • Laser beam stabilization and pointing • Laser system alignment and beam steering for inspection, laser processing and communications • 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 • Solar cell test and characterization • Tracking and targeting test systems for aerospace and defense/security applications
Vibration Isolation Systems and Subsystems	• Active and passive isolation systems • Active vibration damping systems • Elastomeric mounts • Honeycomb, granite and rigid structures • Optical tables, support systems and accessories • Workstations	• Foundation platforms for laser systems • Isolated platforms 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

Category	Products	Representative Applications
Optics and Optical Hardware	• Beam routing and enclosing systems • Beamsplitters and polarization optics • Collimators • Filters and attenuators • Laser-to-fiber couplers • Lenses • Mirrors • Optical hardware including bases, brackets, posts and rod systems • Optical mounts • Prisms and windows • Ruled and holographic diffraction gratings • Thin-film filters and coatings • Ultrafast laser optics	• Analytical instrumentation for life and health sciences applications • Development and manufacturing of laser systems • Electro-optic sensors and imaging systems for defense/security applications • High-precision alignment of optical instruments • Optical measurement and communications systems • Research in physical and biological sciences • Semiconductor lithography, wafer inspection and wafer processing • Spectroscopy • Ultrafast laser, terahertz imaging and laser fusion research
Crystals	• Crystal imaging arrays • Electro-optics • Optical crystals • Scintillation crystals	• 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

Category	Products	Representative Applications
Opto-Mechanical Subassemblies and Subsystems	• Integrated electro-optic-mechanical subsystems • Laser beam attenuators • Laser beam delivery and imaging assemblies • Objective lens systems • Refractive beam shaper assemblies	• Analytical instrumentation for life and health sciences applications • High-speed cell sorting for genomic research • Laser beam delivery systems for solar panel 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
Advanced Manufacturing Systems	• Automated device packaging systems • Automated die bonding and dispensing systems • Automated, laser-based solar panel scribing and edge deletion systems • Automated, laser-based disk texturing 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 • Thin-film solar panel manufacturing

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, high-energy pulsed lasers, tunable lasers and gas lasers. In addition to providing a wide range of standard and configured laser products and accessories to our end-user customers, we also work closely with our OEM customers to develop laser and laser system designs optimized for their product and technology roadmaps.

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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 lasers • Tsunami® ultrafast lasers • Spitfire® Pro XP ultrafast amplifiers • Solstice® one-box ultrafast amplifiers • Inspire™ femtosecond optical parametric oscillators (OPOs) • TOPAS™ automated ultrafast optical parametric amplifiers (OPAs)	• Femtosecond spectroscopy • Micro-machining and other high-precision materials processing applications • Multiphoton microscopy • Supercontinuum and high harmonic generation • Terahertz imaging • Time-resolved photoluminescence • Two-photon polymerization
Diode-Pumped Solid State Q-Switched Lasers	• Tristar™ high repetition rate UV lasers • 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 • LED wafer scribing • Matrix-assisted laser desorption/ionization • Memory yield enhancement systems • Pump source for ultrafast lasers • Rapid prototyping • Resistor trimming • Semiconductor wafer and flat panel display marking • Silicon micromachining • Solar cell manufacturing • Stereolithography

Category	Products	Representative Applications
Diode-Pumped Solid State Continuous Wave (CW) and Quasi-CW Lasers	• Millennia® Prime CW lasers • MG series CW solid state green lasers • Excelsior™ low power CW lasers • Vanguard™ quasi-CW solid state UV lasers • 3900S and Matisse® CW tunable lasers • Cyan™ compact low power CW lasers	• 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) • Cobra tunable dye lasers • Credo high-repetition rate 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

- Fluorescence immunoassay
- Holography
- Laser doppler anemometry
- Laser doppler velocimetry
- Lithography
- Matrix-assisted laser desorption/ionization
- Raman spectroscopy
- Semiconductor wafer inspection
- Spectroscopy

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-37. 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 36.

Sales and Marketing

We market and sell our products and services through our domestic and international direct sales organizations, an international network of independent distributors and sales representatives, our product catalogs and our web site. Our domestic and international direct sales organizations are comprised of teams of field sales persons, key account managers and business development managers, who work closely with product and applications specialists and other internal sales support personnel based primarily at our domestic locations in California, Connecticut, Massachusetts and New York, and at our international locations in China, France, Germany, Japan and Taiwan. We sell our products and services to three major categories of customers: end-users of standard or option-configured products, OEM customers and capital equipment customers. These categories of customers require very different selling approaches and support requirements, and we have organized our sales teams to address these different requirements. To serve the needs of end users of standard or option-configured products, we have organized our field sales personnel, together with internal sales support personnel, into teams based on their specialized knowledge and expertise relating to specific product groups. These sales teams are closely aligned with their respective product management and operations organizations. Our OEM and capital equipment customers often have unique technical requirements and manufacturing processes, and may request specific system, subsystem or component designs. Sales of our subsystem and capital equipment products often involve complex program management and long sales cycles, and require close cooperation between sales, operations and engineering personnel as well as collaboration across all 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 outside of North America 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 of products. No single independent representative or distributor accounted for more than 5% of our net sales in 2009.

We also market our standard products through our product catalog and our web site. Our principal marketing tools for the scientific research market are our comprehensive web site and our product catalog, The Newport Resource®. 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. Our product 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, German and Japanese. New product supplements for each catalog are also distributed between publications. We also publish and distribute a variety of sales literature and product brochures which focus on specific products and end markets.

We operate a Technology and Applications Center (TAC) at our Irvine, California headquarters. The TAC is staffed with experienced photonics researchers who develop innovative ways to utilize our lasers and other photonics products together in leading-edge research applications such as solar cell testing and characterization, multiphoton microscopy, Coherent Anti-Stokes Raman Scattering microscopy and ultrafast spectroscopy. The TAC produces application notes and kits for these applications, publishes technical papers in scientific and technical journals, and provides our research and development teams with ideas for new products and product enhancements. We 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 Santa Clara, 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 lasers 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 applications.

We also operate a Photovoltaic Applications Laboratory adjacent to the Stahnsdorf, Germany facility of our Lasers Division, which is equipped with our systems for laser-based scribing and edge deletion of thin-film solar panels, as well as inspection and photovoltaic diagnostic tools. This laboratory supports our sales and marketing efforts in the solar panel manufacturing industry by conducting feasibility studies with scribing and edge deletion of prospective customers' thin-film solar panels using our systems.

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, 2010, we had approximately 185 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 $36.9 million, or 10.1% of net sales, in 2009, $46.1 million, or 10.4% of net sales, in 2008, and $42.6 million, or 9.6% of net sales, in 2007. Research and development expenses attributable to our Lasers Division were $16.0 million, or 10.9% of net sales by that division, in 2009, $22.2 million, or 11.9% of net sales by that division, in 2008, and $23.3 million, or 12.6% of net sales by that division, in 2007. Research and development expenses attributable to our PPT Division were $20.9 million, or 9.5% of net sales by that division, in 2009, $23.9 million, or 9.2% of net sales to that segment, in 2008, and $19.3 million, or 7.4% of net sales by that division, in 2007.

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

Customers

We sell our products to thousands of customers worldwide, in a wide range of end markets, including scientific research, microelectronics (which includes semiconductor capital equipment, disk drive manufacturing and solar panel manufacturing 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 2009, 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 business with us, or suffer downturns in their businesses, it could have a significant negative impact on our financial results on a short-term basis. For example, from the middle of 2007 to the middle of 2009, several of our key customers in the semiconductor equipment industry suffered significant downturns in their businesses as a result of the cyclical downturn in that industry, which had a significant impact on our financial results in those years. If we lose business from key customers and we are unable to sufficiently expand our customer base to replace the lost business or to reduce our cost structure accordingly, our business and results of operations would be harmed.

Competition

The markets we serve are intensely competitive and characterized by rapidly changing technology. A small number of competitors 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	Coherent, Inc.	Jenoptik Laser Optik Systeme GmbH
	CVI Melles Griot	Rofin-Sinar Technologies, Inc.
	GSI Group/Excel Technology, Inc.	Toptica Photonics AG
	IPG Photonics, Inc.	Trumpf Group
	JDS Uniphase Corporation	
Photonics Instruments	Agilent Technologies, Inc.	Labsphere, Inc.
	Coherent, Inc.	Ophir Optronics Ltd.
	CVI Melles Griot	Picometrix, LLC
	ILX Lightwave Corporation	Thorlabs, Inc.
Light Sources and Spectroscopy Instrumentation	Andor Technology	Princeton Instruments
	Acton Research Corporation	Sciencetech, Inc.
	Horiba Jobin Yvon	Spectral Products
	Ocean Optics, Inc.	Thorlabs, Inc.
	Photon Technology International	
Precision Positioning Devices, Systems and Subsystems	Aerotech Inc.	Rockwell Automation, Inc. (Anorad)
	Danaher Corporation	Sigma Koki Co., Ltd.
	Parker Hannifin Corporation	Thorlabs, Inc.
	Physik Instrumente	
Vibration Isolation Systems and Subsystems	Herzan, LLC	Technical Manufacturing Corp.
	Kinetic Systems, Inc.	Thorlabs, Inc.
Optics, Optical Hardware and Opto-Mechanical Subassemblies and Subsystems	CVI Melles Griot	Qioptiq (formerly LINOS)
	Corning Tropel Corporation	Sigma Koki Co., Ltd. (OptoSigma)
	Edmund Optics, Inc.	Thorlabs, Inc.
	Jenoptik Laser Optik Systeme GmbH	Zygo Corporation
Optical Filters	Oclaro, 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 Corporation
	Horiba Jobin Yvon	Spectrogon
Automated Manufacturing Systems	Asymtek	Manz Automation AG
	Datacon Technology GmbH	Palomar Technologies
	Jenoptik Laser Optik Systeme GmbH	Rofin-Sinar Technologies, Inc.

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

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

- product features and performance;
- quality and reliability of products;
- pricing and availability;
- customer service and support;
- breadth of product portfolio;
- customer relationships;
- 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 250 patents in the U.S. and foreign jurisdictions, and we have approximately 65 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. The steps we take to protect our rights may not prevent 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, 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 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. We manufacture lasers and laser systems at our facilities in Santa Clara, California and Stahnsdorf, Germany. In addition, we subcontract all or a portion of the manufacture of various products and components, such as laser power supplies, optics, optical meters and certain low power lasers, to a number of domestic and foreign third-party subcontractors and contract manufacturers.

Our manufacturing processes are diverse and consist of: purchasing raw materials, principally stainless steel, aluminum and glass; 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 systems. We primarily design and manufacture our products internally, although on a limited basis, we purchase completed products from certain third-party suppliers and resell those products through our distribution channels. Most of these completed products are produced to our specifications and carry one of our product brands.

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

In addition, we obtain some of the critical capital equipment we use to manufacture certain of our products from sole or limited sources due to the unique nature of the equipment. In some cases, such equipment can only be serviced by the manufacturer or a very limited number of service providers due to the complex and specialized nature of the equipment. If service and/or spare parts for such equipment become unavailable, such equipment could be rendered inoperable, which could cause delays in the production of our products, and could require us to procure alternate equipment, if available, which would likely involve long lead times and significant additional cost.

Backlog

Our consolidated backlog of orders totaled $113.5 million at January 2, 2010 and $136.0 million at January 3, 2009. As of January 2, 2010, $102.1 million of our consolidated backlog was scheduled to be shipped on or before January 1, 2011. Orders for many of the products we sell to OEM customers, which comprise a significant portion of our sales, are often subject to rescheduling without penalty or cancellation without penalty other than reimbursement of certain material costs. In addition, because we manufacture a significant portion of our standard catalog products for inventory, we often make shipments of these products upon or within a short time period following receipt of an order. As a result, our backlog of orders at any particular date may not be an accurate indicator of our sales for succeeding periods.

Employees

As of February 28, 2010, we had approximately 1,625 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 former facility located in Mountain View, California is an EPA-designated Superfund site and is subject to a cleanup and abatement order from the California Regional Water Quality Control Board. Spectra-Physics, 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. In addition to our remediation obligations, we may be liable for property damage or personal injury claims relating to this site. While we are not aware of any claims at this time, such claims could be made against us in the future. Thermo Fisher Scientific, Inc., formerly known as Thermo Electron Corporation (Thermo), has agreed, in connection with our purchase of Spectra-Physics, to indemnify us, subject to certain conditions, for costs of remediation that are incurred and third party claims that are made prior to July 16, 2014, which arise from the releases of hazardous substances at or from the Mountain View facility and are subject to remediation under the cost-sharing agreement. However, our ultimate costs of remediation and other potential liability are difficult to predict, and this indemnity may not cover all liabilities relating to this site. If significant costs or other liability relating to this site arise in the future and are not covered by this indemnity, our business, financial condition and results of operations could be adversely affected.

In addition, the European Union has enacted the Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Directive (RoHS) and the Waste Electrical and Electronic Equipment Directive (WEEE) for implementation in each European Union member country. RoHS regulates the use of certain hazardous substances in certain products, and WEEE requires the collection, reuse and recycling of waste from certain products. The European Union member states continue to define the scope of the implementation of RoHS and WEEE. While many of our products are not subject to RoHS and WEEE requirements, based on information we have received to date, certain of our products sold in these countries are or will likely be subject to these requirements. We will continue to monitor RoHS and WEEE guidance as it is announced by individual jurisdictions to determine our responsibilities. The guidance available to us to date suggests that in some instances we are not directly responsible for compliance with RoHS and WEEE because some of our products may be outside the scope of the directives. However, because the scope of the directives continues to expand in the course of implementation by the European Union member states, 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 (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.

ITEM 1A. RISK FACTORS

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

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

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

- fluctuations in our customers' capital spending, industry cyclicality (particularly in the semiconductor equipment industry), market seasonality (particularly in the scientific research market), levels of government funding available to our customers and other economic conditions within the markets we serve;
- demand for our products and the products sold by our customers;
- the level of orders within a given quarter and preceding quarters;
- the timing and level of cancellations and delays of orders in backlog for our products;

- the timing of product shipments within a given quarter;
- variations in the mix of products we sell;
- changes in our pricing practices or in the pricing practices of our competitors or suppliers;
- our timing in introducing new products;
- market acceptance of any new or enhanced versions of our products;
- timing of new product introductions by our competitors;
- timing and level of scrap and warranty expenses;
- the availability, quality and cost of components and raw materials we use to manufacture our products;
- our ability to manufacture a sufficient quantity of our products to meet customer demand;
- changes in our effective tax rates;
- changes in interest income (expense) resulting from repurchases of convertible notes, changes in our cash and marketable securities balances, and changes in interest rates;
- changes in bad debt expense based on the collectibility of our accounts receivable;
- 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 results in a given period to be lower than our results in previous periods.

In addition, we often recognize a substantial portion of our sales in the last month of the quarter. Thus, variations in timing of sales, particularly for our higher-priced, higher-margin products, can cause significant fluctuations in our quarterly sales, gross margin and profitability. Orders expected to ship in one period could shift to another period due to changes in the anticipated timing of customers' purchase decisions, rescheduled delivery dates requested by our customers, or manufacturing or logistics delays. Our operating results for a particular quarter or year may be adversely affected if our customers, particularly our largest customers, cancel or reschedule orders, or if we cannot fill orders in time due to unexpected delays in manufacturing, testing, shipping and product acceptance. Also, we base our manufacturing 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 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.

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

The current uncertain macroeconomic climate, which includes but is not limited to decreased consumer confidence, volatile corporate operating results, reduced capital spending, lower research budgets, and the effects of reduced availability of credit, has led and could continue to lead 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. Continued or increased weakness in our end markets could negatively impact our revenue, gross margin and operating expenses, and consequently have a material adverse effect on our business, financial condition and results of operations.

In particular, ongoing concerns regarding the availability of credit may make it more difficult for our customers to raise capital, whether debt or equity, to finance their 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.

Further, a continued decline in the condition of the global financial markets could adversely impact the market values or liquidity of our investments. Our investment portfolio includes U.S. government and agency debt securities, corporate debt securities, asset-backed securities and certificates of deposit. Although we believe our portfolio continues to be comprised of sound investments due to the credit quality and government guarantees of the underlying investments, a further decline in the capital and financial markets would adversely impact the market values of our investments and their liquidity. Such a decline in market value that is other-than-temporary, or any sale of our investments under illiquid market conditions, could result in our recognition of an impairment charge on such investments or a loss on such sales, either of which could have an adverse effect on our financial condition and operating results.

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

A significant portion of our current and expected future business comes from sales of components, subsystems and laser products to manufacturers of semiconductor fabrication, inspection and metrology equipment and sales of capital equipment to integrated semiconductor device manufacturers. The semiconductor capital equipment market has historically been characterized by sudden and severe cyclical variations in product supply and demand. The timing, severity and duration of these market cycles are difficult to predict, and we may not be able to respond effectively to these cycles. This market experienced a severe down-cycle from the middle of 2007 to the middle of 2009, which had a significant negative impact on our operating results. While we experienced sequential quarterly increases in orders from our customers in this market in the third and fourth quarters of 2009, the timing and extent of a recovery in this market remains uncertain, which severely 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 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, disk drive manufacturing and solar panel manufacturing customers) constituted 23.1%, 29.4%, and 28.7% of our consolidated net sales for the years 2009, 2008 and 2007, 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 45.6%, 47.2% and 56.3% of our sales to this market for the years 2009, 2008 and 2007, 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 2009, 2008 or 2007. If any of our principal customers discontinues its relationship with us, replaces us as a vendor for certain products or suffers downturns in its business, our business and results of operations could be harmed significantly. In addition, because a relatively small number of companies dominate the semiconductor equipment portion of this market, and because those companies rarely change vendors in the middle of a product's life cycle, it may be particularly difficult for us to replace these customers if we lose their business.

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

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;
- unanticipated liabilities associated with the acquired company;
- 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 significant charges in future quarters to reflect additional costs associated with past acquisitions, including asset impairment charges and other costs related to divestiture of acquired assets or businesses. Such charges could also include impairment of goodwill associated with past acquisitions. For example, our market capitalization decreased significantly during the fourth quarter of 2008, which caused us to reevaluate the fair values of our divisions. This ultimately led us to determine that goodwill and certain intangible assets associated with our Lasers Division were impaired, and we recorded an impairment charge of $119.9 million to write off the total goodwill balance and certain other intangible assets associated with that division. While we believe that our assumptions used in evaluating the goodwill associated with our PPT Division are reasonable, we may be required to recognize a goodwill impairment charge in the future.

Many of the markets and industries that we serve are subject to rapid technological change, and if we do not introduce new and innovative products or improve our existing products, our business and results of operations will be negatively affected.

Many of our markets are characterized by rapid technological advances, evolving industry standards, shifting customer needs, new product introductions and enhancements, and the periodic introduction of disruptive technology that displaces current technology due to a combination of price, performance and reliability. As a result, many of the products in our markets can become outdated quickly and without warning. We depend, to a significant extent, upon our ability to enhance our existing products, to anticipate and address the demands of the marketplace for new and improved and disruptive technologies, either through internal development or by acquisitions, and to be price competitive. If we or our competitors introduce new or enhanced products, it may cause our customers to defer or cancel orders for our existing products. If we or our competitors introduce disruptive technology that displaces current technology, existing product platforms or lines of business from which we generate significant revenue may be rendered obsolete. In addition, because certain of our markets experience severe cyclicality in capital spending, if we fail to introduce new products in a timely manner we may miss market upturns, or may fail to have our products or subsystems designed into our customers' products. We may not be successful in acquiring, developing, manufacturing or marketing new products and technologies on a timely or cost-effective basis. If we fail to adequately introduce new, competitive products and technologies on a timely basis, our business and results of operations would be harmed.

Uncertainty in the development of the solar energy market could reduce the revenue we expect to generate from product sales to this market.

The solar energy market is evolving and the extent to which solar energy technology will be widely adopted is uncertain. Many factors may affect the viability of widespread adoption of solar energy technology and demand for solar panels, including the following:

- the cost-effectiveness of solar energy compared with conventional and other non-solar renewable energy sources and products, including conventional energy sources such as coal and natural gas;
- the performance and reliability of solar panels compared with conventional and other non-solar renewable energy sources and products;
- the availability and amount of government subsidies and incentives to support the development of the solar energy industry;
- the success of other renewable energy generation technologies, such as hydroelectric, tidal, wind, geothermal, solar thermal, concentrated photovoltaic, biomass and nuclear fusion;
- fluctuations in economic and market conditions that affect the price of, and demand for, conventional and non-solar renewable energy sources, such as increases or decreases in the price of coal, oil, natural gas and other fossil fuels;
- fluctuations in capital expenditures by end-users of solar panels, which tend to decrease when the economy slows and/or interest rates increase; and
- deregulation of the electric power industry and the broader energy industry to permit widespread adoption of solar electricity.

If solar panel technology is not widely adopted or if demand for solar panels fails to develop sufficiently, we may be unable to generate the revenue we currently anticipate from sales of our products for solar panel manufacturing applications.

We offer products for multiple industries and must face the challenges of supporting the distinct needs of each of the markets we serve.

We offer products for a number of markets. Because we operate in multiple markets, we must work constantly to understand the needs, standards and technical requirements of many different applications within these industries, and must devote significant resources to developing different products for these industries. Product development is costly and time consuming. We must anticipate trends in our customers' industries and develop products before our customers' products are commercialized. If we do not accurately predict our customers' needs and future activities, we may invest substantial resources in developing products that do not achieve broad market acceptance. Our decision to continue to offer products to a given market or to penetrate new markets is based in part on our judgment of the size, growth rate and other factors that contribute to the attractiveness of a particular market. If our product offerings in any particular market are not competitive or our analyses of a market are incorrect, our business and results of operations would be harmed.

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 varies significantly, 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 costs. We have from time to time experienced order rescheduling and cancellations that have caused our revenues in a given period to be materially less than would have been expected based on our backlog at the beginning of the period. If we experience such rescheduling and/or cancellations in the future, our operating results will fluctuate from period to period. These fluctuations could harm our results of operations.

If we are delayed in introducing our new products into the marketplace, our operating results will suffer.

Because many of our products are sophisticated and complex, we may experience delays in introducing new products or enhancements to our existing products. If we do not introduce our new products or enhancements into the marketplace in a timely fashion, our customers may choose to use competitors' products. In addition, because certain of our markets, such as the semiconductor equipment market, are highly cyclical in nature, if we fail to timely introduce new products in advance of an upturn in the market's cycle, we may be foreclosed from selling products to certain customers until 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 January 2, 2010, January 3, 2009 and December 29, 2007, our international revenues accounted for approximately 53.7%, 53.1% and 49.7%, respectively, of total net sales, with a substantial portion of international sales originating in Europe and Japan. We expect that international revenues will continue to account for a significant percentage of total net sales for the foreseeable future, and that in particular, the proportion of our sales to Asian customers will continue to increase. 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, as well as laws prohibiting certain payments or other business practices in foreign countries, all of 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;
- more complex and burdensome labor laws and practices in countries where we have employees;
- difficulties in staffing and managing each of our individual foreign operations; and
- increased risk of exposure to 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 when translated into U.S. dollars or require us to modify our current business practices. If we experience any of the risks associated with international business, our business and results of operations could be significantly harmed.

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

The markets for our products are intensely competitive, and we believe that competition from both new and existing competitors will increase in the future. We compete in several specialized markets, against a limited number of companies in each market. We also face competition in some of our markets from our existing and potential customers who have developed or may develop products that are competitive to ours, or who engage subcontract manufacturers or system integrators to manufacture products or systems on their behalf. Some of our existing and potential competitors are more established, enjoy greater name recognition and possess greater financial, technological and marketing resources than we do. Other competitors are small and highly specialized firms that are able to focus on only one aspect of a market. We compete on the basis of product performance, features, quality, reliability, the breadth of our product portfolio and price and on our ability to manufacture and deliver our products on a timely basis. We may not be able to compete successfully in the future against existing or new competitors. In addition, competitive pressures may force us to reduce our prices, which would negatively affect our operating results. If we do not respond adequately to competitive challenges, our business and results of operations would be harmed.

Our international sales and operations may be adversely impacted by export controls.

Exports of our products and technology are subject to export controls imposed by the U.S. Government and administered by the U.S. Departments of Commerce and State. In certain instances, these regulations may require obtaining licenses from the administering agency prior to exporting products or technology to international locations or foreign nationals. For products and technology subject to the Export Administration Regulations administered by the Department of Commerce's Bureau of Industry and Security, the requirement for a license is dependent on the type and end use of the product and technology, the final destination and the identity and nationality of the end user. Virtually all exports of defense articles subject to the International Traffic in Arms Regulations administered by the Department of State's Directorate of Defense Trade Controls require a license. Given the current global political climate, obtaining export licenses can be difficult and time-consuming, and we may not be successful in obtaining them. Failure to obtain export licenses to enable product and technology exports could reduce our revenue and could adversely affect our business, financial condition and results of operations. Compliance with U.S. Government regulations may also subject us to additional fees and costs. The absence of comparable export restrictions on competitors in other countries may adversely affect our competitive position. In addition, failure to comply with any of these export regulations could result in civil and criminal, monetary and non-monetary penalties, disruptions to our business, limitations on our ability to export products and technology and damage to our reputation.

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 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 business. Our future performance will be directly tied to our ability to hire, train, motivate and retain qualified personnel. Competition for personnel in the technology marketplace is intense. We have from time to time in the past experienced attrition in certain key positions, and we expect to continue to experience this attrition in the future. The absence during recent periods of incentive plan bonuses and equity award vesting as a result of not meeting certain financial performance targets could adversely affect our ability to attract new employees and to retain and motivate our existing employees. If we are unable to hire sufficient numbers of employees with the experience and skills we need or to retain and motivate our existing employees, our business and results of operations would be harmed.

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

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

In addition, we obtain some of the critical capital equipment we use to manufacture certain of our products from sole or limited sources due to the unique nature of the equipment. In some cases, such equipment can only be serviced by the manufacturer or a very limited number of service providers due to the complex and specialized nature of the equipment. If service and/or spare parts for such equipment become unavailable, such equipment could be rendered inoperable, which could cause delays in the production of our products, and could require us to procure alternate equipment, if available, which would likely involve long lead times and significant additional cost.

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

As part of our cost-reduction efforts, we continue to transition the manufacture of certain of our product lines and subassemblies from higher-cost manufacturing locations to our facility in Wuxi, China, and to selected contract manufacturers in Asia. We have historically directly manufactured most of our products at the same physical location throughout the products' lives, or sold products manufactured by third parties on a private label basis. We have only recent experience transitioning the manufacture of our products to different global locations or to third party manufacturers. If we are unable to successfully manage the transition of the manufacture of these products, our results of operations could be harmed.

In particular, transferring product lines to our facility in Wuxi, China and our contract manufacturers' facilities in Asia requires us to transplant complex manufacturing equipment and processes across a large geographical distance and to train a completely new workforce concerning the use of this equipment and these processes. If we are unable to manage this transfer and training smoothly and comprehensively, we could suffer manufacturing and supply chain delays, excessive product defects, harm to our results of operations and our reputation with our customers, and loss of customers. We also may not realize the cost and tax advantages that we currently anticipate from locating operations in China, due to rising material, labor and shipping costs and rapidly changing Chinese regulations.

Additionally, qualifying contract manufacturers and commencing volume production are expensive and time-consuming activities, and there is no guarantee we will do so successfully. Further, our reliance on contract manufacturers reduces our control over the assembly process, quality assurance, production costs and material and component supply for our products. If we fail to manage our relationship with the contract manufacturers, or if any of the contract manufacturers experience financial difficulty, or delays, disruptions, capacity constraints or quality control problems in their operations, our ability to ship products to our customers could be impaired and our competitive position and reputation could be harmed. Further, if we or our contract manufacturers are unable to negotiate with suppliers for reduced component costs, our operating results could be harmed.

In addition, our contract manufacturers may terminate our agreements with them upon prior notice to us or for reasons such as if we become insolvent, or if we fail to perform a material obligation under the agreement. If we are required to change contract manufacturers or assume internal manufacturing operations for any reason, including the termination of one of our contracts, we will likely suffer manufacturing and shipping delays, lost revenue, increased costs and damage to our customer relationships, any of which could harm our business.

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

Many of our products, especially our laser and automation products, are inherently complex in design and require ongoing regular maintenance. Further, the manufacture of these products often involves a highly complex and precise process. As a result of the technical complexity of these products, design defects, changes in our or our suppliers' manufacturing processes or the inadvertent use of defective materials by us or our suppliers could adversely affect our manufacturing yields and product reliability. This could in turn harm our business, operating results, financial condition and customer relationships.

We provide warranties for our products, and we accrue allowances for estimated warranty costs at the time we recognize revenue for the sale of the products. The determination of such allowances requires us to make estimates of product return rates and expected costs to repair or replace the products under warranty. We establish warranty reserves based on historical warranty costs for our products. If actual return rates or repair and replacement costs differ significantly from our estimates, our results of operations could be negatively impacted.

Our customers may discover defects in our products after the products have been fully deployed and operated under peak stress conditions. In addition, some of our products are combined with products from other suppliers, which may contain defects. As a result, should problems occur, it may be difficult to identify the source of the problem. If we are unable to identify and fix defects or other problems, we could experience, among other things:

- loss of customers;
- increased costs of product returns and warranty expenses;
- increased costs required to analyze and mitigate the defects or problems;
- damage to our 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.

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

Many of our products may be hazardous if not operated properly or if defective. We are exposed to significant risks for product liability claims if property damage, personal injury or death results from the use of our products. We may experience material product liability losses in the future. We currently maintain insurance against product liability claims. However, our insurance coverage may not continue to be available on terms that we accept, if at all. This insurance coverage also may not adequately cover liabilities that we incur. Further, if our products are defective, we may be required to recall or redesign these products. A successful claim against us that exceeds our insurance coverage level, or any claim or product recall, could have a material adverse effect on our business, financial condition and results of operations.

Our 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, of which $126.8 million was outstanding as of January 2, 2010. 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 cash balances. The amount of cash available for repayment of the notes will depend on our usage of our existing cash balances and our operating performance and ability to generate cash flow from operations in future periods, which will be subject to financial, business and other factors affecting our operations, many of which are beyond our control.

In addition, the notes may become immediately due and payable upon an "event of default," which generally consists of (i) a default in the payment of any principal amount or fundamental change purchase price due with respect to the notes, when the same becomes due and payable, regardless of whether such payment is permitted pursuant to the subordination provisions of the indenture pursuant to which the notes were issued; (ii) a default in payment of any interest (including additional interest) under the notes, which default continues for 30 days, regardless of whether such payment is permitted pursuant to the subordination provisions of the indenture; (iii) a default in the delivery when due of all cash and any shares of common stock payable upon conversion with respect to the notes, which default continues for 15 days, regardless of whether such delivery is permitted pursuant to the subordination provisions of the indenture; (iv) our failure to comply with any of its other agreements in the notes or the indenture upon our receipt of notice of such default from the trustee or from holders of not less than 25% in aggregate principal amount of the notes, and the failure to cure (or obtain a waiver of) such default within 60 days after receipt of such notice; (v) a default in the payment of principal by the end of any applicable grace period or resulting in acceleration of other of our indebtedness for borrowed money where the aggregate principal amount with respect to which the default or acceleration has occurred exceeds $10 million and such acceleration has not been rescinded or annulled or such indebtedness repaid within a period of 30 days after written notice to us by the trustee or us and the trustee by the holders of at least 25% in aggregate principal amount of the notes, provided that if any such default is cured, waived, rescinded or annulled, then the event of default by reason thereof would not be deemed to have occurred; and/or (vi) certain events of bankruptcy, insolvency or reorganization affecting us or any of our significant subsidiaries.

Upon maturity, or prior to maturity if the notes become immediately due and payable upon an event of default, we would need to obtain additional financing or significantly deplete our available cash, or both, in order to repay the notes. Any additional financing may not be available on reasonable terms or at all, and significant depletion of our available cash could harm our ability to fund operations.

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.

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

Any failure or malfunctioning of our global information technology system, errors or misuse by system users, or inadequacy of the system in addressing the needs of our operations, could disrupt our ability to timely and accurately manufacture and ship products, which could have a material adverse effect on our business, financial condition and results of operations. Any such failure, errors, misuse or inadequacy could also disrupt our ability to timely and accurately process, report and evaluate key operations metrics and key components of our results of operations, financial position and cash flows. Any such disruptions would likely divert our management and key employees' attention away from other business matters. Any disruptions or difficulties that may occur in connection with our global information technology system could also adversely affect our ability to complete important business processes such as the evaluation of our internal control over financial reporting and attestation activities pursuant to Section 404 of the Sarbanes-Oxley Act of 2002.

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

The environmental regulations to which we are subject, include a variety of federal, state, local and international environmental regulations restricting the use and disposal of materials used in the manufacture of our products, or requiring design changes or recycling of our products. If we fail to comply with any present or future regulations, we could be subject to future liabilities, the suspension of manufacturing or a prohibition on the sale of products we manufacture. In addition, such regulations could restrict our ability to equip our facilities or could require us to acquire costly equipment, or to incur other significant expenses to comply with environmental regulations, including expenses associated with the recall of any non-compliant product and the management of historical waste.

From time to time new regulations are enacted, and it is difficult to anticipate how such regulations will be implemented and enforced. We continue to evaluate the necessary steps for compliance with regulations as they are enacted. For example, the European Union has enacted the Restriction on the Use of Certain Hazardous Substances in Electrical and Electronic Equipment Directive (RoHS) and the Waste Electrical and Electronic Equipment Directive (WEEE) for implementation in each European Union member country. RoHS regulates the use of certain hazardous substances in certain products, and WEEE requires the collection, reuse and recycling of waste from certain products. The European Union member states continue to define the scope of the implementation of RoHS and WEEE. Based on information we have received to date, certain of our products sold in these countries are or will likely be subject to RoHS and WEEE requirements. We will continue to monitor RoHS and WEEE guidance as it is announced by individual jurisdictions to determine our responsibilities. The guidance available to us to date suggests that in some instances we are not directly responsible for compliance with RoHS and WEEE because some of our products may be outside the scope of the directives. However, because the scope of the directives continues to expand in the course of implementation by the European Union member states, 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.

Natural disasters or power outages could disrupt or shut down our operations or those of our contract manufacturers, which would negatively impact our operations.

We are headquartered, and have significant operations, in the State of California and other areas where our operations are susceptible to damages from earthquakes, floods, fire, loss of power or water supplies, or other similar contingencies. Our contract manufacturers' operations are also subject to these occurrences. We currently have comprehensive business continuation plans for our global information technology systems and for most of our operations and facilities, as well as disaster recovery procedures for our remaining operations and facilities. Despite these contingency plans and procedures, if any of our facilities or those of our contract manufacturers were to experience a catastrophic loss or significant power outages, it could disrupt our operations, delay production, shipments and revenue, and result in large expenses to repair or replace the facility, any of which would harm our business. We are predominantly uninsured for losses and interruptions caused by earthquakes.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our corporate headquarters is located at 1791 Deere Avenue, Irvine, California 92606. We lease this facility under a lease expiring in February 2012. Our primary manufacturing operations for each of our divisions are located in the following facilities:

Division	Primary Facility Locations	Approximate Facility Size
Lasers	Santa Clara, California	139,000 square feet
	Stahnsdorf, Germany	12,000 square feet
Photonics and Precision Technologies	Irvine, California	272,000 square feet
	Rochester, New York	58,000 square feet
	Franklin, Massachusetts	56,000 square feet
	North Billerica, Massachusetts	41,000 square feet
	Stratford, Connecticut	32,000 square feet
	Beaune-la Rolande, France	86,000 square feet
	Brigueuil, France	44,000 square feet
	Wuxi, China	29,000 square feet
	Margate, United Kingdom	16,500 square feet

We own portions of our 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 2010 to 2021. 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.

ITEM 4. RESERVED

PART II

ITEM 5. MARKET FOR THE REGISTRANT'SCOMMON 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 28, 2010, we had 884 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
January 2, 2010	$ 9.66	$ 7.08
October 3, 2009	9.46	5.19
July 4, 2009	6.88	4.56
April 4, 2009	6.60	2.93
January 3, 2009	11.00	4.81
September 27, 2008	13.08	9.24
June 28, 2008	13.94	10.47
March 29, 2008	13.94	9.34

Dividends

We declared no dividends on our common stock during 2009 or 2008. 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.

Purchases of Equity Securities

We made no purchases of our equity securities during the fourth quarter of the year ended January 2, 2010.

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 January 2, 2010:

Equity Compensation Plan Information

Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (excluding securities reflected in column (a)) (c)
Equity Compensation Plans Approved by Security Holders(1)	5,499,516	$ 13.92	2,273,756
Equity Compensation Plans Not Approved by Security Holders(2)	209,715	$ 52.45	--
Total	5,709,231		2,273,756

(1) The number of shares reflected in column (a) for equity compensation plans approved by security holders includes (i) outstanding options to purchase an aggregate of 2,223,216 shares of our common stock, which were issued under our 1992 Stock Incentive Plan and our 2001 Stock Incentive Plan, (ii) outstanding stock-settled stock appreciation rights with respect to an aggregate of 925,155 shares of our common stock, which were issued under our 2006 Performance-Based Stock Incentive Plan, and (iii) outstanding restricted stock units representing the right to receive upon vesting an aggregate of 2,351,145 shares of our common stock, which were issued under our 2006 Performance-Based Stock Incentive Plan. The weighted-average exercise price reflected in column (b) for equity compensation plans approved by security holders represents the combined weighted-average exercise price (or base value) of all outstanding options (having a weighted-average exercise price of $17.98 per share) and all outstanding stock-settled stock appreciation rights (having a weighted-average base value of $4.18 per share). All outstanding restricted stock units were awarded without payment of any purchase price.

(2) The number of shares reflected in column (a) for equity compensation plans not approved by security holders consists of outstanding options to purchase shares of our common stock issued under our 1999 Stock Incentive Plan (1999 Plan) having a weighted-average exercise price of $52.45, and excludes one remaining outstanding option to purchase 1,988 shares of our common stock having an exercise price of $3.93, which was granted upon the assumption and conversion of former options to purchase shares of common stock of MRSI in connection with our acquisition of MRSI in February 2002. The options granted in connection with our acquisition of MRSI were granted outside of a plan pursuant to individual nonqualified stock option agreements, and, therefore, no additional securities are available for future grants.

Equity Compensation Plans Not Approved by Security Holders

In November 1999, our Board adopted our 1999 Plan, pursuant to which nonqualified options to purchase shares of our common stock were granted to employees (excluding officers and members of our Board) from November 1999 until May 2001. In May 2001, upon the approval by our stockholders of our 2001 Stock Incentive Plan, the 1999 Plan was terminated for the purposes of future grants. As of January 2, 2010, options to purchase a total of 209,715 shares of our common stock were outstanding under the 1999 Plan. All options granted under the 1999 Plan were granted at an exercise price equal to the fair market value of the common stock on the grant date, and generally vested in 25% increments on each of the first four anniversaries of the grant date. No option is exercisable more than ten years following the grant date. The right to exercise an option will terminate earlier in the event of termination of the continuous service (as defined in the option agreement) of the employee.

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Stock Performance Graph

The following graph compares the cumulative total stockholder return on $100 invested in our common stock for the five years ended January 2, 2010, with the cumulative total return on $100 invested in each of (i) the Nasdaq Market Index and (ii) our peer group. The graph assumes all investments were made at market value on January 2, 2005 and the reinvestment of all dividends.

The peer group reflected in the graph represents a combination of all companies comprising the Hemscott Semiconductor Equipment & Materials Industry Group (834) Index and the Hemscott Scientific & Technical Instruments Industry Group (837) Index, published by Morningstar, Inc., with these indices weighted one-third (1/3) and two-thirds (2/3), respectively. A listing of the companies comprising each index is available from us by written request to our Corporate Secretary.

COMPARES 5-YEAR CUMULATIVE RETURN AMONG
NEWPORT CORPORATION, NASDAQ MARKET INDEX AND PEER GROUP

The material in this performance graph is not "soliciting material" and is not deemed filed with the SEC and is not to be incorporated by reference in any filing of Newport under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language in any such filing.

ITEM 6. SELECTED FINANCIAL DATA

The table below presents selected consolidated financial data of Newport and our subsidiaries as of and for the years ended January 2, 2010, January 3, 2009, December 29, 2007, December 30, 2006 and December 31, 2005. The consolidated balance sheet data as of January 2, 2010 and January 3, 2009, and the consolidated statement of operations data for the years ended January 2, 2010, January 3, 2009 and December 29, 2007 have been derived from our audited consolidated financial statements included in this Annual Report on Form 10-K. The consolidated balance sheet data as of December 29, 2007, December 30, 2006 and December 31, 2005 and the consolidated statement of operations data for the years ended December 30, 2006 and December 31, 2005 have been derived from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K.

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

(In thousands, except percentages)	For the Year Ended (1) January 2, 2010 (2)	January 3, 2009 (3)	December 29, 2007 (3)	December 30, 2006	December 31, 2005
CONSOLIDATED STATEMENTS OF OPERATIONS:					
Net sales	$ 366,989	$ 445,336	$ 445,197	$ 454,724	$ 403,733
Cost of sales	224,387	274,542	259,636	256,756	234,480
Gross profit	142,602	170,794	185,561	197,968	169,253
Selling, general and administrative expenses	112,177	118,518	116,476	114,533	102,002
Research and development expense	36,948	46,068	42,570	41,981	35,949
Loss (gain) on sale of assets and related costs (4)	4,355	(2,504)	-	-	-
Impairment charges (5)	360	119,944	-	-	-
Operating income (loss)	(11,238)	(111,232)	26,515	41,454	31,302
Recovery (write-down) of note receivable and other amounts related to previously discontinued operations, net (6)	101	(7,040)	-	-	-
Write-down of minority interest investment (7)	-	(2,890)	-	-	-
Gain on extinguishment of debt (8)	328	7,734	-	-	-
Interest and other expense, net	(8,564)	(6,751)	(4,053)	(759)	(1,842)
Income (loss) from continuing operations before income taxes	(19,373)	(120,179)	22,462	40,695	29,460
Income tax provision (benefit) (9)	(1,967)	28,545	(17,229)	2,193	3,746
Income (loss) from continuing operations before discontinued operations and extraordinary gain	(17,406)	(148,724)	39,691	38,502	25,714
Loss from discontinued operations, net of income tax benefits (10)	-	-	-	(1,075)	(16,973)
Extraordinary gain on settlement of litigation (11)	-	-	-	-	2,891
Net income (loss)	$ (17,406)	$ (148,724)	$ 39,691	$ 37,427	$ 11,632
Percentage of net sales:					
Gross profit	38.9%	38.4%	41.7%	43.5%	41.9%
Selling, general and administrative expenses	30.6%	26.6%	26.2%	25.2%	25.3%
Research and development expense	10.1%	10.4%	9.6%	9.2%	8.9%
Operating income (loss)	(3.1)%	(24.9)%	5.9%	9.1%	7.8%
Income (loss) from continuing operations before discontinued operations and extraordinary gain	(4.7)%	(33.4)%	8.9%	8.5%	6.4%
Net income (loss)	(4.7)%	(33.4)%	8.9%	8.2%	2.9%

(In thousands, except per share and worldwide employment figures)	As of or for the Year Ended January 2, 2010	January 3, 2009	December 29, 2007	December 30, 2006	December 31, 2005
PER SHARE INFORMATION:					
Basic net income (loss) per share:					
Income (loss) from continuing operations before discontinued operations and extraordinary gain	$ (0.48)	$ (4.11)	$ 1.03	$ 0.95	$ 0.62
Loss from discontinued operations, net of income tax benefits	-	-	-	(0.03)	(0.41)
Extraordinary gain on settlement of litigation	-	-	-	-	0.07
Net income (loss)	$ (0.48)	$ (4.11)	$ 1.03	$ 0.92	$ 0.28
Diluted net income (loss) per share:					
Income (loss) from continuing operations before discontinued operations and extraordinary gain	$ (0.48)	$ (4.11)	$ 1.02	$ 0.91	$ 0.60
Loss from discontinued operations, net of income tax benefits	-	-	-	(0.02)	(0.40)
Extraordinary gain on settlement of litigation	-	-	-	-	0.07
Net income (loss)	$ (0.48)	$ (4.11)	$ 1.02	$ 0.89	$ 0.27
Shares used in computation of income (loss) per share:					
Basic	36,175	36,155	38,479	40,698	41,281
Diluted	36,175	36,155	39,058	42,167	42,716
Total stockholders' equity per diluted share	$ 7.04	$ 7.34	$ 10.93	$ 10.32	$ 8.82
BALANCE SHEET INFORMATION:					
Cash and marketable securities	$ 141,923	$ 148,420	$ 143,864	$ 85,413	$ 71,022
Working capital	$ 236,510	$ 263,507	$ 284,676	$ 200,808	$ 150,318
Total assets	$ 493,407	$ 524,903	$ 698,323	$ 593,015	$ 529,406
Short-term obligations	$ 11,056	$ 14,089	$ 12,402	$ 9,481	$ 12,559
Long-term obligations (includes obligations under capital leases)	$ 122,636	$ 136,807	$ 153,489	$ 52,125	$ 51,372
Stockholders' equity	$ 254,636	$ 265,197	$ 426,838	$ 434,953	$ 376,583
MISCELLANEOUS STATISTICS:					
Common shares outstanding at year end	36,316	36,049	36,918	41,458	40,036
Average worldwide employment	1,683	1,900	1,943	1,940	1,978
Sales per employee	$ 218	$ 234	$ 229	$ 234	$ 204

(1) We use a conventional 52/53-week accounting fiscal year. Our fiscal year ends on the Saturday closest to December 31, and our fiscal quarters end on the Saturday closest to the end of each corresponding calendar quarter. Fiscal year 2009 (referred to herein as 2009) ended on January 2, 2010, fiscal year 2008 (referred to herein as 2008) ended on January 3, 2009, fiscal year 2007 (referred to herein as 2007) ended on December 29, 2007, fiscal year 2006 (referred to herein as 2006) ended on December 30, 2006, and fiscal year 2005 (referred to herein as 2005) ended on December 31, 2005. Fiscal year 2008 consisted of 53 weeks and fiscal years 2009, 2007, 2006 and 2005 each consisted of 52 weeks.

(2) In July 2009, we entered into an asset exchange transaction in which we acquired substantially all of the assets of the New Focus business. Our results of operations for 2009 included the results of operations of the New Focus business from July 4, 2009, the closing date of the acquisition.

(3) During the first quarter of 2009, we adopted Accounting Standards Codification (ASC) 470-20, Debt – Debt with Conversion and Other Options (formerly FSP APB 14-1), which requires the liability and equity components of convertible debt instruments to be separately accounted for in a manner that reflects the non-convertible debt borrowing rate for interest expense recognition. These provisions have been applied retrospectively upon adoption and, therefore, certain amounts for 2007 and 2008 have been reclassified and revised. See further discussion in Note 8 of the Notes to Consolidated Financial Statements.

(4) In 2009, we entered into an asset exchange transaction in which we sold substantially all of the assets of our diode laser business, which had a book value of $14.9 million, which resulted in a loss of $4.4 million after considering the fair value of these assets of $11.1 million and selling costs of $0.6 million. In 2008, we sold a building under a sale-leaseback agreement for $7.0 million, net of $0.3 million in selling costs. We recorded a gain on the sale of the building of $2.5 million after considering the net book value of the building and the present value of the leaseback agreement.

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

(6) In 2005, we sold our robotic systems operations to Kensington Laboratories LLC (Kensington) for $0.5 million in cash and a note receivable of $5.7 million, after adjustments provided for in the purchase agreement, and subleased the facility relating to such operations to Kensington. In 2008, due to uncertainty regarding collectibility of such note receivable and amounts owed under the sublease, we wrote off such note receivable and other amounts owed in full, resulting in charges totaling $7.0 million, net of amounts recovered relating to the sublease. In 2009, we entered into a settlement agreement with Kensington pursuant to which Kensington paid us $0.2 million and transferred to us certain assets included in the collateral securing the note. In 2009, we recognized $0.1 million as a recovery on the note, net of certain costs. See further discussion in Note 16 of the Notes to Consolidated Financial Statements.

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

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

(9) We have previously established a valuation allowance against our deferred tax assets due to uncertainty as to the timing and ultimate realization of those assets. In 2007, we reduced the valuation allowance against our deferred tax assets by $19.8 million, and in 2008, we reestablished such valuation allowance and recorded an additional valuation allowance of $4.6 million. See further discussion in Note 11 of the Notes to Consolidated Financial Statements regarding our valuation allowance.

(10) In 2005, our Board of Directors approved a plan to sell our robotic systems operations. This divestiture has been accounted for as discontinued operations for all periods presented.

(11) In March 2005, we settled a dispute arising out of our acquisition of MRSI. As a result of this settlement, we recorded an extraordinary gain of $2.9 million in the first quarter of 2005.

ITEM 7. MANAGEMENT'SDISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and related notes included in this Annual Report on Form 10-K. This discussion contains forward-looking statements that involve risks and uncertainties. These statements are based on assumptions that we consider reasonable. When used in this report, the words "anticipate," "believe," "can," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "should," "will expressions or the negative of such expressions are intended to identify these forward-looking statements. In addition, any statements that refer to projections of our future financial performance, trends in our businesses, or other characterizations of future events or circumstances are forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those discussed in Item 1A (Risk Factors) of Part I of this Annual Report on Form 10-K.

Overview

We are a global supplier of advanced-technology products and systems, including lasers, photonics instrumentation, precision positioning and vibration isolation products and systems, optical components and subsystems and advanced automated manufacturing systems. Our products are used worldwide in industries including scientific research, microelectronics, aerospace and defense/security, life and health sciences and industrial manufacturing. We operate within two distinct business segments, our Lasers Division and our PPT Division. Both of our divisions offer a broad array of advanced technology products and services to original equipment manufacturer (OEM) and end-user customers across a wide range of applications and markets.

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

Acquisitions and Divestitures

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

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

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

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

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

Adoption of Financial Accounting Standards Board (FASB) ASC 470-20 (formerly FSP APB 14-1)

During the first quarter of 2009, we adopted ASC 470-20, Debt – Debt with Conversion and Other Options, which requires the liability and equity components of convertible debt instruments to be separately accounted for in a manner that reflects the non-convertible debt borrowing rate for interest expense recognition. In addition, direct issuance costs associated with the convertible debt instruments are required to be allocated to the liability and equity components in proportion to the allocation of proceeds and accounted for as debt issuance costs and equity issuance costs, respectively. These provisions have been applied retrospectively upon adoption. In accordance with ASC 470-20, we have recorded a debt discount of $27.5 million and a deferred tax liability of $10.6 million and have allocated $0.9 million of issuance costs to the equity component. Such amounts were calculated using an income approach and assumed a non-convertible debt borrowing rate of 6.25%, which is also the effective interest rate used to calculate interest expense. Due to the valuation allowance maintained against our deferred tax assets, the recording of the deferred tax liability resulted in a reduction to this valuation allowance rather than in a reduction in capital in excess of par value. Upon the adoption of ASC 470-20, the amortization of the debt discount resulted in an increase in non-cash interest expense of $4.2 million and $4.9 million for our fiscal years 2008 and 2007, respectively. Our consolidated statements of operations for 2008 and 2007 have been retrospectively adjusted compared with previously reported amounts as follows:

(In thousands)	Year Ended January 3, 2009		December 29, 2007	
Additional non-cash interest expense	$	(5,182)	$	(4,459)
Reduction in amortization of debt issuance costs		322		269
Reduction in gain on extinguishment of debt:				
Reduction in write off of debt issuance costs		62		-
Write off of debt discount		(2,987)		-
Total reduced gain on extinguishment of debt		(2,925)		-
Retrospective change in net income (loss)	$	(7,785)	$	(4,190)
Change to basic earnings per share	$	(0.22)	$	(0.11)
Change to diluted earnings per share	$	(0.22)	$	(0.11)

Fiscal Year End

We use a conventional 52/53-week accounting fiscal year. Our fiscal year ends on the Saturday closest to December 31, and our fiscal quarters end on the Saturday closest to the end of each corresponding calendar quarter. Fiscal year 2009 (referred to herein as 2009) ended on January 2, 2010, fiscal year 2008 (referred to herein as 2008) ended on January 3, 2009 and fiscal year 2007 (referred to herein as 2007) ended on December 29, 2007. Fiscal year 2008 consisted of 53 weeks and fiscal years 2009 and 2007 each consisted of 52 weeks.

Critical Accounting Policies and Estimates

Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our consolidated financial statements included in this Annual Report on Form 10-K, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. We evaluate these estimates and assumptions on an ongoing basis. We base our estimates on our historical experience and on various other factors which we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities and the amounts of certain expenses that are not readily apparent from other sources. Our significant accounting policies are discussed in Note 1 (Organization and Summary of Significant Accounting Policies) to the Notes to Consolidated Financial Statements, included in Item 15 (Exhibits, Financial Statement Schedules) of this Annual Report on Form 10-K. The accounting policies that involve the most significant judgments, assumptions and estimates used in the preparation of our financial statements are those related to revenue recognition, allowances for doubtful accounts, pension liabilities, inventory reserves, warranty obligations, asset impairment, income taxes and stock-based compensation expense. The judgments, assumptions and estimates used in these areas by their nature involve risks and uncertainties, and in the event that any of them prove to be inaccurate in any material respect, it could have a material adverse effect on our reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

Revenue Recognition

We recognize revenue after title to and risk of loss of products have passed to the customer, or delivery of the service has been completed, provided that persuasive evidence of an arrangement exists, the fee is fixed or determinable and collectibility is reasonably assured. We recognize revenue and related costs for arrangements with multiple deliverables, such as equipment and installation, as each element is delivered or completed based upon its relative fair value, determined based upon the price that would be charged on a standalone basis. If a portion of the total contract price is not payable until installation is complete, we do not recognize such portion as revenue until completion of installation; however, we record the full cost of the product at the time of shipment. Revenue for extended service contracts is recognized over the related contract periods. Certain sales to international customers are made through third-party distributors. A discount below list price is generally provided at the time the product is sold to the distributor, and such discount is reflected as a reduction in net sales. Freight costs billed to customers are included in net sales, and freight costs incurred are included in selling, general and administrative expenses. Sales taxes collected from customers are recorded on a net basis and any amounts not yet remitted to tax authorities are included in accrued expenses and other current liabilities.

In the event that we determine that all of the criteria for recognition of revenue have not been met for a transaction, the amount of revenue that we recognize in a given reporting period could be adversely affected. In particular, our ability to recognize revenue for high-value product shipments could cause significant fluctuations in the amounts of revenue reported from period to period depending on the timing of the shipments and the terms of sale of such products.

Our customers (including distributors) generally have 30 days from the original invoice date (generally 60 days for international customers) to return a standard catalog product purchase for exchange or credit. Catalog products must be returned in the original condition and meet certain other criteria. Custom, option-configured and certain other products as defined in the terms and conditions of sale cannot be returned without our consent. For certain products, we establish a sales return reserve based on the historical product returns. If actual product returns are significant and/or exceed our established sales return reserves, our net sales could be adversely affected.

Accounts and Notes Receivable

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

Certain of our Japanese customers provide us with promissory notes on the due date of the receivable. The payment dates of the promissory notes generally range between 60 and 150 days from the original receivable due date. For balance sheet presentation purposes, amounts due to us under such promissory notes are reclassified from accounts receivable to notes receivable. At January 2, 2010 and January 3, 2009, notes receivable, net totaled $2.3 million and $6.6 million, respectively. Certain of these promissory notes are sold with recourse to banks in Japan with which we regularly do business. The sales of these receivables have been accounted for as secured borrowings, as we have not met the criteria for sale treatment in accordance with ASC 860, Transfers and Servicing. The principal amount of the promissory notes sold with recourse is included in both notes receivable, net and short-term obligations until the underlying note obligations are ultimately satisfied through payment by the customers to the banks. At January 2, 2010 and January 3, 2009, the principal amount of such promissory notes included in notes receivable, net and short-term obligations in the accompanying consolidated balance sheets totaled $1.3 million and $4.3 million, respectively.

Pension Plans

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

Inventories

We state our inventories at the lower of cost (determined on either a first-in, first-out (FIFO) or average cost basis) or fair market value and include materials, labor and manufacturing overhead. We write down excess and obsolete inventory to net realizable value. Once we write down the carrying value of inventory, a new cost basis is established, and we do not increase the newly established cost basis based on subsequent changes in facts and circumstances. In assessing the ultimate realization of inventories, we make judgments as to future demand requirements and compare those requirements with the current and committed inventory levels. We record any amounts required to reduce the carrying value of inventory to net realizable value as a charge to cost of sales. Should actual demand requirements differ from our estimates, we may be required to reduce the carrying value of inventory to net realizable value, resulting in a charge to cost of sales which could adversely affect our operating results.

Warranty

Unless otherwise stated in our product literature or in our agreements with our customers, products sold by our PPT Division generally carry a one-year warranty from the original invoice date on all product materials and workmanship, other than filters, gratings and crystals products, which generally carry a 90 day warranty. Products of this division sold to OEM customers generally carry longer warranties, typically 15 to 19 months. Products sold by our Lasers Division carry warranties that vary by product and product component, but that generally range from 90 days to two years. In certain cases, such warranties for Lasers Division products are limited by either a set time period or a maximum amount of usage of the product, whichever occurs first. Defective products will either be repaired or replaced, generally at our option, upon meeting certain criteria. We accrue a provision for the estimated costs that may be incurred for warranties relating to a product (based on historical experience) as a component of cost of sales at the time revenue for that product is recognized. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, our warranty obligations are affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage and/or service delivery costs negatively differ from our estimates, revisions to the estimated warranty obligation would be required which could adversely affect our operating results.

Impairment of Assets

We assess the impairment of long-lived assets at least annually and whenever events or changes in circumstances indicate that their carrying value may not be recoverable. The determination of related estimated useful lives and whether or not these assets are impaired involves significant judgments, related primarily to the future profitability and/or future value of the assets. Changes in our strategic plan and/or market conditions could significantly impact these judgments and could require adjustments to recorded asset balances.

We hold minority interests in companies having operations or technologies in areas which are within or adjacent to our strategic focus when acquired, all of which are privately held and whose values are difficult to determine. 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 acquired, our ability to liquidate our investments is limited, and such markets may not develop in the future. During 2008, we determined that a minority interest investment had an other-than-temporary decline in value and wrote off $2.9 million, representing the full carrying value of such investment. At January 3, 2009 and January 2, 2010, none of our minority interest investments had any carrying value. If we are able to liquidate our holdings in any minority interest investments in the future, any proceeds received from such a transaction will be recognized as a gain in the period in which the stock is sold.

Goodwill represents the excess of the purchase price of the net assets of acquired entities over the fair value of such assets. Under ASC 350-20, Intangibles – Goodwill and Othergoodwill and other intangible assets are not amortized but are tested for impairment at least annually or when circumstances exist that would indicate an impairment of such goodwill or other intangible assets. We perform the annual impairment test as of the beginning of the fourth quarter of each year. A two-step test is used to identify the potential impairment and to measure the amount of impairment, if any. The first step is based upon a comparison of the fair value of each of our reporting units, as defined, and the carrying value of the reporting unit's net assets, including goodwill. If the fair value of the reporting unit exceeds its carrying value, goodwill is considered not to be impaired; otherwise, step two is required. Under step two, the implied fair value of goodwill, calculated as the difference between the fair value of the reporting unit and the fair value of the net assets of the reporting unit, is compared with the carrying value of goodwill. The excess of the carrying value of goodwill over the implied fair value represents the amount impaired. Based upon this two-step process, we determined that our goodwill was not impaired as of the beginning of the fourth quarter of 2008. However, due to a continued decline in our market capitalization, we reevaluated our goodwill as of the end of the fourth quarter of 2008 and determined that the goodwill related to our Lasers Division was impaired and recorded a goodwill impairment charge of $104.6 million. There were no such impairments during 2007 or 2009.

During 2008, we conducted an impairment analysis on our intangible assets and, due to diminished cash flow projections for certain products, determined that certain developed technology related to our Lasers Division was impaired. Accordingly, we recorded impairment charges totaling $15.4 million, which consisted of a charge of $12.5 million related to developed technology associated with the Spectra-Physics acquisition and a charge of $2.9 million related to developed technology that we acquired from Picarro, Inc. (Picarro) in 2006. During 2009, we determined we would not continue to pursue technology related to certain purchased in-process research and development related to the New Focus business and recorded an impairment charge of $0.4 million associated with such technology.

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

Fair value of our reporting units is determined using a combination of a comparative company analysis, a comparative transaction analysis, and a discounted cash flow analysis. The comparative company analysis establishes fair value by applying market multiples to our revenue and earnings before interest, income taxes, depreciation and amortization. Such multiples are determined by comparing our reporting units with other publicly traded companies within the respective industries that have similar economic characteristics. The comparative transaction analysis establishes fair value by applying market multiples to our revenue. Such multiples are determined through recent mergers and acquisitions for companies within the respective industries that have similar economic characteristics to our reporting units. The discounted cash flow analysis establishes fair value by estimating the present value of the projected future cash flows of each reporting unit. The present value of estimated discounted future cash flows is determined using our estimates of revenue and costs for the reporting units, driven by assumed growth rates, as well as appropriate discount rates. The discount rate is determined using a weighted-average cost of capital that incorporates market participant data and a risk premium applicable to each reporting unit. In 2008, in performing the impairment analysis from which we concluded that the goodwill related to our Lasers Division was impaired, we determined that, due to market volatility, past transactions were deemed not to be comparable to the expected results from current transactions, and therefore, the comparative transaction analysis was excluded from such analysis.

Income Taxes

Our income tax expense (benefit), deferred tax assets and liabilities and reserves for unrecognized tax benefits reflect management's best assessment of estimated future taxes. We are subject to income taxes in both the U.S. and numerous foreign jurisdictions. Significant judgments and estimates are required in determining our consolidated income tax expense (benefit).

We utilize the asset and liability method of accounting for income taxes as set forth in ASC 740, Income Taxes. The application of tax laws and regulations is subject to legal and factual interpretation, judgment and uncertainty. Tax laws themselves are subject to change as a result of changes in fiscal policy, changes in legislation, evolution of regulations and court rulings. Therefore, the actual liability for U.S. or foreign taxes may be materially different from our estimates, which could result in the need to record additional liabilities or to reverse previously recorded tax liabilities. Differences between actual results and our assumptions, or changes in our assumptions in future periods, are recorded in the period they become known.

Deferred income taxes are recognized for the future tax consequences of temporary differences using enacted statutory tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Temporary differences include the difference between the financial statement carrying amounts and the tax bases of existing assets and liabilities and operating loss and tax credit carryforwards. The effect of a change in tax rates on deferred taxes is recognized in income in the period that includes the enactment date. In accordance with the provisions of ASC 740, a valuation allowance for deferred tax assets is recorded to the extent we cannot determine that the ultimate realization of the net deferred tax assets is more likely than not. Realization of deferred tax assets is principally dependent upon the achievement of future taxable income, the estimation of which requires significant management judgment.

We had previously established a valuation allowance on all our U.S. deferred tax assets, due to the uncertainty surrounding the timing and ultimate realization of these assets. In the fourth quarter of 2007, we recorded a partial release of $19.8 million of the valuation allowance due to the fact that we had cumulative pre-tax income for the three years then ended and were projecting pre-tax income for 2008 and 2009. During the fourth quarter of 2008, we determined that goodwill and certain purchased intangible assets related to our Lasers Division were impaired, and we recorded impairment charges of $119.9 million, which resulted in a cumulative three-year loss position as of January 3, 2009. After evaluating this loss position together with other positive and negative facts, we determined that it was more likely than not that some or all of our net deferred tax assets will not be realized. Therefore, we reestablished the $19.8 million valuation allowance that had been previously released in 2007. Furthermore, due to the impairment charges recorded related to our Lasers Division, we determined that certain qualifying tax planning strategies were no longer deemed prudent and feasible and, as a result, recorded an additional valuation allowance of $4.6 million in 2008. In the fourth quarter of 2009, after evaluating all positive and negative facts, it was determined that it was more likely than not that we would realize the net deferred tax assets applicable to our German entity. Therefore, we recorded a release of the valuation allowance associated with this entity of $2.5 million.

We utilize ASC 740-10-25, Income Taxes – Recognition, which requires income tax positions to meet a more-likely-than-not recognition threshold to be recognized in the financial statements. Under ASC 740-10-25, tax positions that previously failed to meet the more-likely-than-not threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. As a multi-national corporation, we are subject to taxation in many jurisdictions, and the calculation of our tax liabilities involves dealing with uncertainties in the application of complex tax laws and regulations in various taxing jurisdictions. If we ultimately determine that the payment of these liabilities will be unnecessary, we reverse the liability and recognize a tax benefit during the period in which we determine the liability no longer applies. Conversely, we record additional tax charges in a period in which we determine that a recorded tax liability is less than we expect the ultimate assessment to be. As a result of these adjustments, our effective tax rate in a given financial statement period could be materially affected.

Stock-Based Compensation

We account for stock-based compensation in accordance with ASC 718, Compensation – Stock Compensation. Under the fair value recognition provision of ASC 718, stock-based compensation cost is estimated at the grant date based on the fair value of the award. We estimate the fair value of stock options and stock appreciation rights granted using the Black-Scholes-Merton option pricing model and a single option award approach. The fair value of restricted stock and restricted stock unit awards is based on the closing market price of our common stock on the date of grant.

Determining the appropriate fair value of stock options and stock appreciation rights at the grant date requires significant judgment, including estimating the volatility of our common stock and expected term of the awards. We compute expected volatility based on historical volatility over the expected term. The expected term represents the period of time that stock options and stock appreciation rights are expected to be outstanding and is determined based on our historical experience, giving consideration to the contractual terms of the stock-based awards, vesting schedules and expected exercise behavior.

A substantial portion of our awards vest based upon the achievement of one or more financial performance goals established by the Compensation Committee of our Board of Directors. Currently, such performance goals relate to the fiscal year in which the award is granted, and if such performance goals are met, the awards vest in equal installments on the first three anniversaries of the grant date. For awards issued prior to 2009, the vesting of such awards is conditioned upon achievement of performance goals relating to three annual performance periods. Until we have determined that performance goals have been met, the amount of expense that we record relating to performance-based awards is estimated based on the likelihood of achieving the performance goals. Estimating the likelihood of achievement of performance goals requires significant judgment, as such estimates are based on forecasted results of operations. We also make certain judgments regarding expected forfeitures of all stock-based awards, which may vary significantly from actual forfeitures. If our actual results of operations or forfeitures differ from our estimates, we may need to increase or decrease stock-based compensation expense related to performance-based awards, which could significantly impact the amount of stock-based compensation expense recorded in a given period.

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

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

(In thousands)	Year Ended January 2, 2010	January 3, 2009	December 29, 2007
Cost of sales	$ 137	$ 52	$ 425
Selling, general and administrative expenses	1,979	1,654	3,005
Research and development expense	216	97	238
	$ 2,332	$ 1,803	$ 3,668

Results of Operations for the Years Ended January 2, 2010, January 3, 2009 and December 29, 2007

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

	Percentage of Net Sales For the Year Ended January 2, 2010	January 3, 2009	December 29, 2007
Net sales	100.0%	100.0%	100.0%
Cost of sales	61.1	61.6	58.3
Gross profit	38.9	38.4	41.7
Selling, general and administrative expenses	30.6	26.6	26.2
Research and development expense	10.1	10.4	9.6
Loss (gain) on sale of assets and related costs	1.2	(0.6)	-
Impairment charges	0.1	26.9	-
Operating income (loss)	(3.1)	(24.9)	5.9
Recovery (write-down) of note receivable and other amounts related to previously discontinued operations, net	0.0	(1.6)	-
Write-down of minority interest investment	-	(0.7)	-
Gain on extinguishment of debt	0.1	1.7	-
Interest and other expense, net	(2.3)	(1.5)	(0.9)
Income (loss) before income taxes	(5.3)	(27.0)	5.0
Income tax provision (benefit)	(0.5)	6.4	(3.9)
Net income (loss)	(4.8)%	(33.4)%	8.9%

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

Net Sales

For 2009, 2008 and 2007, our net sales totaled $367.0 million, $445.3 million and $445.2 million, respectively. Our total net sales decreased $78.3 million, or 17.6%, in 2009 compared with 2008. Net sales by our PPT Division decreased $38.1 million, or 14.8%, and net sales by our Lasers Division decreased $40.2 million, or 21.4%, in 2009 compared with the prior year period. Our total net sales were approximately equal in 2008 and 2007. Net sales by our Lasers Division increased $2.3 million, or 1.3%, and net sales by our PPT Division decreased $2.2 million, or 0.9%, in 2008 compared with 2007. During 2009, we experienced decreases in net sales compared with 2008 in all of our end markets. These decreases resulted primarily from poor worldwide macroeconomic conditions and the cyclical downturn in the semiconductor equipment industry. While uncertain global economic conditions persisted throughout the year, our total sales increased significantly in the second half of 2009 compared with the first half, and we expect total net sales in 2010 to be greater than the 2009 level. While our total net sales in 2008 were approximately equal to our net sales in 2007, our net sales in the first half of 2008 were $14.7 million higher than in the first half of 2007, while our net sales in the second half of 2008 were $14.6 million lower than in the second half of 2007. This decrease was due primarily to the deterioration of overall macroeconomic conditions during the second half of 2008.

Net sales to the scientific research, aerospace and defense/security markets were $143.4 million, $150.3 million and $150.5 million for 2009, 2008 and 2007, respectively. The decrease of $6.9 million, or 4.6%, in 2009 compared with 2008 was due primarily to decreased sales to research customers, including universities, resulting from lower funding from governmental entities, corporations and private foundations, and decreased sales to defense contractor customers, offset in part by additional sales from our acquisition of the New Focus business. Generally, our net sales to these markets by both of our divisions may fluctuate from period to period due to the timing of large sales relating to major research programs and, in some cases, these fluctuations may be offsetting between our divisions or between such periods.

Net sales to the microelectronics market were $84.7 million, $130.3 million and $127.2 million for 2009, 2008 and 2007, respectively. The decrease of $45.6 million, or 35.0%, in 2009 compared with 2008 was due primarily to a significant decline in sales of products and systems to our semiconductor capital equipment customers as a result of the cyclical downturn in that industry, and due to the fact that sales of laser-based disk texturing systems that occurred in 2008 did not recur in 2009. The increase of $3.1 million, or 2.4%, in 2008 compared with 2007 was due primarily to significant increases in sales of products and systems for solar panel manufacturing applications and laser-based disk texturing systems, offset in part by a significant decrease in sales for other microelectronics applications, particularly in the semiconductor equipment industry due to the cyclical downturn in that industry.

Net sales to the life and health sciences market were $87.5 million, $90.1 million and $89.4 million for 2009, 2008 and 2007, respectively. The decrease of $2.6 million, or 2.9%, in 2009 compared with 2008 was due primarily to the divestiture of our diode laser operations at the end of the second quarter of 2009, and to decreased sales of products for bioinstrumentation applications, offset in part by higher sales of products for bioimaging applications. Our sales to customers in this market increased slightly in 2008 compared with 2007 despite the overall macroeconomic downturn.

Net sales to our industrial and other end markets were $51.4 million, $74.6 million and $78.1 million for 2009, 2008 and 2007, respectively. The decreases of $23.2 million, or 31.2%, in 2009 compared with 2008, and $3.5 million, or 4.5%, in 2008 compared with 2007 were due primarily to the poor macroeconomic conditions worldwide.

Geographically, net sales were as follows:

(In thousands, except percentages)	Year Ended January 2, 2010	January 3, 2009	(Decrease)	Percentage (Decrease)
United States	$ 169,947	$ 208,736	$ (38,789)	(18.6)%
Europe	97,886	114,936	(17,050)	(14.8)
Pacific Rim	79,770	100,676	(20,906)	(20.8)
Other	19,386	20,988	(1,602)	(7.6)
Total sales	$ 366,989	$ 445,336	$ (78,347)	(17.6)%

(In thousands, except percentages)	Year Ended January 3, 2009	December 29, 2007	Increase / (Decrease)	Percentage Increase / (Decrease)
United States	$ 208,736	$ 223,891	$ (15,155)	(6.8)%
Europe	114,936	112,695	2,241	2.0
Pacific Rim	100,676	80,946	19,730	24.4
Other	20,988	27,665	(6,677)	(24.1)
Total sales	$ 445,336	$ 445,197	$ 139	0.0%

Poor global macroeconomic conditions in 2009 resulted in decreased sales to customers in all geographies compared with 2008. In particular, sales to the United States, Europe and the Pacific Rim were negatively impacted by the continued cyclical downturn in the semiconductor equipment industry, and sales to the Pacific Rim were also negatively impacted by sales of laser-based disk texturing systems in 2008 that did not recur in 2009.

The decrease in sales to customers in the United States in 2008 compared with the prior year period was due primarily to decreased sales to our semiconductor manufacturing equipment customers, offset in part by increased sales of products for solar panel manufacturing applications. Our increased sales to customers in Europe in 2008 compared with the prior year were due primarily to increased sales to our industrial manufacturing customers. Our increased sales to the Pacific Rim in 2008 were due in large part to increased sales of laser-based disk texturing systems and products for solar panel manufacturing applications compared with the prior year period. The decrease in sales to customers in other areas of the world in 2008 was due primarily to decreased sales to our semiconductor manufacturing equipment customers.

Gross Margin

Gross margin was 38.9%, 38.4% and 41.7% for 2009, 2008 and 2007, respectively. The increase in gross margin in 2009 compared with 2008 was due primarily to improved gross margins in our Lasers Division as a result of the divestiture of our diode laser operations, decreased warranty expenses and lower personnel costs resulting from headcount reductions, and improved operating efficiencies at certain facilities as a result of our cost reduction actions, offset in part by lower absorption of fixed overhead costs resulting from reduced sales. The decrease in gross margin in 2008 compared with 2007 was due primarily to reduced absorption of fixed overhead costs due to lower manufacturing volume, a higher proportion of sales of products with lower gross margins in both our PPT Division and Lasers Division, and an increase in inventory reserves in our Lasers Division.

Selling, General and Administrative (SG&A) Expenses

SG&A expenses totaled $112.2 million, or 30.6% of net sales, $118.5 million, or 26.6% of net sales, and $116.5 million, or 26.2% of net sales, during 2009, 2008 and 2007, respectively. The decrease in SG&A expenses in absolute dollars in 2009 compared with 2008 was due primarily to decreased wages, consulting expenses, travel expenses, advertising expenses, shipping costs, accounting fees and insurance expenses, offset in part by increased rent, incentive compensation, bad debt expense and benefits costs. The increase in SG&A expenses in 2008 compared with 2007 was due primarily to increases in rent and utilities, depreciation expense and freight costs, offset in part primarily by decreases in professional fees and recruitment and relocation costs.

In general, we expect that SG&A expenses will vary as a percentage of sales in the future based on our sales level in any given period. Because the majority of our SG&A expenses are fixed in the short term, these changes in SG&A expenses will likely not be in proportion to the changes in net sales.

Research and Development (R&D) Expense

R&D expense totaled $36.9 million, or 10.1% of net sales, $46.1 million, or 10.4% of net sales, and $42.6 million, or 9.6% of net sales, during 2009, 2008 and 2007, respectively. The decrease in R&D expense in 2009 compared with 2008 was due to reduced spending in both our Lasers and PPT Divisions. The decrease in R&D spending in our Lasers Division was due primarily to the reduced expenses resulting from the divestiture of our diode laser operations in the second half of the year and reduced headcount within the remainder of the division. The decrease in R&D spending in our PPT Division was due primarily to reduced spending on projects related to solar cell manufacturing applications, as the design and development of certain products was completed during 2008, and to reduced headcount. The increase in R&D expense in 2008 compared with 2007 was due primarily to increased investment on new product development programs, particularly for solar panel manufacturing applications.

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

Impairment Charges

During the fourth quarter of 2009, we determined that we would not continue to pursue technology related to certain purchased in-process research and development related to the New Focus business and recorded an impairment charge of $0.4 million associated with such technology.

During the fourth quarter of 2008, due to a decline in our market capitalization and diminished cash flow projections related to certain laser products, we determined that goodwill and certain purchased intangible assets related to our Lasers Division were impaired. As a result, we recorded goodwill impairment charges totaling $104.6 million, which consisted of a charge of $103.0 million related to goodwill associated with the acquisition of Spectra-Physics and a charge of $1.6 million related to goodwill associated with the acquisition of certain assets from Picarro. In addition, we recorded impairment charges related to certain purchased intangible assets totaling $15.4 million, which consisted of a charge of $12.5 million related to developed technology associated with the acquisition of Spectra-Physics and a charge of $2.9 million related to developed technology acquired from Picarro.

Write-Down of Note Receivable and Other Amounts

In 2005, we sold our robotic systems operations to Kensington Laboratories LLC (Kensington) for $0.5 million in cash and a note receivable of $5.7 million, after adjustments provided for in the purchase agreement, and subleased the facility relating to such operations to Kensington. We had previously classified this business as a discontinued operation. Kensington failed to make certain principal, interest and rent payments due under our agreements. The note was secured by a first-priority security interest in certain Kensington assets. In 2008, due to uncertainty regarding the collectibility of such amounts, we wrote off the note receivable and other amounts owed in full, resulting in charges totaling $7.0 million, net of amounts recovered relating to the sublease. In accordance with the Securities and Exchange Commission Staff Accounting Bulletin Topic 5.Z.5, we have recorded this write-down through continuing operations in our consolidated statements of operations. In 2009, we entered into a settlement agreement with Kensington pursuant to which Kensington paid us $0.2 million and transferred to us certain assets included in the collateral securing the note. In 2009, we recognized $0.1 million as a recovery on the note, net of certain costs.

Write-Down of Minority Interest Investment

We own a minority interest in a privately held developer of flip chip and advanced packaging equipment for back-end semiconductor manufacturing applications. During the fourth quarter of 2008, we determined that such investment had declined in value and that such decline was other-than-temporary. Accordingly, we recorded a charge of $2.9 million to write off the full carrying value of this investment. This company has filed a registration statement for an initial public offering. If and when this offering is complete, the public market for the company's stock would create greater liquidity for this investment. If we are able to liquidate our holdings in the future, any proceeds received from such a transaction will be recognized as a gain in the period in which the stock is sold.

Gain on Extinguishment of Debt

During 2009, we extinguished $20.2 million of our convertible subordinated notes at a weighted-average price equal to 91.6% of the principal amount of the notes, or $18.7 million. After allocating $0.3 million to the equity component, we recorded a gain of $0.3 million on extinguishment of debt, net of unamortized fees and debt discount. During 2008, we extinguished $28.0 million of our convertible subordinated notes at a weighted-average price equal to 59.9% of the principal amount of the notes, or $16.8 million. We recorded a gain of $7.7 million on extinguishment of debt, net of unamortized fees and debt discount.

Gain on Sale of Building

During 2008, we sold a building under a sale-leaseback agreement for $7.0 million, net of $0.3 million in selling costs. We recorded a gain on the sale of the building of $2.5 million after considering the net book value of the building and the present value of the leaseback agreement. The lease of the building expired on December 31, 2009.

Interest and Other Expense, Net

Interest and other expense, net was $8.6 million, $6.8 million and $4.1 million in 2009, 2008 and 2007, respectively. The increase in interest and other expense, net in 2009 compared with 2008 was due primarily to lower interest income earned as a result of lower interest rates and transaction losses resulting from foreign currency fluctuations, offset in part by lower interest expense related to our convertible subordinated notes due to the extinguishment of $28.0 million of the notes in the fourth quarter of 2008. The increase in interest and other expense, net in 2008 compared with 2007 was due to lower interest income earned as a result of lower interest rates and lower cash balances and higher interest expense due to a full year of accrued interest on our convertible subordinated notes, which were issued in February 2007. In addition, in 2008 we ceased accruing interest on our note receivable from Kensington due to the uncertainty as to the collectibility of such interest owed, further reducing interest income. Our interest and other expense in 2008 was offset in part by transaction gains resulting from currency fluctuations.

Income Taxes

Our effective income tax rate was a tax benefit of 10.2% for 2009, tax expense of (23.8%) for 2008 and tax benefit of (76.7%) for 2007. In 2007, after analyzing all positive and negative facts, we released $19.8 million of the valuation allowance recorded against our U.S. deferred tax assets, which accounted for a substantial portion of the tax benefit in 2007. In 2008, the impairment of goodwill and other intangible assets related to our Lasers Division resulted in a cumulative three-year loss position. After evaluating this loss position, together with other positive and negative factors, we reestablished the $19.8 million valuation allowance released previously. In addition, in 2008, due to such impairment of goodwill and other intangible assets, we determined that certain qualifying tax planning strategies were no longer deemed prudent and feasible and, as a result, we recorded an additional valuation allowance of $4.6 million. These amounts accounted for a substantial portion of our tax expense in 2008. In the fourth quarter of 2009, after evaluating all positive and negative facts, we determined that it was more likely than not that we would realize the net deferred tax assets applicable to our German subsidiary. Therefore, we recorded a release of the valuation allowance associated with that entity of $2.5 million, which accounted for a significant portion of the 2009 tax benefit. In addition, increases in global tax contingencies and the impact of foreign tax rate variances had a significant impact on our 2009 effective tax rate. Until such time as the valuation allowance recorded against our U.S. deferred tax assets is fully released, the Federal tax provision related to future earnings will be offset substantially by a reduction in the valuation allowance related to our net operating loss carryforwards.

We adopted the provisions of ASC 740-10-25 effective as of the beginning of fiscal year 2007. As a result of applying the provisions of ASC 740-10-25, our reserve for uncertain tax positions increased by $2.9 million, deferred income tax assets increased by $1.1 million, and stockholders' equity decreased by $1.8 million as of the beginning of fiscal year 2007. As of January 2, 2010, we had $9.5 million of gross unrecognized tax benefits and the total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was $9.1 million. We believe that it is reasonably possible that unrecognized tax benefits may decrease by $0.6 million within the next twelve months. We accrue interest and penalties related to unrecognized tax benefits in our provision for income taxes. Such amounts were not significant as of January 2, 2010.

Liquidity and Capital Resources

Our cash and cash equivalents and marketable securities balances decreased to $141.9 million as of January 2, 2010 from $148.4 million as of January 3, 2009. The decrease was attributable primarily to cash used to extinguish $20.2 million of our convertible subordinated notes, capital expenditures related primarily to facility consolidation activities, the cash payment related to our asset exchange transaction with Oclaro and net repayments of short-term borrowings, offset in part by cash generated from operations.

Net cash provided by our operating activities of $24.7 million was attributable primarily to cash provided by our results of operations, a decrease of $7.0 million in accounts and notes receivable due to lower sales levels and an increase of $1.1 million in accrued expenses and other liabilities due to increased deferred revenue, offset in part by an increase of $6.2 million in gross inventory, a decrease of $2.1 million in accounts payable due to the timing of payments and an increase in prepaid expenses and other assets of $1.4 million due to prepaid contract costs. During 2009, while we used cash for gross inventory purchases, our net inventory actually decreased by $8.9 million primarily as a result of $10.3 million in charges related to excess and obsolete inventory and $1.9 million in amortization of demonstration equipment, as well as a net decrease in inventory of $3.4 million in connection with our asset exchange transaction with Oclaro, in which we transferred inventory related to our diode laser manufacturing operations and acquired inventory related to the New Focus business.

Net cash provided by investing activities of $8.1 million consisted of net sales and maturities of marketable securities of $20.8 million, offset in part by purchases of property and equipment of $9.7 million and the $3.0 million cash payment related to our asset exchange transaction with Oclaro.

Net cash used in financing activities of $20.6 million consisted of the extinguishment of $20.2 million of our convertible subordinated notes for $18.7 million, and net repayments of short-term borrowings of $2.7 million, offset in part by $0.8 million received as consideration for the issuance of common stock in connection with the exercise of stock options and participation in our employee stock purchase plan.

As of January 2, 2010, we had cash and cash equivalents of $87.7 million and marketable securities of $54.2 million. The majority of the marketable securities are invested in one portfolio managed by an investment management firm, under the oversight of our senior financial management team. This portfolio manager invests the funds allocated in accordance with our Investment Policy, which is reviewed regularly by our senior financial management and the Audit Committee of our Board of Directors. We expect that our cash balances will fluctuate in the future based on factors such as cash used in or provided by ongoing operations, acquisitions or divestitures, investments in other companies, share and note repurchases, capital expenditures and contractual obligations, and changes in interest rates.

In February 2007, we issued $175 million of convertible subordinated notes due 2012, which notes bear interest at a rate of 2.5% per year, payable in cash semiannually in arrears on February 15 and August 15 of each year. The sale of the notes generated net proceeds of $169.4 million after deducting offering fees and expenses. At the time of issuance of the notes, we used $40.0 million of the net proceeds from the offering to repurchase 2.1 million shares of our common stock at a purchase price of $18.86 per share, and $48.2 million of the net proceeds from the offering to prepay all of our long-term debt owed to Thermo pursuant to the note originally issued as part of the purchase price for Spectra-Physics in 2004. During 2007 and 2008, we used a portion of the proceeds from these notes to repurchase shares of our common stock under the stock repurchase programs approved by our Board of Directors, as described in more detail below. In addition, as noted above, during 2009 and 2008, we extinguished $20.2 million and $28.0 million of these notes for $18.7 million and $16.8 million, respectively. We intend to use the remaining proceeds from the offering for working capital and other general corporate purposes, which may include potential acquisitions, additional repurchases of our common stock or extinguishment or early repayment of the convertible notes.

In June 2008, we issued 300 million yen ($3.2 million at January 2, 2010) in private placement bonds through a Japanese bank and used the proceeds from such issuance to pay the amounts outstanding under an expiring line of credit. These bonds bear interest at a rate of 1.55% per year, payable in cash semiannually in arrears on June 30 and December 31 of each year. The bonds mature on June 30, 2011. The bonds are included in long-term debt in the accompanying consolidated balance sheets.

At January 2, 2010, we had a total of three lines of credit, including one domestic revolving line of credit and two revolving lines of credit with Japanese banks. In addition, we had two other agreements with Japanese banks under which we sell trade notes receivable with recourse.

Our domestic revolving line of credit has a total credit limit of $3.0 million and expires on December 1, 2010. Certain certificates of deposit held at this lending institution collateralize this line of credit, which bears interest at either the prevailing London Interbank Offered Rate (LIBOR) (0.23% at January 2, 2010) plus 1.00% or the British Bankers Association LIBOR Daily Floating Rate (0.17% at January 2, 2010) plus 1.00%, at our option, and carries an unused line fee of 0.25% per year. At January 2, 2010, there were no balances outstanding under this line of credit, with $1.7 million available, after considering outstanding letters of credit totaling $1.3 million.

Our two revolving lines of credit with Japanese banks totaled 1.1 billion yen ($11.9 million at January 2, 2010) and expire as follows: $8.7 million on February 28, 2010 (which has subsequently been extended to May 31, 2010) and $3.2 million on May 31, 2010. The $8.7 million line of credit bears interest at the prevailing bank rate and the $3.2 million line of credit bears interest at LIBOR plus 1.75%. Certain certificates of deposit held by the lending institution's U.S. affiliate collateralize the $3.2 million line of credit. At January 2, 2010, we had $9.7 million outstanding and $2.2 million available for borrowing under these lines of credit. Amounts outstanding under these revolving lines of credit are included in short-term obligations in the accompanying consolidated balance sheets. Our two other agreements with Japanese banks, under which we sell trade notes receivable with recourse, totaled 550 million yen ($6.0 million at January 2, 2010), have no expiration dates and bear interest at the bank's prevailing rate. At January 2, 2010, we had $1.3 million outstanding and $4.7 million available for the sale of notes receivable under these agreements. Amounts outstanding under these agreements are included in short-term obligations in the accompanying consolidated balance sheets. As of January 2, 2010, the weighted-average effective interest rate on all of our Japanese borrowings, including the private placement bonds, was 2.4%.

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

In May 2008, our Board of Directors approved a new share repurchase program, authorizing the purchase of up to 4.0 million shares of our common stock. Purchases may be made under this program from time to time in the open market or in privately negotiated transactions, and the timing and amount of the purchases will be based on factors including our share price, cash balances, expected cash requirements and general business and market conditions. Under this program, we repurchased 127,472 shares for $1.4 million during 2008. We made no purchases under this program in 2009. As of January 2, 2010, a total of approximately 3.9 million shares remained available for repurchase under the program.

During 2010, we expect to use $8 million to $12 million of cash for capital expenditures.

We believe our current working capital position, together with our expected future cash flows from operations will be adequate to fund our operations in the ordinary course of business, anticipated capital expenditures, debt payment requirements and other contractual obligations for at least the next twelve months. However, this belief is based upon many assumptions and is subject to numerous risks (see "Risk Factors" on pages 16-29), and there can be no assurance that we will not require additional funding in the future.

Except for the aforementioned capital expenditures, we have no present agreements or commitments with respect to any material acquisitions of other businesses, products, product rights or technologies or any other material capital expenditures. However, we will continue to evaluate acquisitions of and/or investments in products, technologies, capital equipment or improvements or companies that complement our business and may make such acquisitions and/or investments in the future. Accordingly, we may need to obtain additional sources of capital in the future to finance any such acquisitions and/or investments. We may not be able to obtain such financing on commercially reasonable terms, if at all. In the current global macroeconomic climate, we believe it may be difficult to obtain additional financing if needed. Even if we are able to obtain additional financing, it may contain undue restrictions on our operations, in the case of debt financing, or cause substantial dilution for our stockholders, in the case of equity financing.

Contractual Obligations

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

As of January 2, 2010, we had no material purchase obligations. Our long-term debt, capital and operating lease obligations, and pension benefit obligations at January 2, 2010 were as follows:

(In thousands)	Capital Leases	Long-Term Debt	Operating Leases	Pension Benefits	Total Obligations
Payments Due By Period:					
2010	$ 260	$ 3,169	$ 9,395	$ 409	$ 13,233
2011	259	3,169	8,220	1,326	12,974
2012	215	128,360	5,242	844	134,661
2013	192	-	4,687	780	5,659
2014	191	-	4,159	807	5,157
Thereafter	643	-	16,553	11,619	28,815
Total minimum payments	1,760	134,698	$ 48,256	$ 15,785	$ 200,499
Less amount representing interest	(370)	(7,923)			
Present value of obligation	$ 1,390	$ 126,775			

We have subleased certain of our facilities. Future minimum rentals to be received by us under non-cancelable subleases at January 2, 2010 were as follows:

(In thousands)	Operating Leases
Payments Due By Period:	
2010	$ 373
2011	322
2012	19
Total minimum sublease payments	$ 714

Our gross unrecognized tax benefits at January 2, 2010 were $9.5 million. It is reasonably possible that unrecognized tax benefits may decrease by $0.6 million within the next twelve months. However, we are not able to provide a detailed estimate of the timing of payments due to the uncertainty of when the related tax settlements are due.

New Accounting Standards

In October 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-13, Multiple-Deliverable Revenue Arrangements – a consensus of the FASB Emerging Issues Task Force, which amends the guidance in ASC 605, Revenue Recognition. ASU No. 2009-13 eliminates the residual method of accounting for revenue on undelivered products and instead, requires companies to allocate revenue to each of the deliverable products based on their relative selling price. In addition, this ASU expands the disclosure requirements surrounding multiple-deliverable arrangements. ASU No. 2009-13 will be effective for revenue arrangements entered into for fiscal years beginning on or after June 15, 2010. We are currently evaluating the impact that ASU No. 2009-13 will have on our financial position and results of operations.

In January 2010, the FASB issued ASU No. 2010-06, Improving Disclosures about Fair Value Measurements, which amends the guidance in ASC 820, Fair Value Measurements and Disclosures. ASU No. 2010-06 requires companies to disclose transfers between Level 1 and Level 2 within the fair value hierarchy and describe the reasons for the transfers. In addition, in the reconciliation of assets and liabilities in Level 3 of the fair value hierarchy, companies are required to present sales, purchases, issuances and settlements on a gross rather than net basis. ASU No. 2010-06 also clarifies that companies should provide fair value measurement disclosures for each class of assets and liabilities and that companies should disclose the inputs and valuation techniques used to measure assets and liabilities that fall in either Level 2 or Level 3. ASU No. 2010-06 will be effective for interim and annual periods beginning after December 15, 2009, except for the new Level 3 reconciliation disclosures, which will be effective for interim and annual periods beginning after December 15, 2010. This update is not expected to have a material impact on our financial position and results of operations.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currency Risk

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

From time to time we use forward exchange contracts to mitigate the risks associated with certain foreign currency transactions entered into in the ordinary course of business, primarily foreign currency denominated receivables and payables. We do not engage in currency speculation. The forward exchange contracts generally require us to exchange U.S. dollars for foreign currencies at maturity, at rates agreed to at the inception of the contracts. If the counterparties to the exchange contracts (typically highly rated banks) do not fulfill their obligations to deliver the contracted currencies, we could be at risk for any currency related fluctuations. Such contracts are typically closed out prior to the end of each quarter. Transaction gains and losses are included in net income (loss) in our consolidated statements of operations. Net foreign exchange gains and losses were not material to our reported results of operations for the last three years. There were no forward exchange contracts outstanding at January 2, 2010 or January 3, 2009.

As currency exchange rates change, translation of the statements of operations of international operations into U.S. dollars affects the year-over-year comparability of operating results. We do not generally hedge translation risks because cash flows from international operations are generally reinvested locally. We do not enter into hedges to minimize volatility of reported earnings because we do not believe they are justified by the exposure or the cost.

Changes in currency exchange rates that would have the largest impact on translating our future international operating income include the euro and Japanese yen. We estimate that a 10% change in foreign exchange rates would not have had a material effect on our reported net loss for the year ended January 2, 2010. We believe that this quantitative measure has inherent limitations because, as discussed in the first paragraph of this section, it does not take into account any governmental actions or changes in either customer purchasing patterns or our financing and operating strategies.

Interest Rate Risk

The interest rates we pay on certain of our debt instruments are subject to interest rate risk. Our collateralized line of credit bears interest at either the prevailing London Interbank Offered Rate (LIBOR) plus 1.00% or the British Bankers Association LIBOR Daily Floating Rate plus 1.00%, at our option. Our $3.2 million revolving line of credit with a Japanese bank bears interest at LIBOR plus 1.75%. Our other revolving line of credit and other credit agreements with Japanese banks bear interest at the lending bank's prevailing rate. Our convertible subordinated notes and private placement bonds bear interest at a fixed rate of 2.5% and 1.55% per year, respectively, and are not impacted by changes in interest rates. Our investments in cash, cash equivalents and marketable securities, which totaled $141.9 million at January 2, 2010, are sensitive to changes in the general level of U.S. interest rates. We estimate that a 10% change in the interest rate earned on our investment portfolio or a 10% change in interest rates on our lines of credit would not have had a material effect on our net loss for 2009.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements required by this item are included in Part IV, Item 15 of this Annual Report on Form 10-K and are presented beginning on page F-1. The supplementary financial information required by this item is included in Note 17, Supplementary Quarterly Consolidated Financial Data (Unaudited), of the Notes to Consolidated Financial Statements on page F-40.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

As previously reported in our Current Report on Form 8-K filed with the Securities and Exchange Commission on April 3, 2009, on March 30, 2009, the Audit Committee of our Board of Directors approved the dismissal of Ernst & Young LLP, and the engagement of Deloitte & Touche LLP, as our independent registered public accounting firm. There were no disagreements or reportable events requiring disclosure pursuant to Item 304(a) of Regulation S-K of the Securities Act of 1933, as amended, in connection with such change in accountants and, accordingly, there are no transactions or events requiring disclosure in this Annual Report on Form 10-K pursuant to Item 304(b) of Regulation S-K.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Management’s Annual Report on Internal Control Over Financial Reporting

Internal Control Over Financial Reporting

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

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

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

Management has evaluated the effectiveness of our internal control over financial reporting as of January 2, 2010. In conducting its evaluation, management used the framework set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on our evaluation under such framework, our management has concluded that our internal control over financial reporting was effective as of January 2, 2010.

Attestation Report

Deloitte & Touche LLP, the independent registered public accounting firm that audited our consolidated financial statements included in this Annual Report on Form 10-K for our fiscal year ended January 2, 2010, has issued an attestation report on our internal control over financial reporting. Such attestation report is included below under the heading "Attestation Report of Independent Registered Public Accounting Firm."

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the fourth quarter of the year ended January 2, 2010 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Attestation Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Newport Corporation
Irvine, California

We have audited the internal control over financial reporting of Newport Corporation and subsidiaries (the Company) as of January 2, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Assessment of the Effectiveness of our Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of January 2, 2010, based on the criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended January 2, 2010 of the Company and our report dated March 5, 2010 expressed an unqualified opinion on those financial statements and financial statement schedule and included an explanatory paragraph regarding the retrospective adjustment to the consolidated financial statements for the adoption of Accounting Standards Codification Subtopic 470-20, Debt – Debt with Conversion and Other Options, in 2009.

/s/ Deloitte & Touche LLP

Costa Mesa, California
March 5, 2010

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of January 2, 2010 and delivered to stockholders in connection with our 2010 Annual Meeting of Stockholders, which is expected to be held on May 18, 2010.

ITEM 11. EXECUTIVE COMPENSATION

The information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of January 2, 2010 and delivered to stockholders in connection with our 2010 Annual Meeting of Stockholders, which is expected to be held on May 18, 2010.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

All information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of January 2, 2010 and delivered to stockholders in connection with our 2010 Annual Meeting of Stockholders, which is expected to be held on May 18, 2010, with the exception of the information regarding securities authorized for issuance under our equity compensation plans, which is set forth in Item 5 of this Annual Report on Form 10-K under the heading “Information Regarding Equity Compensation Plans” and is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of January 2, 2010 and delivered to stockholders in connection with our 2010 Annual Meeting of Stockholders, which is expected to be held on May 18, 2010.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required hereunder is incorporated herein by reference to our Proxy Statement to be filed within 120 days of January 2, 2010 and delivered to stockholders in connection with our 2010 Annual Meeting of Stockholders, which is expected to be held on May 18, 2010.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

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

(1) Financial Statements.

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

(2) Financial Statement Schedules.

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