

NEWPORT CORP  
Form 10-Q  
May 08, 2014  
[Table of Contents](#)

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

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**FORM 10-Q**

(Mark One)

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

**For the quarterly period ended March 29, 2014**

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

**Commission File Number: 000-01649**

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**NEWPORT CORPORATION**

*(Exact name of registrant as specified in its charter)*

**Nevada**

**94-0849175**

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(State or other jurisdiction of incorporation or organization)

(IRS Employer Identification No.)

1791 Deere Avenue, Irvine, California 92606

(Address of principal executive offices) (Zip Code)

(949) 863-3144

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark 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  No

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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As of April 25, 2014, 39,856,658 shares of the registrant's sole class of common stock were outstanding.

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Table of Contents

NEWPORT CORPORATION

FORM 10-Q

INDEX

	<b>Page Number</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1.</u>	
<u>Financial Statements (unaudited):</u>	
<u>Consolidated Statements of Income and Comprehensive Income for the Three Months Ended March 29, 2014 and March 30, 2013</u>	3
<u>Consolidated Balance Sheets as of March 29, 2014 and December 28, 2013</u>	4
<u>Consolidated Statements of Cash Flows for the Three Months Ended March 29, 2014 and March 30, 2013</u>	5
<u>Notes to Consolidated Financial Statements</u>	6
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	24
<u>Item 4.</u>	
<u>Controls and Procedures</u>	26
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1A.</u>	
<u>Risk Factors</u>	27
<u>Item 6.</u>	
<u>Exhibits</u>	27
<b><u>SIGNATURES</u></b>	28

Table of Contents**PART I FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****NEWPORT CORPORATION****Consolidated Statements of Income and Comprehensive Income****(In thousands, except per share data)****(Unaudited)**

	<b>Three Months Ended</b>	
	<b>March 29, 2014</b>	<b>March 30, 2013</b>
Net sales	\$ 146,890	\$ 132,607
Cost of sales	81,431	77,475
Gross profit	65,459	55,132
Selling, general and administrative expenses	39,206	37,608
Research and development expense	14,138	13,101
Gain on sale of assets	(411)	-
Operating income	12,526	4,423
Interest and other expense, net	(976)	(2,137)
Income before income taxes	11,550	2,286
Income tax provision (benefit)	3,609	(448)
Net income	7,941	2,734
Net income (loss) attributable to non-controlling interests	55	(12)
Net income attributable to Newport Corporation	\$ 7,886	\$ 2,746
Net income	\$ 7,941	\$ 2,734
Other comprehensive income:		
Foreign currency translation gains (losses)	461	(2,452)
Unrecognized net pension gains, net of tax	43	190
Unrealized gains (losses) on marketable securities, net of tax	20	(98)
Comprehensive income	\$ 8,465	\$ 374
Comprehensive income (loss) attributable to non-controlling interests	\$ 69	\$ (61)
Comprehensive income attributable to Newport Corporation	8,396	435
Comprehensive income	\$ 8,465	\$ 374
Net income per share attributable to Newport Corporation:		
Basic	\$ 0.20	\$ 0.07
Diluted	\$ 0.19	\$ 0.07

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Shares used in per share calculations:

Basic	39,525	38,601
Diluted	40,499	39,260

See accompanying notes.

Table of Contents**NEWPORT CORPORATION****Consolidated Balance Sheets****(In thousands, except share and per share data)****(Unaudited)**

	<b>March 29, 2014</b>	<b>December 28, 2013</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 52,602	\$ 53,710
Restricted cash	2,397	2,305
Marketable securities	8,191	8,219
Accounts receivable, net of allowance for doubtful accounts of \$1,423 and \$1,441 as of March 29, 2014 and December 28, 2013, respectively	96,629	96,388
Inventories	105,284	103,383
Deferred income taxes	22,521	22,437
Prepaid expenses and other current assets	18,152	14,769
Total current assets	305,776	301,211
Property and equipment, net	81,237	80,516
Goodwill	78,806	78,801
Deferred income taxes	4,481	4,474
Intangible assets, net	64,897	67,342
Investments and other assets	32,494	32,885
	\$ 567,691	\$ 565,229
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Short-term borrowings, net	\$ 4,991	\$ 4,861
Accounts payable	32,264	31,714
Accrued payroll and related expenses	30,938	31,015
Accrued expenses and other current liabilities	37,522	35,341
Total current liabilities	105,715	102,931
Long-term debt, net	70,988	83,646
Pension liabilities	27,191	27,093
Deferred income taxes and other liabilities	22,760	23,182
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$0.1167 per share, 200,000,000 shares authorized; 39,586,833 and 39,394,196 shares issued and outstanding as of March 29, 2014 and December 28, 2013, respectively	4,622	4,598
Capital in excess of par value	464,183	459,562
Accumulated other comprehensive loss	(3,109)	(3,619)
Accumulated deficit	(125,687)	(133,573)
Total stockholders' equity of Newport Corporation	340,009	326,968
Non-controlling interests	1,028	1,409
Total stockholders' equity	341,037	328,377

\$ 567,691 \$ 565,229

See accompanying notes.



Table of Contents

## NEWPORT CORPORATION

## Consolidated Statements of Cash Flows

(In thousands)

(Unaudited)

	<b>Three Months Ended</b>	
	<b>March 29, 2014</b>	<b>March 30, 2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 7,941	\$ 2,734
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	7,160	7,965
Gain on sale of assets	(411)	-
Provision for losses on inventories	984	2,334
Stock-based compensation expense	2,337	2,269
Provision for doubtful accounts	159	15
Loss on disposal of property and equipment	286	61
Deferred income taxes	(336)	(8)
Increase (decrease) in cash, net of divestiture, due to changes in:		
Accounts receivable	(3,155)	(1,667)
Inventories	(6,471)	(2,363)
Prepaid expenses and other assets	(2,947)	(564)
Accounts payable	752	(330)
Accrued payroll and related expenses	134	(2,379)
Accrued expenses and other liabilities	3,856	(289)
Other long-term liabilities	(909)	(328)
Net cash provided by operating activities	9,380	7,450
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchase of property and equipment	(4,950)	(3,951)
Restricted cash	(47)	(53)
Proceeds from divestiture of business	5,030	-
Purchase of marketable securities	(590)	(2,346)
Proceeds from the sale or maturity of marketable securities	395	1,481
Net cash used in investing activities	(162)	(4,869)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of long-term debt and obligations under capital leases	(12,961)	(11,892)
Proceeds from short-term borrowings	1,016	1,599
Repayment of short-term borrowings	(701)	(876)
Purchase of non-controlling interest	(931)	-
Proceeds from the issuance of common stock under employee plans	2,789	4,010
Net cash used in financing activities	(10,788)	(7,159)
Impact of foreign exchange rate changes on cash balances	462	(343)
Net decrease in cash and cash equivalents	(1,108)	(4,921)
Cash and cash equivalents at beginning of period	53,710	88,767
Cash and cash equivalents at end of period	\$ 52,602	\$ 83,846
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	\$ 589	\$ 1,927

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Cash paid during the period for income taxes, net	\$	2,007	\$	799
Property and equipment accrued in accounts payable	\$	450	\$	178

See accompanying notes.

Table of Contents

**NEWPORT CORPORATION**

**Notes to Consolidated Financial Statements**

**March 29, 2014**

**NOTE 1 BASIS OF PRESENTATION**

The accompanying unaudited consolidated financial statements include the accounts of Newport Corporation and its subsidiaries (collectively referred to as the Company) and have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions of Form 10-Q and Rule 10-01 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal and recurring accruals) considered necessary for a fair presentation have been included. All intercompany transactions and balances have been eliminated in consolidation.

The accompanying unaudited consolidated financial statements do not include certain footnotes and financial presentations normally required under generally accepted accounting principles (GAAP) and, therefore, should be read in conjunction with the consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K for the year ended December 28, 2013. The results for the interim periods are not necessarily indicative of the results the Company will have for the full year ending January 3, 2015. The December 28, 2013 balances reported herein are derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K for the year ended December 28, 2013.

*Non-Controlling Interests*

During the first quarter of 2014, the Company purchased all shares owned by the holders of the non-controlling interests in its Optical Metrology Ltd. subsidiary for \$0.9 million.

In May 2014, the Company purchased all shares owned by the holder of the non-controlling interest in its Ophir Japan Ltd. subsidiary for \$0.9 million.

**NOTE 2 RECENT ACCOUNTING PRONOUNCEMENTS**

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-08, *Presentation of Financial Statements and Property, Plant and Equipment: Reporting Discontinued Operations and Disclosures of Disposal of Components of an Entity*, which updates the guidance in Topics 205 and 360. ASU No. 2014-08 requires that the disposal of a component of an entity or a group of components of an entity be reported in discontinued operations if the disposal represents a strategic shift that has or will have a major effect on the entity's operations and financial results. ASU No. 2014-08 also requires additional disclosures regarding discontinued operations. ASU

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No. 2014-08 is required to be applied prospectively for fiscal years and interim periods beginning after December 15, 2014. The adoption of ASU No. 2014-08 is not expected to have a material impact on the Company's financial position or results of operations.

Table of Contents

## NEWPORT CORPORATION

## Notes to Consolidated Financial Statements

March 29, 2014

**NOTE 3 DIVESTITURE**

During the third quarter of 2013, the Company developed a plan to sell its advanced packaging systems business and, based on negotiations for the sale of this business that occurred during the second half of 2013, the Company considered the assets and liabilities of this business as held for sale as of December 28, 2013. The Company completed the sale of this business in January 2014 for \$5.7 million, consisting of an initial purchase price of \$6.0 million, less an adjustment of \$0.3 million based on the net assets of the business at closing. The initial purchase price consisted of \$5.35 million in cash and an unsecured note receivable of \$0.65 million, and the net asset adjustment was repaid to the purchaser in cash. The Company incurred \$0.4 million in transaction costs. The net book value of this business was \$9.5 million as of December 28, 2013; however, because these assets were held for sale at such time, the Company wrote them down to their net realizable value as of December 28, 2013 based on the terms that had been negotiated with the purchaser and expected transaction costs, resulting in a loss of \$4.7 million during 2013. During the first quarter of 2014, the Company recognized a gain of \$0.4 million to reduce the loss on the sale to \$4.3 million, based on the final terms of the transaction and the net assets of the business on the closing date. The net sales, operating income and cash flows of this business were not significant to the operations of the Company.

**NOTE 4 MARKETABLE SECURITIES**

All marketable securities of the Company were classified as available for sale and were recorded at market value using the specific identification method, and unrealized gains and losses are reflected in *accumulated other comprehensive loss* in the accompanying consolidated balance sheets. The aggregate fair value of available for sale securities and the aggregate amount of unrealized gains and losses in available for sale securities at March 29, 2014 were as follows:

(In thousands)	Aggregate Fair Value	Aggregate Amount of Unrealized		
		Gains	Losses	
Money market funds	\$ 7,997	\$ 63	\$ -	-
Certificates of deposit	194	-	-	-
	\$ 8,191	\$ 63	\$ -	-

The aggregate fair value of available for sale securities and the aggregate amount of unrealized gains and losses in available for sale securities at December 28, 2013 were as follows:

(In thousands)	Aggregate Fair Value	Aggregate Amount of Unrealized	
		Gains	Losses

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Money market funds	\$	8,052	\$	91	\$	-
Certificates of deposit		167		-		-
	\$	8,219	\$	91	\$	-

The Company's certificates of deposit mature within one year. Money market funds do not have a maturity date.

There were no realized gains or losses on the sale of available for sale securities for the three months ended March 29, 2014 or the three months ended March 30, 2013.

**NOTE 5 FAIR VALUE MEASUREMENTS**

Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements and Disclosures*, requires that for any assets and liabilities stated at fair value on a recurring basis in the Company's financial statements, the fair value of such assets and liabilities be measured based on the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Level 1 asset and liability values are derived from quoted prices in active markets for identical assets and liabilities and Level 2 asset and liability values are derived from quoted prices in inactive markets or based on other observable inputs.

Table of Contents

**NEWPORT CORPORATION**

**Notes to Consolidated Financial Statements**

**March 29, 2014**

The Company's assets and liabilities measured at fair value on a recurring basis are categorized in the table below based upon their level within the fair value hierarchy as of March 29, 2014.

**(In thousands)**

Description	March 29, 2014	Fair Value Measurements at Reporting Date Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Restricted Cash	\$ 2,397	\$ 2,397	\$ -	\$ -