

NEWPORT CORP  
Form PRE 14A  
March 26, 2010

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement  Soliciting Material Under Rule 14a-12
- Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials

NEWPORT CORPORATION

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(Name of Registrant as Specified In Its Charter)  
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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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- No fee required.
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1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1) Amount previously paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

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4) Date Filed:

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NEWPORT CORPORATION

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

May 18, 2010

To the Stockholders of Newport Corporation:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Newport Corporation will be held at our corporate headquarters, located at 1791 Deere Avenue, Irvine, California 92606, on Tuesday, May 18, 2010, at 9:00 a.m. Pacific Time, for the purpose of considering and acting upon the following:

1. To elect two Class II directors to serve for four years;
2. To ratify the appointment of Deloitte & Touche LLP as Newport's independent auditors for the fiscal year ending January 1, 2011;
3. To consider an amendment to Newport's Restated Articles of Incorporation, as amended, to declassify the Board of Directors and provide for the annual election of directors; and
4. To transact such other business as may properly be brought before the meeting or any adjournment thereof.

The foregoing items of business are more fully described in the proxy statement accompanying this notice.

Only stockholders of record at the close of business on March 26, 2010 are entitled to notice of and to vote at the meeting.

All stockholders are cordially invited to attend the meeting. However, to ensure your representation at the meeting, you are urged to vote by proxy prior to the meeting. Any stockholder attending the meeting may vote in person even if he or she has voted by proxy.

By order of the Board of Directors

/s/ Jeffrey B. Coyne

Jeffrey B. Coyne  
Senior Vice President, General Counsel  
and Corporate Secretary

April 7, 2010  
Irvine, California

YOUR VOTE IS IMPORTANT. EVEN IF YOU PLAN TO ATTEND THE MEETING, PLEASE VOTE BY PROXY PRIOR TO THE MEETING. IF YOU CHOOSE TO VOTE BY MAIL, PLEASE DO SO PROMPTLY TO ENSURE YOUR PROXY ARRIVES IN SUFFICIENT TIME.

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NEWPORT CORPORATION

PROXY STATEMENT

GENERAL INFORMATION

PROXY STATEMENT AND SOLICITATION OF PROXIES

Solicitation by Board

This proxy statement is being furnished in connection with the solicitation of proxies by our Board of Directors for use at our Annual Meeting of Stockholders to be held on May 18, 2010.

Solicitation of Proxies and Related Expenses

All expenses incurred in connection with this solicitation shall be borne by us. We anticipate that this solicitation of proxies will be made primarily by mail and pursuant to Rule 14a-16 of the Securities Exchange Act of 1934, as amended; however, in order to ensure adequate representation at the meeting, our directors, officers and employees may communicate with stockholders, brokerage houses and others by telephone, facsimile or electronic transmission, or in person to request that proxies be furnished. We may reimburse banks, brokerage houses, custodians, nominees and fiduciaries for their reasonable expenses in forwarding proxy materials to the beneficial owners of the shares held by them.

Record Date and Voting Securities

Our Board of Directors has fixed the close of business on March 26, 2010 as the record date for the determination of stockholders entitled to receive notice of and to vote at the meeting. As of the record date, there were \_\_\_\_\_ shares of our common stock outstanding and entitled to vote. Each stockholder is entitled to one vote for each share of common stock held as of the record date.

Availability of Materials

We are making this proxy statement and our Annual Report on Form 10-K for our fiscal year ended January 2, 2010 available to all stockholders of record on the record date for the meeting for the first time on or about April 7, 2010. On such date, we are mailing to each stockholder of record on the record date for the meeting either a Notice Regarding the Availability of Proxy Materials informing the stockholder of how to electronically access a copy of this proxy statement and our Annual Report on Form 10-K and how to vote online (the "Notice"), or printed copies of such materials, if printed copies have been previously requested by the stockholder. If any stockholder who receives a Notice would like to receive printed copies of such materials, such printed copies may be requested, free of charge, by following the instructions contained in the Notice.

We are also making available on our Internet site at [www.newport.com/2009annualreport](http://www.newport.com/2009annualreport) a web-based Annual Report to Stockholders containing information regarding our business which supplements the business and financial information contained in our Annual Report on Form 10-K. Except as may be required by Securities and Exchange Commission rules and regulations, our Annual Report on Form 10-K and our web-based Annual Report to Stockholders are not to be regarded as proxy soliciting material or as communications by means of which any solicitation is to be made.

#### Quorum

A quorum is the number of shares of capital stock of a corporation that must be represented in person or by proxy in order to transact business. A majority of shares entitled to vote, represented in person or by proxy, will constitute a quorum at the annual meeting.

#### Abstentions

When an eligible voter attends the annual meeting but decides not to vote, his, her or its decision not to vote is called an “abstention.” Properly executed proxy cards that are marked “abstain” on any proposal will be treated as abstentions for that proposal. We will treat abstentions as follows:

- abstention shares will be treated as not voting for purposes of determining the outcome on any proposal for which the minimum affirmative vote required for approval of the proposal is a plurality (or a majority or some other percentage) of the votes actually cast, and thus will have no effect on the outcome; and
- abstention shares will have the same effect as votes against a proposal if the minimum affirmative vote required for approval of the proposal is a majority (or some other percentage) of (i) the shares present and entitled to vote, or (ii) all shares outstanding and entitled to vote.

#### Broker Non-Votes

Broker non-votes occur when shares held in “street name” by a broker, bank or other nominee (each, a “Nominee”) for a beneficial owner are not voted with respect to a particular proposal because (i) the Nominee does not receive voting instructions from the beneficial owner, and (ii) the Nominee lacks discretionary authority to vote the shares. We will treat broker non-votes as follows:

- broker non-votes will not be treated as shares present and entitled to vote for purposes of any matter requiring the affirmative vote of a majority or other proportion of the shares present and entitled to vote (even though the same shares may be considered present for quorum purposes and may be entitled to vote on other matters). Thus, a broker non-vote will not affect the outcome of the voting on a proposal for which the minimum affirmative vote required for approval of the proposal is a plurality (or a majority or some other percentage) of (i) the votes actually cast, or (ii) the shares present and entitled to vote; and
- broker non-votes will have the same effect as votes against a proposal for which the minimum affirmative vote required for approval of the proposal is a majority (or some other percentage) of all shares outstanding and entitled to vote.

#### Vote Required

A quorum is required for the approval of any of the proposals set forth herein. Directors will be elected by a plurality of the votes cast. The affirmative vote of the holders of a majority of our shares of common stock outstanding as of the record date for the annual meeting is necessary for approval of the proposal to amend Newport’s Restated Articles of Incorporation, as amended, to declassify the Board of Directors and provide for the annual election of directors. The approval of any other proposal to be considered at the annual meeting requires the affirmative vote of the holders of a majority of the shares present and entitled to vote at the annual meeting in person or by proxy.

#### Voting of Proxies

Stockholders may vote by proxy or in person at the meeting. To vote by proxy, stockholders may vote by Internet, telephone or mail. The instructions and information needed to access our proxy materials and vote by Internet can be found in the Notice. Alternatively, if printed copies of our proxy materials have been requested by a stockholder, the instructions and information needed to vote by Internet, telephone or mail can be found in the proxy card accompanying such materials.

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If you are the beneficial owner of shares held by a Nominee, then your Nominee, as the record owner of the shares, must vote those shares in accordance with your instructions. Please refer to the voting instruction form that your Nominee makes available to you for voting your shares.

Two of our officers, Robert J. Phillippy and Charles F. Cargile, have been designated by our Board as proxies for voting on matters brought before the 2010 annual meeting. Each proxy properly received by us prior to the meeting, and not revoked, will be voted in accordance with the instructions given in the proxy. If a choice is not specified in the proxy, the proxy will be voted (i) FOR election of the director nominees listed therein, (ii) FOR ratification of our appointment of Deloitte & Touche LLP as our independent auditors for the fiscal year ending January 1, 2011, and (iii) AGAINST the proposal to amend Newport's Restated Articles of Incorporation, as amended, to declassify the Board of Directors and provide for the annual election of directors.

### Revoking a Proxy

Any proxy may be revoked or superseded by executing a later proxy or by giving notice of revocation in writing prior to, or at, the annual meeting, or by attending the annual meeting and voting in person. Attendance at the annual meeting will not in and of itself constitute revocation of the proxy. Any written notice revoking a proxy should be sent to our Corporate Secretary at our corporate offices at 1791 Deere Avenue, Irvine, California 92606, and must be received prior to the commencement of the meeting.

If your shares are held in the name of a Nominee, you may change your vote by submitting new voting instructions to your Nominee. Please note that if your shares are held of record by a Nominee and you decide to attend and vote at the annual meeting, your vote in person at the annual meeting will not be effective unless you present a legal proxy, issued in your name from your Nominee.

### STOCKHOLDER PROPOSALS

Any stockholder desiring to submit a proposal for action at our 2011 annual meeting of stockholders and presentation in our proxy statement for such meeting should deliver the proposal to us at our corporate offices no later than December 8, 2010 in order to be considered for inclusion in our proxy statement relating to that meeting. Matters pertaining to proposals, including the number and length thereof, eligibility of persons entitled to have such proposals included and other aspects are regulated by the Securities Exchange Act of 1934, as amended, rules and regulations of the Securities and Exchange Commission and other laws and regulations to which interested persons should refer. In addition, our bylaws contain procedures for stockholders to submit nominations of director candidates, which are discussed under the heading "Stockholder Nominations" on page 10 of this proxy statement.

Rule 14a-4 under the Securities Exchange Act of 1934, as amended, governs our use of our discretionary proxy voting authority with respect to a stockholder proposal which is not addressed in our proxy statement. Such rule provides that if a proponent of a proposal fails to notify us at least 45 days prior to the current year's anniversary of the date of mailing of the prior year's proxy statement, then we will be allowed to use our discretionary voting authority when the proposal is raised at the meeting, without any discussion of the matter in the proxy statement. We anticipate that our next annual meeting will be held in May 2011. If we do not receive any stockholder proposals for our 2011 annual meeting before February 21, 2011, we will be able to use our discretionary voting authority as outlined above.

### OTHER MATTERS

Management is not aware of any other matters that will be presented for consideration at our 2010 annual meeting. If any other matter not mentioned in this proxy statement is brought before the meeting, the proxies named above will have discretionary authority to vote all proxies with respect thereto in accordance with their judgment.

### NEWPORT CORPORATE OFFICE

Our corporate offices are located at 1791 Deere Avenue, Irvine, California 92606.

PROPOSAL ONE  
ELECTION OF DIRECTORS

The size of our Board is currently fixed at eight directors. The Board is divided into four classes, with one class of directors elected each year for a term of four years. Our Board currently consists of six directors, with one vacancy in Class I and one vacancy in Class III. At our 2010 annual meeting, two directors will be elected to serve as Class II directors until our annual meeting in 2014. Our Class III director will continue to serve until our annual meeting in 2011, our Class IV directors will continue to serve until our annual meeting in 2012, and our Class I director will continue to serve until our annual meeting in 2013. Our Board is currently seeking candidates to fill at least one of the vacancies on the Board. Such vacancies are not eligible to be filled at the 2010 annual meeting.

If the proposal to amend our Restated Articles of Incorporation, as amended, to declassify our Board and provide for the annual election of directors, which is included in this proxy statement, is approved at our 2010 annual meeting, our Class III director (and any director appointed by the Board to fill one of the vacancies on the Board) would stand for election at our 2011 annual meeting for a one-year term expiring at our 2012 annual meeting, and they or their successors would stand for election for one-year terms thereafter. Our Class IV, Class I and Class II directors would continue to serve until the expiration of their terms at our 2012, 2013 and 2014 annual meetings, respectively, and they or their successors would then stand for election for one-year terms thereafter. Any director appointed by the Board to fill the remaining vacancy on the Board would stand for election for a one-year term at the annual meeting immediately following his or her appointment to the Board. Accordingly, if the proposal is approved, all directors would be elected on an annual basis commencing in 2014.

CLASS II DIRECTOR NOMINEES

Based upon the recommendation of our Corporate Governance and Nominating Committee, our Board has nominated the individuals set forth below to serve as Class II directors until our annual meeting of stockholders in 2014:

| Name                 | Principal Occupation   | Age | Director Since |
|----------------------|--|-----|----------------|
| C. Kumar N. Patel    | Professor of Physics and Astronomy, University of California, Los Angeles; Chairman and Chief Executive Officer, Pranalytica, Inc. | 71  | 1986           |
| Kenneth F. Potashner | Chairman of the Board, Newport Corporation; Independent Investor   | 52  | 1998           |

C. Kumar N. Patel was elected to the Board in 1986. Dr. Patel was Vice Chancellor-Research, University of California, Los Angeles from 1993 to 1999, and in January 2000 he was appointed to the position of Professor of Physics and Astronomy. Since February 2000, Dr. Patel has also served as Chairman and Chief Executive Officer of Pranalytica, Inc., a company involved in ultra-low level trace gas detection technologies. Previously, he was employed by AT&T Bell Laboratories, a telecommunications research company, as Executive Director of the Research, Materials Science, Engineering and Academic Affairs Division from 1987 to 1993, and as Executive Director, Physics and Academic Affairs Division from 1981 to 1987. He joined Bell Laboratories in 1961. Dr. Patel brings to the Board extensive experience in laser and photonics research and technology, and significant contacts in the global research community.

Kenneth F. Potashner was elected to the Board in 1998. He served as the Board's Lead Independent Director from August 2003 to August 2006. In September 2007, Mr. Potashner was appointed as Chairman of the Board. From May 2003 to present, Mr. Potashner has been an independent investor. From 1996 to May 2003, he was Chairman of the Board of Directors of Maxwell Technologies, Inc., a manufacturer of ultracapacitors, microelectronics and high voltage capacitors, and he also served as President and Chief Executive Officer of Maxwell Technologies from 1996 to October 1998. From November 1998 to August 2002, Mr. Potashner was President, Chief Executive Officer and Chairman of SONICblue Incorporated (formerly S3 Incorporated), a supplier of digital media appliances and services. Mr. Potashner was Executive Vice President and General Manager of Disk Drive Operations for Conner Peripherals, a manufacturer of storage systems, from 1994 to 1996. From 1991 to 1994, he was Vice President, Worldwide Product Engineering for Quantum Corporation, a manufacturer of disk drives. From 1981 to 1991, he held various engineering management positions with Digital Equipment Corporation, a manufacturer of computers and peripherals, culminating with the position of Vice President of Worldwide Product Engineering in 1991. Mr. Potashner also serves on the boards of directors of several private companies. Mr. Potashner brings to the Board extensive experience in the management and operation of technology companies, particularly in the microelectronics industry.





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Unless otherwise instructed, each proxy received by us will be voted in favor of the election of Dr. Patel and Mr. Potashner as Class II directors. The nominees have indicated that they are willing and able to serve as directors if elected. If the nominees should become unable or unwilling to serve, it is the intention of the persons designated as proxies to vote instead, in their discretion, for such other persons as may be designated as nominees by our Board.

The Board of Directors recommends a vote “FOR” the election of Dr. Patel and Mr. Potashner as Class II directors.

### CONTINUING DIRECTORS

The following directors will continue to serve on our Board:

| Name                | Principal Occupation  | Age | Class | Term Expires | Director Since |
|---------------------|---|-----|-------|--------------|----------------|
| Robert L. Guyett    | President and Chief Executive Officer, Crescent Management Enterprises, LLC | 73  | IV    | 2012         | 1990           |
| Michael T. O’Neill  | President and Chief Executive Officer, Miragene, Inc.                       | 69  | I     | 2013         | 2003           |
| Robert J. Phillippy | President and Chief Executive Officer, Newport Corporation                  | 49  | IV    | 2012         | 2007           |
| Peter J. Simone     | Independent Consultant  | 62  | III   | 2011         | 2003           |

Robert L. Guyett was elected to the Board in 1990. Since April 1996, Mr. Guyett has been President and Chief Executive Officer of Crescent Management Enterprises, LLC, a financial management and investment advisory services firm. From May 2003 until May 2007, he served as Chairman of the Board of Directors of Maxwell Technologies, Inc., a manufacturer of ultracapacitors, microelectronics and high voltage capacitors, and he continues to serve on that board. From May 1995 to December 1996, he was a consultant to Engelhard Corporation, an international specialty chemical and precious metals company. Between September 1991 and May 1995, Mr. Guyett served as Senior Vice President and Chief Financial Officer and a member of the Board of Directors of Engelhard Corporation. From January 1987 to September 1991, he was the Senior Vice President and Chief Financial Officer and a member of the Board of Directors of Fluor Corporation, an international engineering and construction firm. Mr. Guyett also currently serves as the Treasurer and a director of the Christopher and Dana Reeve Foundation. Mr. Guyett brings to the Board extensive experience in accounting and finance issues, and is an “audit committee financial expert” as defined by the regulations promulgated by the Securities and Exchange Commission.

Michael T. O’Neill was appointed to the Board in April 2003. Since November 2000, Mr. O’Neill has served as President and Chief Executive Officer, and as a director, of Miragene, Inc., a biotechnology company. From May 1995 to October 2000, Mr. O’Neill served as an independent consultant to several private companies in the biotechnology industry. From 1973 to 1995, Mr. O’Neill was employed by Beckman Instruments, Inc., a manufacturer of automated analytical systems for the life and health sciences market, in various management positions, most recently as Senior Vice President, Worldwide Commercial Operations from 1993 to 1995, and as Group Vice President, Life Sciences Operations from 1989 to 1993. Mr. O’Neill brings to the Board extensive experience in the management and operation of companies in the life and health sciences and biotechnology industries.

Robert J. Phillippy joined Newport in April 1996 as Vice President and General Manager of the Science and Laboratory Products Division. In August 1999, he was appointed to the position of Vice President and General Manager of the U.S. operations of our Industrial and Scientific Technologies Division (now a part of our Photonics and Precision Technologies Division). In July 2004, Mr. Phillippy was appointed as President and Chief Operating Officer, and in September 2007, he was appointed as President and Chief Executive Officer and as a member of the Board. Prior to joining us, Mr. Phillippy was Vice President of Channel Marketing at Square D Company, an electrical equipment manufacturer, from 1994 to 1996. He joined Square D Company in 1984 as a sales engineer and held various sales and marketing management positions with that company prior to his election as Vice President in 1994. Mr. Phillippy brings to the Board his extensive knowledge of our business, operations and markets from his roles with Newport, as well as extensive experience in the management and operation of technology companies.

Peter J. Simone was appointed to the Board in March 2003. Mr. Simone currently serves as an independent consultant to several venture capital firms and venture-funded private companies. Mr. Simone was Executive Chairman of SpeedFam-IPEC, Inc., a semiconductor equipment company, from June 2001 to December 2002 when it was acquired by Novellus Systems, Inc. He served as a director of and a consultant to Active Controls eXperts, Inc. ("ACX"), a leading supplier of precision motion control and smart structures technology, from January 2000 to August 2000, and was President and a director of ACX from August 2000 to February 2001 when it was acquired by Cymer, Inc. He served as President, Chief Executive Officer and director of Xionics Document Technologies, Inc., a provider of embedded software solutions for printer and copier manufacturers, from April 1997 until Xionics' merger with Oak Technology, Inc. in January 2000. Mr. Simone's previous experience includes seventeen years with GCA Corporation, a manufacturer of semiconductor photolithography capital equipment, holding various management positions including President and director. Mr. Simone also serves on the boards of directors of several other private and public companies. Mr. Simone brings to the Board extensive experience in the management and operation of technology companies, particularly in the microelectronics industry, and is an "audit committee financial expert" as defined by the regulations promulgated by the Securities and Exchange Commission.

#### Other Directorships

Mr. Guyett currently serves on the board of directors of one other publicly traded company, Maxwell Technologies, Inc. Mr. Guyett does not currently serve, and during the past five years has not served, on the board of directors of any other publicly traded company or investment company.

Mr. Potashner previously served on the boards of directors of two publicly traded companies, Applied Solar, Inc. (formerly, Open Energy Corporation), from 2008 to 2009, and California Micro Devices Corporation, from 2009 to 2010. Mr. Potashner does not currently serve, and during the past five years has not served, on the board of directors of any other publicly traded company or investment company.

Mr. Simone currently serves on the boards of directors of three other publicly traded companies, Cymer, Inc., Monotype Imaging, Inc. and Veeco Instruments, Inc. Mr. Simone previously served on the board of directors on one other publicly traded company, Sanmina-SCI Corporation, from 2003 to 2008. Mr. Simone does not currently serve, and during the past five years has not served, on the board of directors of any other publicly traded company or investment company.

No other director currently serves, or during the past five years has served, on the board of directors of any other publicly traded company or investment company.

#### CORPORATE GOVERNANCE

We are committed to promoting the best interests of our stockholders by establishing sound corporate governance practices and maintaining the highest standards of responsibility and ethics. Our Board of Directors has adopted Corporate Governance Guidelines, which consist of written standards relating to, among other things, the composition, leadership, operation and evaluation of the Board and its committees. The Corporate Governance and Nominating Committee of our Board reviews and evaluates, at least annually, the adequacy of and our compliance with such guidelines. A copy of our Corporate Governance Guidelines is available on our Internet site at [www.newport.com/corporategovernance](http://www.newport.com/corporategovernance). We will also provide an electronic or paper copy of these guidelines, free of charge, upon request made to our Corporate Secretary.

## Board of Directors

### Independence

With the exception of Mr. Phillippy, our President and Chief Executive Officer, all of the current members of our Board of Directors, and all individuals who served on our Board during our fiscal year ended January 2, 2010, are “independent” as defined by Rule 5605(a)(2) of the Nasdaq Listing Rules. Our Board has determined that no member has a relationship that would interfere with the exercise of independent judgment in carrying out his responsibilities as a director. The independence of each director is reviewed periodically to ensure that, at all times, at least a majority of our Board is independent.

### Board Leadership

At such times as an independent director is serving as Chairman of the Board, the leadership of the Board is the responsibility of the Chairman. Mr. Potashner, who is an independent director, has served as Chairman of the Board since September 2007. In accordance with our Corporate Governance Guidelines, if a non-independent director, such as our Chief Executive Officer, is serving as Chairman of the Board, the leadership of the Board would be shared by the Chairman and a lead independent director who would be appointed by the independent directors from among themselves. We believe that this leadership structure provides the appropriate level of independent oversight necessary to ensure that the Board meets its fiduciary obligations to our stockholders, that the interests of management and our stockholders are properly aligned, and that we establish and follow sound business practices and strategies that are in the best interests of our stockholders.

### Board’s Role in Risk Management

The Board provides oversight with respect to our management of risk, both as a whole and through its standing committees. The Board typically reviews and discusses with management at each of its regular quarterly meetings, information presented by management relating to our operational results and outlook, including information regarding risks related to our business and operations, as well as risks associated with the markets we serve. At least annually, the Board reviews and discusses an overall risk assessment conducted by management and the strategies and actions developed and implemented by management to monitor, control and mitigate such risks.

The Audit Committee of our Board also provides risk oversight, focusing in particular on financial and credit risk. The Audit Committee oversees the management of such risks, generally as part of its responsibilities related to the review of our financial results and our internal control over financial reporting, and specifically in connection with its consideration of particular actions being contemplated by us such as financing activities and repurchases of our common stock or convertible notes. The Compensation Committee has responsibility for overseeing the management of risk related to our compensation policies and practices. The Compensation Committee considers risks associated with our business in developing compensation policies and the components of our executive compensation program, and periodically reviews and discusses assessments conducted by management with respect to risk that may arise from our compensation policies and practices for all employees.

### Meetings

It is the policy of our Board to hold at least four regular meetings each year, typically in February, May, August and November. The regular meeting held in May of each year coincides with our annual meeting of stockholders. We have not adopted a formal policy regarding attendance by members of the Board of Directors at our annual meetings of stockholders, however, generally, all directors attend such meetings. All directors who were serving on our Board at the time of our 2009 annual meeting of stockholders attended such meeting.

Our Board held eight meetings (including telephonic meetings) during the fiscal year ended January 2, 2010. Each director attended more than seventy-five percent of the aggregate of the number of meetings of the Board (held during the period in which he served as a director) and the number of meetings held by all committees of the Board on which he served (held during the period in which he served on such committees).

### Private Sessions

Our independent directors meet privately, without management present, at least four times during the year. These private sessions are generally held in conjunction with the regular quarterly Board meetings. Other private meetings are held as often as deemed necessary by the independent directors.

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### Committees of the Board

Our Board has three separate standing committees: the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee. Each committee operates under a written charter adopted and reviewed annually by the Board. Copies of the charters of all standing committees are available on our Internet site at [www.newport.com/corporategovernance](http://www.newport.com/corporategovernance). We will also provide electronic or paper copies of the standing committee charters free of charge, upon request made to our Corporate Secretary. The Board may establish other committees from time to time as deemed appropriate by the Board based on the needs of the Board and the company.

#### Audit Committee

The Audit Committee is comprised of three directors. The current members are Messrs. Guyett (Chairman) and Simone and Dr. Patel. Markos I. Tambakeras, who resigned from the Board effective as of December 31, 2009, served as a member of the Audit Committee during the entire year of 2009. None of the members serving on the Audit Committee currently or during 2009 are or have been our officers or employees, and each member qualifies as an independent director as defined by Rule 5605(a)(2) of the Nasdaq Listing Rules and Section 10A(m) of the Securities Exchange Act of 1934, as amended, and Rule 10A-3 thereunder. The Board has determined that Messrs. Guyett and Simone are "audit committee financial experts" as defined by the regulations promulgated by the Securities and Exchange Commission. The Audit Committee held eight meetings (including telephonic meetings) during the fiscal year ended January 2, 2010.

The Audit Committee has the sole authority to appoint and, when deemed appropriate, replace our independent auditors, and has a policy of pre-approving all audit and permissible non-audit services provided by our independent auditors and the fees associated therewith. The Audit Committee has, among other things, the responsibility to:

- evaluate the qualifications and independence of our independent auditors;
- review and approve the scope and results of the annual audit;
- evaluate independently and with our independent auditors our financial and internal audit staff and the adequacy and effectiveness of our systems and internal control over financial reporting;
- review and discuss with management and the independent auditors the content of our financial statements prior to the filing of our quarterly reports on Form 10-Q and annual reports on Form 10-K;
- review the content and clarity of our press releases and related Securities and Exchange Commission reports regarding our operating results and other financial matters;
- review significant changes in our accounting policies;
- review and approve transactions with related persons for which approval is required under applicable law, including Securities and Exchange Commission and Nasdaq rules;
- establish procedures for receiving, retaining and investigating reports of illegal acts involving us or complaints or concerns regarding questionable accounting or auditing matters, and supervise the investigation of any such reports, complaints or concerns;
- establish procedures for the confidential, anonymous submission by our employees of concerns or complaints regarding questionable accounting or auditing matters;
- review and discuss assessments conducted by management with respect to our major financial and credit risk exposures, and actions being taken to monitor and control such exposures;
- provide sufficient opportunity for the independent auditors to meet with the committee without management present;
- adopt and continually review and assess our investment policy;
- oversee the management of our investment portfolio and evaluate the performance of our portfolio managers; and
- review and approve or make recommendations to the Board with respect to certain significant spending proposals.



#### Compensation Committee

The Compensation Committee is comprised of four directors. The current members are Messrs. O'Neill (Chairman), Guyett and Potashner and Dr. Patel. Mr. Tambakeras served as a member of the Compensation Committee during the entire year of 2009. None of the members serving on the Compensation Committee currently or during 2009 are or have been our officers or employees, and each member qualifies as an independent director as defined by Rule 5605(a)(2) of the Nasdaq Listing Rules. The Compensation Committee held four meetings (including telephonic meetings) during the fiscal year ended January 2, 2010. The Compensation Committee has, among other things, the responsibility to:

- develop guidelines for, evaluate and approve cash and equity compensation and benefit plans, programs and agreements for our Chief Executive Officer and other executive officers;
- review and discuss assessments conducted by management with respect to risk that may arise from our compensation policies and practices for all employees;
- oversee the development of and administer our long-term incentive plans, including equity-based incentive plans;
- develop guidelines for and approve awards to key personnel under our equity-based incentive plans; and
- evaluate the form and amount of director compensation and make recommendations to the Board related thereto.

Additional information regarding the Compensation Committee's consideration and determination of executive officer and director compensation is included under the heading "Compensation Discussion and Analysis" beginning on page 12 of this proxy statement.

#### Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee is comprised of four directors. The current members are Messrs. Potashner (Chairman), O'Neill and Simone and Dr. Patel. None of the members of the Corporate Governance and Nominating Committee are or have been our officers or employees, and each member qualifies as an independent director as defined by Rule 5605(a)(2) of the Nasdaq Listing Rules. The Corporate Governance and Nominating Committee held three meetings (including telephonic meetings) during the fiscal year ended January 2, 2010.

The Corporate Governance and Nominating Committee ensures that the Board is properly constituted to meet its fiduciary obligations to Newport and our stockholders and that we have and follow appropriate governance standards. To carry out this purpose, the Corporate Governance and Nominating Committee has, among other things, the responsibility to:

- develop, continually assess and monitor compliance with our corporate governance guidelines;
- evaluate the size and composition of our Board, the criteria for Board membership and the independence of Board members;
- oversee the evaluation of the performance of our Board and its committees and our management;
- assist our Board in establishing appropriate committees and recommend members for such committees;
- identify, evaluate and recommend to our Board candidates for nomination and election as members of our Board; and
- review and make recommendations to our Board regarding our responses to proposals received from stockholders, and engage in discussions with the proponents of approved stockholder proposals.

#### Identifying and Evaluating Director Candidates

The Corporate Governance and Nominating Committee identifies potential director candidates through a variety of sources, including recommendations made by current or former directors, members of our executive management, stockholders and business, academic and industry contacts. When appropriate, a search firm may be retained by the committee to identify director candidates. In March 2010, the Corporate Governance and Nominating Committee engaged Heidrick & Struggles, a firm specializing in the recruitment of directors and executives, to assist the committee in identifying and recruiting director candidates to fill at least one of the current vacancies on the Board.

There are no specific minimum qualifications that the Corporate Governance and Nominating Committee requires to be met by a director nominee recommended for a position on the Board, nor are there any specific qualities or skills that are necessary for one or more members of our Board to possess, other than as are necessary to meet the requirements of the rules and regulations applicable to us. The Corporate Governance and Nominating Committee reviews and assesses at least annually the size and composition of our Board and the criteria for Board membership, including business background, experience, judgment, independence, character, age, diversity, and other relevant matters. Candidates for director are evaluated based on such established criteria and certain provisions of our bylaws.

In assessing the composition of the Board, the Corporate Governance and Nominating Committee considers the Board's current and anticipated needs, and makes every effort to maintain appropriate balance and diversity of business background, skills and expertise based on the nature and requirements of our business and the variety of markets that we serve. In evaluating a potential director candidate, the Corporate Governance and Nominating Committee considers all relevant information regarding the candidate, including the membership criteria stated above, and whether the candidate would meet the Committee's objectives for the overall composition of the Board, well as the candidate's ability and willingness to devote adequate time to Board responsibilities. When appropriate, the Corporate Governance and Nominating Committee will recommend qualified candidates for nomination by the full Board. Any stockholder may recommend candidates for evaluation by the Corporate Governance and Nominating Committee by submitting a written recommendation to our Corporate Secretary containing the same information regarding such candidates required for stockholder nominations as described under the heading "Stockholder Nominations" below. The Corporate Governance and Nominating Committee will consider any such recommended candidates in the same manner as all other proposed candidates in accordance with these standards.

#### Stockholder Nominations

In accordance with our bylaws, stockholders may submit a nomination of a candidate for election as director by delivering a written notice to our Corporate Secretary at least ninety days prior to the date corresponding to the record date of our previous year's annual meeting in the event of election at an annual meeting, and at least seventy-five days prior to the initiation of solicitation to our stockholders for election in the event of election other than at an annual meeting. Such notice shall set forth (1) the name, age, business address and residence address of such nominee, (2) the principal occupation or employment of such nominee, (3) the number of shares (if any) of our capital stock which are beneficially owned by such nominee, and (4) such other information concerning such nominee as would be required under the then-current rules of the Securities and Exchange Commission to be included in a proxy statement soliciting proxies for the election of the nominee. Any such notice shall be accompanied by a signed consent of such nominee to serve as a director, if elected. If the Corporate Governance and Nominating Committee or the Board determines that any nomination made by a stockholder was not made in accordance with the foregoing procedures, the rules and regulations of the Securities and Exchange Commission or other applicable laws or regulations, such nomination will be void.

#### Communications with our Board

Any stockholder may communicate with our Board, any Board committee or any individual director. All communications should be made in writing, addressed to the Board, the Board committee or the individual director, as the case may be, in care of our Corporate Secretary, mailed or delivered to our corporate offices at 1791 Deere Avenue, Irvine, California 92606. Our Corporate Secretary will forward or otherwise relay all such communications to the intended recipient(s).

Corporate Responsibility

Code of Ethics

Our Board has adopted a written code of ethics that applies to our Chief Executive Officer, Chief Financial Officer, Controller and persons performing similar functions. Such code of ethics consists of standards that, among other things, are designed to deter wrongdoing and to promote honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships; full, fair, accurate, timely and understandable disclosure in reports and documents that we file with, or furnish to, the Securities and Exchange Commission and/or make in other public communications; compliance with applicable governmental laws, rules and regulations; the prompt internal reporting of violations of the code to our Legal Department and/or our Audit Committee; and accountability for adherence to the code. A copy of our code of ethics is available on our Internet site at [www.newport.com/corporategovernance](http://www.newport.com/corporategovernance). We will also provide an electronic or paper copy of the code of ethics, free of charge, upon request made to our Corporate Secretary. If any substantive amendments are made to the written code of ethics, or if any waiver (including any implicit waiver) is granted from any provision of the code to our Chief Executive Officer, Chief Financial Officer or Controller, we will disclose the nature of such amendment or waiver on our Internet site at [www.newport.com/corporategovernance](http://www.newport.com/corporategovernance) or in a current report on Form 8-K.

Procedures for Submitting Complaints Regarding Accounting and Auditing Matters

We are committed to compliance with all applicable securities laws and regulations, accounting standards and accounting controls. The Audit Committee of our Board has established written procedures for the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters, and the confidential, anonymous submission by our employees of concerns or complaints regarding such matters. Our Audit Committee oversees the handling of such concerns or complaints. The procedures for non-employees to submit concerns or complaints regarding accounting, internal accounting controls and auditing matters are available on our Internet site at [www.newport.com/corporategovernance](http://www.newport.com/corporategovernance). We will also provide an electronic or paper copy of these procedures free of charge, upon request made to our Corporate Secretary.

EXECUTIVE OFFICERS

We currently have five executive officers who serve at the pleasure of our Board and are elected on an annual basis:

| Name                | Age | Title  |
|---------------------|-----|--|
| Robert J. Phillippy | 49  | President and Chief Executive Officer                          |
| Charles F. Cargile  | 45  | Senior Vice President, Chief Financial Officer and Treasurer   |
| Jeffrey B. Coyne    | 43  | Senior Vice President, General Counsel and Corporate Secretary |
| Gary J. Spiegel     | 59  | Vice President, Sales, Marketing and Business Development      |
| David J. Allen      | 55  | Vice President and General Manager, Lasers Division            |

Mr. Phillippy's biography is presented on page 6. The biographies of our other executive officers are set forth below.

Charles F. Cargile joined us in October 2000 as Vice President and Chief Financial Officer. In July 2004, he was appointed Senior Vice President, and in February 2005, he was appointed Treasurer. Prior to joining us, Mr. Cargile was Vice President, Finance and Corporate Development for York International Corporation (now a division of Johnson Controls, Inc.), a manufacturer of air conditioning and refrigeration products. He joined York in November 1998, and served in a number of executive positions, including Corporate Controller and Chief Accounting Officer, until his promotion to Vice President, Finance and Corporate Development in February 2000. Prior to joining York, Mr. Cargile was employed by Flowserve Corporation, a manufacturer of highly-engineered pumps, seals and valves primarily for the petroleum and chemical industries, in various positions, most recently as Corporate Controller and Chief Accounting Officer from February 1995 to November 1998.



Jeffrey B. Coyne joined us in June 2001 as Vice President, General Counsel and Corporate Secretary. In July 2004, he was appointed Senior Vice President, with responsibility for human resources in addition to legal affairs. Prior to joining us, Mr. Coyne was a partner in the Corporate and Securities Law Department of Stradling Yocca Carlson & Rauth, our outside corporate counsel, from January 2000 to June 2001, and was an associate attorney at such firm from February 1994 to December 1999. From November 1991 to February 1994, Mr. Coyne was an associate attorney at Pillsbury Madison & Sutro (now Pillsbury Winthrop Shaw Pittman LLP), an international law firm. Mr. Coyne is a member of the State Bar of California and the Orange County Bar Association.

Gary J. Spiegel joined us in 1991 through our acquisition of Micro-Controle, SA and its subsidiary, Klinger Scientific. He was appointed to the position of Vice President with responsibility for domestic sales in June 1992. During 1997, Mr. Spiegel was assigned additional responsibility for export sales including our sales subsidiaries in Canada and Taiwan. In March 2002, Mr. Spiegel was appointed Vice President, Worldwide Sales and Marketing, expanding his role to include responsibility for all marketing communications and market management. Since that time, he has held various leadership roles with responsibility for worldwide sales, service and marketing, and most recently was appointed as Vice President, Sales, Marketing and Business Development in January 2010. Prior to joining us, Mr. Spiegel was Vice President of Sales and Marketing for Klinger Scientific.

David J. Allen joined us in March 2007 as Vice President and General Manager of our Lasers Division. Prior to joining us, from October 1999 to July 2006, Mr. Allen was employed by Agilent Technologies, Inc., a global provider of measurement and analytical instrumentation, and Avago Technologies, Inc., a company which was formed in December 2005 by the spin off of Agilent's semiconductor products division. During such time, he held a number of management positions, most recently serving as Vice President and General Manager, Fiber Optics Products Division from April 2004 to July 2006, as Vice President and General Manager, Networking Solutions Business Unit from November 2003 to December 2005, and as Vice President and General Manager, Personal Systems Business Unit from November 2001 to October 2003. Prior to his positions with Agilent and Avago, Mr. Allen held various management positions at Hewlett-Packard Company from December 1984 to October 1999. Prior to joining Hewlett-Packard Company, Mr. Allen held various sales positions at General Electric Company.

#### Family Relationships

There are no family relationships between any director, executive officer or person nominated or chosen to become a director or executive officer.

#### COMPENSATION DISCUSSION AND ANALYSIS

##### Overview of Executive Compensation Program and Objectives

Our executive compensation program is intended to fulfill three primary objectives: first, to attract and retain the high-caliber executives required for the success of our business; second, to reward these executives for strong financial and operating performance; and third, to align their interests with those of our stockholders to incentivize them to create long-term stockholder value.

To fulfill these objectives, we have adopted the following policies:

- paying compensation that is competitive with other technology companies in our markets and in our geographic locations that have comparable revenue levels;
- tying a significant portion of our executives' total compensation to performance, by:
  - providing annual cash incentives that are tied to the achievement of challenging annual financial and/or non-financial performance objectives; and
  - providing long-term incentives, in the form of equity-based awards that are tied to the achievement of challenging financial performance objectives; and
    - providing a significant long-term incentive to executives to encourage them to remain with Newport for long and productive careers and to build long-term stockholder value.

#### Implementation of Our Compensation Objectives and the Role of Our Compensation Committee

Our executive compensation program is overseen and administered by the Compensation Committee of our Board (the “Committee”), which is comprised entirely of independent directors as determined in accordance with applicable Nasdaq, Securities and Exchange Commission and Internal Revenue Service rules. The Committee operates under a written charter adopted and reviewed annually by our Board. A copy of this charter is available on our Internet site at [www.newport.com/corporategovernance](http://www.newport.com/corporategovernance). We will also provide electronic or paper copies of this charter, free of charge, upon request made to our Corporate Secretary.

The Committee is guided by the above policies in determining the appropriate allocation among the various elements of our executive compensation program, as well as in the structuring and administration of those elements. In determining the particular elements of compensation that will be used to implement these compensation policies and the allocation of compensation among these elements, the Committee takes into consideration a number of factors related to our performance, such as our revenue and profit performance and goals and other financial goals, as well as competitive practices among our peer companies. The Committee also evaluates risk factors associated with our businesses in determining our compensation policies and the components of our executive compensation program. Members of the Committee also serve as members of our Audit Committee, and the Chairman of the Audit Committee is a member of the Committee. This provides the Committee with insight regarding our business risks and gives the Committee additional information to consider the impact of those risks on our compensation structure and pay practices.

The Committee typically determines each executive’s target total annual cash compensation (salary and cash incentive) and target total direct compensation (salary, cash incentive and long-term equity incentive) after reviewing similar compensation information from a group of peer companies in the high technology industry with whom we compete for executive talent. This review usually occurs in February of each year, and base salary adjustments typically are effective as of April 1 of each year. However, the Committee has not conducted such a review since February 2008. In November 2008, due to the deteriorating macro-economic conditions in several of our end markets and our financial outlook for 2009, the Committee determined that increases in compensation for 2009, if any, would be nominal and, as such, did not conduct a detailed review of executive compensation for 2009. The Committee subsequently made a decision to temporarily reduce the base salaries of executives by 10% effective in February 2009. Similarly, in November 2009, while the Committee determined that it would likely reinstate the pre-reduction base salaries of the executives in 2010, the Committee also determined that it would not consider further increases of such base salaries at this time and, as such, did not conduct a detailed review of executive compensation for 2010.

Information regarding the most recent compensation study reviewed by the Committee in February 2008 is included under the heading “Compensation Discussion and Analysis” in our proxy statement relating to our 2009 Annual Meeting of Stockholders. The Committee’s general practice is to target base salaries, total cash compensation and performance-based equity compensation at the 50th percentile of peer companies, and to tie a significant portion of total compensation to the achievement of performance objectives, which we believe helps to align the interests of executives with those of our stockholders. The Committee has the discretion to deviate from the peer company data to take into account factors such as an executive’s performance, the scope of the executive’s position and responsibilities and relative levels of compensation among our executive officers.

#### Role of Compensation Consultants in the Compensation Determination Process

The Committee has the authority to engage its own compensation consultants and other independent advisors to assist in creating and administering our executive compensation policies. While the Committee has historically engaged compensation consultants to assist in its annual review of executive compensation, most recently in February 2008, the Committee did not engage a compensation consultant for 2009 or 2010, for the reasons described above.

#### Role of Management in the Compensation Determination Process

The Committee periodically meets with our Chief Executive Officer and/or other executive officers to obtain recommendations with respect to compensation programs for executives and other employees. Our Chief Executive Officer makes recommendations to the Committee on the base salaries, incentive targets and measures and equity compensation for our executives and other key employees. The Committee considers, but is not bound to and does not always accept, management's recommendations with respect to executive compensation. The Committee has made modifications to several of management's proposals in recent years, including 2009. In February 2009, management recommended to the Committee that it implement reductions in the base salaries of all executive officers, and the Committee implemented a 10% reduction based on management's recommendation. In February 2010, management recommended that the pre-reduction base salaries be reinstated effective in April 2010 and that no further increases be made in such base salaries, which recommendations were accepted by the Committee. While the Committee did not engage compensation consultants in connection with its review of executive compensation in 2009 or 2010, the Committee typically seeks input from compensation consultants prior to making any final determinations. Our Chief Executive Officer and other executives attend most of the Committee's meetings, but the Committee also holds private sessions not attended by any members of management or non-independent directors. The Committee discusses our Chief Executive Officer's compensation package with him, but makes decisions with respect to his compensation without him present. The Committee has delegated to management the authority to make salary adjustments and annual incentive decisions and grant long-term incentive awards to employees other than executive officers under guidelines set by the Committee. The Committee has not delegated any of its authority with respect to the compensation of executive officers.

#### Elements of Executive Compensation Program

There are five major elements that comprise our executive compensation program: (i) base salary; (ii) cash incentives; (iii) long-term equity incentives; (iv) retirement benefits provided under our 401(k) plan; and (v) executive perquisites and benefits and generally available benefit programs. We have selected these elements because we believe that each helps to fulfill one or more of the principal objectives of our executive compensation policy. We believe that these elements of compensation, when combined, are effective in achieving the objectives of our executive compensation program. The Committee will continue to review all elements of our executive compensation program on at least an annual basis to ensure that our benefit levels remain competitive and that each element continues to be effective in achieving our objectives.

#### Base Salary

The Committee determines the base salary levels for our executives based on factors including the competitive market, the scope of their responsibilities, their performance and contributions to our success, time on the job and internal equity of compensation among our executives. The Committee reviews the base salaries for our executives on at least an annual basis and makes adjustments thereto as it deems appropriate in its sole discretion. While the Committee's general policy is for executive compensation to be more heavily weighted towards performance-based compensation, it has continued to make base salaries a significant part of the total executive compensation package as it believes that this is necessary in order to remain competitive in attracting and retaining executive talent.

As noted above, in February 2009, after taking into account the macro-economic conditions in several of our end markets and our financial outlook for 2009, as well as the recommendations of management, the Committee temporarily reduced the base salaries of all executive officers by 10%. Such reductions were to remain in effect for the longer of six months or until the Committee determined that business conditions and our financial outlook warranted reinstatement of the pre-reduction base salary levels. Prior to such reductions, the base salaries of each of the named executive officers ranged from 13.8% below to 8.1% above the 50th percentile of market, based on the peer group data provided by the Committee's compensation consultants in February 2008. In February 2010, in light of improved business conditions and our financial outlook for 2010, the Committee reinstated the pre-reduction base salaries for all executive officers effective at the beginning of April 2010.

#### Cash Incentives

Each of our executives participates in cash incentive plans developed by the Committee. These cash incentive plans focus on linking a significant portion of each executive's total compensation to the achievement of challenging performance targets. Under certain circumstances, the Committee may award discretionary bonuses in cases where such performance targets are not met. The Committee did not award any such discretionary bonuses for 2009.

The Committee typically establishes an annual cash incentive plan under which incentive payouts are tied to the achievement of annual performance goals. Each executive is generally assigned a combination of financial performance measures and individual non-financial goals. However, in 2009, the Committee determined that, due to the poor macro-economic conditions and the uncertainty and lack of visibility in several of our end markets, it would be very difficult to accurately forecast our financial performance for the full year. Therefore, the Committee made the decision to structure the cash incentive plan for 2009 as two semi-annual plans. In addition, due to our primary focus on financial performance in the challenging economic climate, the Committee determined that 100% of the target incentives would be tied to financial goals. The overall structure of the two semi-annual plans for 2009, as well as the financial measures and targets, and the weightings thereof for each

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executive, for the first half of 2009, were approved by the Committee in February 2009. The financial measures, targets and weightings for the second half of 2009 were approved by the Committee in August 2009.

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Target Incentives. The target incentive for each executive is determined by the Committee based on the position and responsibility of the executive, the compensation targets discussed above and the peer group data provided by the Committee's compensation consultants. The Committee's general practice is to set target incentive levels at approximately the 50th percentile of the peer group. For 2009, the target incentives for the named executive officers remained the same as the target incentives previously established by the Committee in February 2008, as follows:

| Name                | Target Incentive<br>(as % of<br>Approved<br>Pre-Reduction<br>Base Salary) | Full Year<br>Target Incentive<br>(\$) | Target Incentive<br>Under Each Half-<br>Year 2009 Plan<br>(\$) |
|---------------------|---|---------------------------------------|--|
| Robert J. Phillippy | 100%  | \$ 450,000                            | \$ 225,000   |
| Charles F. Cargile  | 75%   | 247,500                               | 123,750  |
| Jeffrey B. Coyne    | 50%   | 140,000                               | 70,000   |
| Gary J. Spiegel     | 50%   | 137,500                               | 68,750   |
| David J. Allen      | 50%   | 140,000                               | 70,000   |

Such target incentive levels for each named executive officer ranged from 10% below to 15% above the 50th percentile of market, based on the peer group data provided by the Committee's compensation consultants in February 2008.

Payout Structure. Under our cash incentive plans, the Committee generally establishes minimum, target and maximum achievement levels for each financial measure. In 2009, the Committee set the minimum level for each measure under the half-year cash incentive plans at or slightly above the level set forth in our 2009 annual operating plan for the first half of 2009, and in our forecast for the second half of 2009. Such level corresponded to a payout level of 0%, and the target and maximum achievement levels corresponded to payout levels of 100% and 200%, respectively. Payouts are prorated on a straight-line basis for achievement between the minimum and target levels or the target and maximum levels. If we did not exceed the minimum performance level for a measure, no payout would be made for that measure. Further, the payout of all financial measures was conditioned upon the achievement of at least the minimum level for the executive's primary profitability goal (consolidated operating income for Messrs. Cargile, Coyne, Phillippy and Spiegel, and Lasers Division operating income for Mr. Allen).

In previous years, the target level, rather than the minimum level, for each measure was generally set at approximately the level set forth in our annual operating plan, and the minimum level corresponded to a payout level of 50%, rather than 0%. The payout of each financial measure was determined separately and was not subject to any additional condition with respect to the achievement level of any other financial measures. The Committee implemented the changes to the payout structure for the half-year 2009 plans, as described above, to ensure that any payouts would only occur in the event of overachievement of our annual operating plan (or overachievement of our forecast, in the case of the second half of 2009). The Committee believed that, in light of our business outlook for 2009, it was appropriate to reward the executives only in the event of overachievement of our financial plan and not to reward executives for simply meeting our financial plan in whole or in part.

Financial Measures. The financial performance measures for each executive are selected by the Committee each year based on our corporate goals for that year and the Board's priorities. The measures selected, and their relative weighting, vary among the executives based upon such executive's area of responsibility and potential impact on our operating and financial performance, to provide optimal correlation between performance and reward. Management provides recommendations to the Committee with respect to financial performance measures for each executive and the relative weighting of such measures. The Committee considers, but is not bound to accept such recommendations, and has made changes to the measures and relative weighting in recent years, including 2009.

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As noted above, the Committee determined that 100% of the target incentives should be tied to financial goals in 2009. For both of the half-year 2009 plans, the financial measures and relative weightings thereof for each named executive officer were as follows:

| Name                | Consolidated              |                  |           | Lasers Division |                   |                         | Cash Flow | Return on Selected Assets |
|---------------------|---------------------------|------------------|-----------|-----------------|-------------------|-------------------------|-----------|---------------------------|
|                     | Earnings (Loss) Per Share | Operating Income | Net Sales | Free Cash Flow  | Return on Capital | Operating Income (Loss) |           |                           |
| Robert J. Phillippy | 35%                       | 20%              | 15%       | 15%             | 15%               | -                       | -         | -                         |
| Charles F. Cargile  | 35%                       | 20%              | 15%       | 15%             | 15%               | -                       | -         | -                         |
| Jeffrey B. Coyne    | 35%                       | 20%              | 15%       | 15%             | 15%               | -                       | -         | -                         |
| Gary J. Spiegel     | -                         | 20%              | 60%       | 10%             | 10%               | -                       | -         | -                         |
| David J. Allen      | -                         | 15%              | -         | -               | -                 | 40%                     | 15%       | 15%                       |

The minimum, target and maximum levels established for each financial measure applicable to the named executive officers, and the actual results with respect to each such measure, for the first half of 2009 and second half of 2009, were as follows:

First Half 2009

| Financial Measure                            | Financial Goals(1) |            |            | Actual Results(1) |
|--|--------------------|------------|------------|-------------------|
|  | Minimum            | Target     | Maximum    |                   |
| Earnings (Loss) Per Share                    | \$ (0.03)          | \$ -       | \$ 0.08    | \$ (0.11)         |
| Consolidated Operating Income                | \$ 1,300           | \$ 3,000   | \$ 5,500   | \$ (1,651)        |
| Consolidated Net Sales                       | \$ 195,000         | \$ 205,000 | \$ 220,000 | \$ 177,077        |
| Consolidated Free Cash Flow                  | \$ 3,808           | \$ 5,808   | \$ 7,808   | \$ 7,543          |
| Consolidated Return on Capital               | 0.5%               | 1.5%       | 3.0%       | (0.7)%            |
| Lasers Division Operating Income (Loss)      | \$ (2,700)         | \$ (1,500) | \$ 2,500   | \$ (4,725)        |
| Lasers Division Net Sales                    | \$ 80,000          | \$ 88,000  | \$ 96,000  | \$ 72,954         |
| Lasers Division Cash Flow(2)                 | \$ 5,106           | \$ 7,500   | \$ 10,500  | \$ (678)          |
| Lasers Division Return on Selected Assets(3) | (10.0)%            | 6.0%       | 10.0%      | (19.0)%           |

Second Half 2009

| Financial Measure                            | Financial Goals(1) |            |            | Actual Result(1) |
|--|--------------------|------------|------------|------------------|
|  | Minimum            | Target     | Maximum    |                  |
| Earnings (Loss) Per Share                    | \$ (0.02)          | \$ -       | \$ 0.05    | \$ 0.19          |
| Consolidated Operating Income                | \$ 1,496           | \$ 3,000   | \$ 6,000   | \$ 9,233         |
| Consolidated Net Sales                       | \$ 184,065         | \$ 195,000 | \$ 205,000 | \$ 189,912       |
| Consolidated Free Cash Flow                  | \$ (6,771)         | \$ (3,400) | \$ -       | \$ 7,452         |
| Consolidated Return on Capital               | (0.03)%            | 0.5%       | 2.0%       | 1.5%             |
| Lasers Division Operating Income             | \$ 1,430           | \$ 2,500   | \$ 5,000   | \$ 3,561         |
| Lasers Division Net Sales                    | \$ 77,693          | \$ 82,000  | \$ 98,000  | \$ 76,292        |
| Lasers Division Cash Flow(2)                 | \$ 3,193           | \$ 4,500   | \$ 6,000   | \$ 1,571         |
| Lasers Division Return on Selected Assets(3) | (8.5)%             | -%         | 10.0%      | (2.8)%           |

- (1) All figures are in thousands except percentages and per share data. For both periods, the goals and actual results for the consolidated operating income and earnings (loss) per share measures reflect non-GAAP amounts that exclude certain items, and the goals and actual results for the consolidated free cash flow and consolidated return on capital measures were calculated utilizing the non-GAAP consolidated operating income amount. The goals and actual results for all other measures reflect amounts calculated in accordance with generally accepted accounting principles (GAAP). The items that have been excluded from the consolidated operating income measure are: (1) expenses related to cost reduction and facility consolidation actions, (2) costs related to acquisition, integration and divestiture activities, and (3) impairment of assets and a loss on disposal of assets. The items that have been excluded from earnings (loss) per share are (1) all items excluded from consolidated operating income, (2) recovery of assets related to previously discontinued operations, (3) a gain on extinguishment of debt, (4) non-cash interest expense on convertible notes, and (5) the tax impact of the foregoing items.

- (2) Lasers Division Cash Flow is calculated as the division's operating income plus depreciation, stock compensation expense, changes in inventory and capital expenditures during each period.
- (3) Lasers Division Return on Selected Assets is calculated as the division's operating income divided by the division's inventory and property and equipment, net, at the end of each period.

As noted above, the minimum levels for the first half of 2009 were set at or slightly above the levels set forth in our 2009 annual operating plan for that period, and the minimum levels for the second half of 2009 were set at or slightly above the levels reflected in our forecast for the second half of 2009. The Committed believes that these minimum levels were challenging but achievable with significant effort, the target levels were set at levels that represented extremely challenging performance goals, and the maximum levels were set at levels that represented both extremely challenging performance goals and outstanding achievement.

2009 Results. For the first half of 2009, we did not achieve any of the performance goals for financial measures applicable to the named executive officers other than the consolidated free cash flow measure. Although we exceeded such measure, we did not achieve the minimum performance level for consolidated operating income, and as such, no payouts were made to any named executive officer for the first half of 2009. For the second half of 2009, we exceeded the minimum performance level for all financial measures applicable to the named executive officers, other than the Lasers Division net sales and cash flow measures. In certain cases, we also exceeded the target performance level or the maximum performance level. Accordingly, for the second half of 2009, Messrs. Phillippy, Cargile and Coyne received payouts under the incentive plan equal to 173% of their target incentives, Mr. Spiegel received a payout equal to 109% of his target incentive, and Mr. Allen received a payout equal to 97% of his target incentive.

For 2010, the Committee has approved a plan structure that is similar to that used in 2009, except that, in light of the recent improvement in our business conditions and the greater visibility to our financial outlook for 2010, the Committee has determined that it is appropriate to return to annual performance goals. Accordingly, for 2010, 100% of the target incentives for the named executive officers will be conditioned upon the achievement of full year 2010 financial goals, with the minimum performance levels for each financial measure set at or slightly above the levels set forth in our 2010 annual operating plan, corresponding to a 0% payout level, and the target and maximum performance levels corresponding to 100% and 200% payout levels, respectively. The payout of all financial measures will be conditioned upon the achievement of at least the minimum level for the executive's primary profitability goal.

#### Long-Term Equity Incentives

We provide long-term incentive compensation to our executives through equity-based awards, such as stock options, stock appreciation rights, restricted stock and/or restricted stock units, which generally vest over multiple years. Prior to 2006, we used options to purchase shares of our common stock with time-based vesting as our primary equity incentives. In late 2005, the Committee decided that substantially all equity compensation should be performance-based to link the benefits received by the executives to the achievement of challenging performance goals that the Committee believes to be important drivers of stockholder value. The Committee believes that this policy helps to further align the interests of executives with those of our stockholders, and provides executives with an additional incentive to drive superior financial performance. In addition, due to the long-term nature of this equity compensation, the Committee believes that this program provides executives with an incentive to remain employed by us and to drive sustained, long-term financial performance.

In March 2006, our Board adopted the 2006 Performance-Based Stock Incentive Plan ("2006 Plan") subject to stockholder approval, which was received in May 2006. The 2006 Plan allows us to grant a variety of equity award types, including stock options, stock appreciation rights, restricted stock and restricted stock units, and provides that the vesting of substantially all awards to executives and other employees will be conditioned on the achievement of performance goals established by the Committee.

The Committee considers the appropriate award size and the appropriate equity-based vehicles or combination of vehicles when making award decisions. The target long-term equity incentive value for each executive is determined by the Committee based on the position and responsibility of the executive and the data provided by the Committee's compensation consultants related to our peer companies. The Committee's general practice is to set target long-term equity incentive levels at approximately the 50th percentile of peer companies. However, the Committee also considers other factors, including the compensation expense associated with the awards, and individual factors such as the executive's performance and scope of responsibility and relative levels of compensation among our executives, in making award decisions. The Committee does not consider existing equity ownership, as it does not want to discourage executives from holding significant amounts of our stock. In selecting the equity vehicles to be used each year, the Committee seeks to achieve an appropriate balance between awards that provide higher incentive value, such as options or stock appreciation rights, and awards that provide higher retention value, such as restricted stock or restricted stock units. The Committee also takes into account the relative efficiencies of each type of equity vehicle in terms of the number of shares required to provide the targeted value opportunity to the executive, in order to minimize stockholder dilution.

In 2009, the Committee granted equity awards to each named executive officer under our 2006 Plan. Such awards are reflected in the table entitled "Grants of Plan-Based Awards in Fiscal Year 2009" on page 25 of this proxy statement. One-half of the total number of shares awarded to each executive was provided as restricted stock units (representing approximately two-thirds of the total award value) and one-half was provided as stock appreciation rights (representing approximately one-third of the total award value). The Committee selected this combination of equity vehicles after considering several factors including the retention value offered by restricted stock units and the incentive value offered by stock appreciation rights, while minimizing stockholder dilution in both cases, as well as the number of restricted stock units available for award under the 2006 Plan. In determining the sizes of the 2009 awards, although the Committee took into consideration the peer group data and recommendations provided by its compensation consultants in 2008, in light of our business conditions and financial outlook for 2009, the Committee determined that it was necessary to significantly reduce the grant date values of the awards from the grant date fair values of the awards granted in 2008, in order to reduce the compensation expense associated with the awards. The grant date values of the awards granted to the named executive officers in 2009 were approximately 50% of the grant date value of the 2008 awards.

For the 2009 awards, the Committee reevaluated the vesting structure and made changes to the structure that had been used in prior years to ensure that such awards would provide adequate incentive and retention value to our executive officers and key employees. Equity awards granted under the 2006 Plan prior to 2009 generally vest in equal annual installments over three years, provided that we achieve certain specified annual financial performance goals for each of those years. At the time of grant, target and minimum achievement levels, corresponding to 100% vesting and 70% vesting, respectively, were established for each performance measure for each of the three years. For the first two performance periods, if less than 100% of the awards vest for the performance period, then 50% of the awards that did not vest for such performance period will remain outstanding and will be eligible for vesting in the next performance period if at least the target level for the applicable performance measure is achieved for the next performance period. This structure was originally developed by the Committee to provide executives with incentive to drive long-term financial performance. However, as a result of the downturn in our business conditions, which began in 2007 and significantly worsened during 2008 and 2009, the financial performance goals established under the prior awards for the 2007 to 2010 performance periods have not been achieved or are not expected to be achieved. As a result, substantially all of the outstanding awards under the 2006 Plan that were granted prior to 2009 have lost their incentive and retention value. Further, the Committee has recognized the challenges we face in setting precise financial goals for three years, particularly given the current uncertainty in the macro-economic climate.

Accordingly, for the 2009 awards, the Committee established a vesting structure that includes both performance-based and time-based components. The vesting of all awards was conditioned upon our achievement of a consolidated operating income goal of breakeven for 2009 (on a non-GAAP basis) and, if such financial goal was achieved, the awards would vest in equal annual installments on the first three anniversaries of the grant date. Such operating income goal was set at approximately the level set forth in our 2009 forecast at the time of grant, due to the deteriorating macro-economic conditions and the significant uncertainty in our outlook at that time. For 2009, due to a strong rebound in our business during the second half of the year, we recorded consolidated operating income of \$11.9 million on a non-GAAP basis, exceeding the goal established under the 2009 awards. As such, the awards granted in 2009 will continue to vest in equal annual installments on the first three anniversaries of the grant date. In establishing the goal and in determining the actual result for the consolidated operating income measure, the following items were excluded: (1) expenses related to cost reduction and facility consolidation actions, (2) costs related to acquisition, integration and divestiture activities, (3) impairment of assets and a loss on disposal of assets, and (4) operating losses incurred by our diode laser operations, which we divested in July 2009.



The Committee believes that the vesting structure utilized for the 2009 awards is appropriate as it takes into account the uncertain outlook in our markets while providing an incentive for our executives to drive company profitability, which is a key focus of our Board in the current business environment, and it also provides long-term retention value. The Committee expects to grant equity awards to the named executive officers in 2010 that are subject to the same vesting structure, conditioned upon the achievement of a consolidated operating income goal for 2010.

#### Executive Perquisites and Benefits

We provide our executives with other benefits that we believe are reasonable, competitive and consistent with our overall executive compensation program. The costs of these benefits are reflected in the "All Other Compensation" column in the Summary Compensation Table on page 23 of this proxy statement, and consist of term life insurance for the benefit of the executives, supplemental long-term disability insurance, auto allowances and annual physical examinations that are more extensive than that provided under our standard plans. The costs of these benefits constitute only a small percentage of each executive's total compensation.

#### Generally Available Benefit Programs

Each executive is eligible to receive benefits pursuant to programs that provide for broad-based employee participation. These benefits programs include our 401(k) plan, employee stock purchase plan, medical, dental and vision insurance, long-term and short-term disability insurance, life and accidental death and dismemberment insurance, health and dependent care flexible spending accounts, business travel accident insurance, wellness programs, educational assistance, employee assistance and certain other benefits.

#### Section 401(k) Plan

We maintain a tax-qualified retirement plan that provides eligible employees with an opportunity to save for retirement on a tax advantaged basis. Each of our executives is eligible to participate in this plan. Participants are able to defer up to 50% of their eligible compensation, subject to applicable annual limits under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). Pre-tax contributions are allocated to each participant's individual account and are then invested in selected investment alternatives according to the participant's directions. Employee elective deferrals are 100% vested at all times. The 401(k) plan allows for matching contributions to be made by us starting immediately upon participation in the 401(k) plan. We match employee elective deferrals up to a maximum of 6% of eligible compensation, subject to applicable annual Internal Revenue Code limits. These matching contributions are immediately vested. The 401(k) plan is intended to qualify under Sections 401(a) and 501(a) of the Internal Revenue Code. As a tax-qualified retirement plan, contributions to the 401(k) plan and earnings on those contributions are not taxable to the employees until distributed from the 401(k) plan, and all contributions are deductible by us when made.

#### Employee Stock Purchase Plan

We maintain an employee stock purchase plan, which is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code. Each of our U.S. employees who customarily works more than 20 hours per week and more than five months in any calendar year is eligible to participate in this plan. To participate in the plan, an employee may designate prior to the commencement of a quarterly offering period the amount of payroll deductions to be made from his or her paycheck for the purchase of shares of our common stock under the plan, which amount may not exceed 15% of his or her compensation. On each purchase date, shares of our stock are purchased automatically for each participant with the amounts held from his or her payroll deductions at a price equal to 95% of the fair market value of the shares on the purchase date. An employee may not participate in an offering period if, immediately after the purchase of shares, the employee would own shares or hold options to purchase shares of stock possessing 5% or more of the total combined voting power or value of all classes of our stock.

#### Deferred Compensation Plan

We have established a Deferred Compensation Plan which is designed to allow certain individuals, including members of our Board of Directors and a select group of management and/or highly compensated employees, to defer a portion of their current income on a pre-tax basis and receive a tax-deferred return on such deferrals. Our Deferred Compensation Plan is offered to these employees to allow them to defer more compensation than they would otherwise be permitted to defer under a tax-qualified retirement plan, such as our 401(k) plan. We believe that our Deferred Compensation Plan is a competitive benefit that aids us in attracting and retaining management talent. Each of our executives is eligible to participate in our Deferred Compensation Plan.

Under the plan, a participant may defer up to 100% of his or her annual base salary, annual incentive bonus and/or restricted stock or restricted stock unit awards, subject to a minimum deferral amount of \$2,000 in each plan year. In addition to a participant's deferrals, amounts are credited or debited to a participant's account based on the performance of one or more measurement funds selected by the participant. The measurement funds available under the plan are selected and announced by the plan committee based on certain mutual funds and crediting rates. The plan committee may, in its sole discretion upon written notice to participants, discontinue, substitute or add a measurement fund under the plan. Any restricted stock or restricted stock units deferred under the plan is at all times allocated to a company stock fund which consists solely of our common stock, with any dividends paid thereon being reinvested in additional shares of our common stock. Amounts credited or debited to a participant's account are based solely on the market performance of the measurement funds selected by the participant, and we do not pay any "above-market" interest or return on the deferrals made by any participant. As such, these amounts are not shown in the Summary Compensation Table below.

Several named executive officers have elected to defer amounts under the Deferred Compensation Plan, and have accumulated the deferred compensation amounts shown in the table entitled "Nonqualified Deferred Compensation in Fiscal Year 2009" on page 29 of this proxy statement. The amounts deferred are unsecured obligations of the company, receive no preferential standing, and are subject to the same risks as any of our other general obligations.

#### Stock Ownership Guidelines

Our Board of Directors has established stock ownership guidelines for executives that are designed to increase the executive's equity stake in Newport and more closely align his or her interests with those of our stockholders. The current guidelines provide that each executive should own, at a minimum, a specified number of shares of our common stock depending upon the position held. In accordance with these guidelines, our Chief Executive Officer should own a minimum of 65,000 shares, our Senior Vice President and Chief Financial Officer should own a minimum of 35,000 shares, and our other executive officers should own between 15,000 and 25,000 shares depending upon position held. Newly appointed or promoted executives should achieve the applicable minimum stock ownership guideline within two years of such appointment or promotion.

The guidelines also provide that our executives shall not sell shares of our stock if the executive is not in compliance, or if such sale would cause the executive to become out of compliance, with the minimum stock ownership guidelines, except under certain circumstances, including cases of financial hardship, if approved by the Chairman of the Compensation Committee of our Board. These restrictions do not apply to the sale, or the surrender to us, of shares in connection with the exercise or settlement of a stock option or stock appreciation right, or the vesting of restricted stock or restricted stock units, in payment of the exercise price and/or withholding taxes due in connection with such exercise, settlement or vesting.

In addition to the guidelines described above, the terms of certain stock options previously granted to certain executives provide that the executive must hold at least 50% of all shares received upon the exercise of a stock option, for the longer of one year or until such time as the executive is in compliance with these stock ownership guidelines.

Under our insider trading policy, covered employees are prohibited from trading in any interest or position relating to the future price of our securities, such as a put, call or short sale.

#### Accounting and Tax Considerations

In designing our compensation programs, we take into consideration the accounting and tax effect that each element will or may have on Newport and the executive officers and other employees as a group. We aim to keep the expense related to our compensation programs to the minimum necessary to accomplish the objectives of our compensation programs. When determining how to allocate between differing elements of compensation, the goal is to meet our objectives while maintaining cost neutrality. For instance, if we increase the benefits under one program resulting in higher compensation expense, we may seek to decrease costs under another program in order to avoid increasing our total compensation expense.

Under Section 162(m) of the Internal Revenue Code, we generally receive a federal income tax deduction for compensation paid to any of our named executive officers only if the compensation is less than \$1 million during any fiscal year or is “performance-based” under Section 162(m). We have not paid, and do not currently expect to pay, any compensation that is not deductible for federal income tax purposes. However, non-deductible compensation may still be paid to executives in extraordinary circumstances, when necessary for competitive reasons or to attract or retain a key executive.

In order to preserve our ability to deduct the compensation income associated with equity awards granted to such persons, for the purposes of Section 162(m) of the Internal Revenue Code, the 2006 Plan provides that (i) in no event shall any plan participant be granted options or stock appreciation rights in any one calendar year pursuant to which the aggregate number of shares of common stock that may be acquired thereunder exceeds 300,000 shares, subject to adjustments in capital structure, and (ii) in no event shall any participant be granted restricted stock awards in any one calendar year pursuant to which the aggregate number of shares of common stock governed by such restricted stock awards exceeds 200,000 shares, subject to adjustments in capital structure. To the extent grants under the 2006 Plan are in excess of these limitations, such excess shall not be exempt from the deductibility limits of Section 162(m) of the Internal Revenue Code.

#### Employment Agreements and Arrangements

With the exception of the severance compensation agreements discussed below, which provide for payment of certain compensation and benefits in the event of termination of employment under certain circumstances, we do not have an agreement with any named executive officer with respect to the length of his employment or the level of cash compensation, equity compensation or other benefits payable to him. The base salary and any annual or long-term cash or equity incentive compensation of each executive officer are determined by the Compensation Committee, in its sole discretion, in accordance with its compensation philosophy, policies, objectives and guidelines discussed above.

#### Termination Following Change in Control

We have entered into a severance compensation agreement with each of our named executive officers providing for certain payments and benefits in the event that such officer’s employment is terminated within two years of a “change in control” of Newport (as defined in the agreement), unless such termination results from the officer’s death, disability or retirement, or the officer’s resignation for reasons other than “good reason” (as defined in the agreement), or constitutes a termination by us for “cause” (as defined in the agreement). In such event, the executive officer will be entitled to: (i) a lump sum severance payment equal to twelve months of such officer’s highest base salary during the twelve month period preceding termination (with the exception of Mr. Phillippy, who will be entitled to a severance payment of twenty-four months of salary); (ii) a bonus payment equal to such officer’s incentive compensation bonus payable under our annual incentive plan or other bonus plans then in effect, based on 100% satisfaction of all performance goals (with the exception of Mr. Phillippy, who will be entitled to receive two times such bonus payment); (iii) continuation of benefits under our medical, dental and vision plans, and long-term disability insurance for twenty-four months; (iv) automatic vesting and settlement of all unvested restricted stock and restricted stock units held by the officer, based on 100% satisfaction of any applicable performance goals; (v) automatic vesting of all unvested stock appreciation rights, and the automatic settlement of all stock appreciation rights, held by the officer, based on 100% satisfaction of any applicable performance goals; (vi) automatic vesting of all unvested stock options and, unless otherwise specified by the officer, payment of an amount equal to the difference between the exercise price and fair market price (calculated as set forth in the agreement) of the shares of common stock subject to all vested and unvested stock options held by the officer; and (vii) certain other benefits, including payment of an amount sufficient to offset any excess “parachute payment” excise tax payable by the officer pursuant to the provisions of the Internal Revenue Code, and/or any comparable provision of state or foreign law.

#### Other Termination

Our agreements with each of Mr. Phillippy and Mr. Cargile provide that, in the event we terminate his employment other than for cause at any time during the term of the agreement in absence of a change in control of Newport, he will be entitled to receive (i) a severance payment equal to twelve months of his highest base salary in effect during the twelve month period preceding termination, payable in a lump sum on his date of termination, (ii) a bonus payment in an amount equal to his incentive bonus payable under our annual incentive plan or other bonus plans then in effect, based on 100% satisfaction of all performance goals, payable in a lump sum on his date of termination, and (iii) continuation of benefits under our medical, dental and vision plans, and long-term disability insurance for twelve months.

The estimated payments and benefits that each named executive officer would have received under the severance compensation agreements described above in the event that his employment had been terminated by us under certain circumstances as of January 2, 2010 are discussed under the heading "Payments Upon Certain Termination Events" beginning on page 30 of this proxy statement.

#### Non-Employee Director Compensation

The Committee has the authority and responsibility to review and evaluate periodically the cash and equity compensation paid to non-employee directors. Based on such review and evaluation, the Committee makes recommendations to our Board, and the Board approves all non-employee director compensation in its sole discretion.

The Committee has the authority to engage compensation consultants to assist the Committee in evaluating the amount and form of non-employee director compensation. In evaluating and making its recommendations regarding non-employee director compensation, the Committee reviews market data obtained through surveys conducted by such consultants or through other external resources. While the Committee may direct management to engage compensation consultants on behalf of the Committee, the Committee does not delegate any authority to management to determine or make recommendations regarding such compensation.

Each of our non-employee directors receives an annual fee for service as a director, which fee was \$26,250 through March 2009. Effective in April 2009, the Board temporarily reduced this annual fee by 10%. Such fee was reinstated to \$26,250 effective in April 2010. In addition, each non-employee director is paid \$2,500 for each in-person Board meeting attended, \$1,500 for each telephonic Board meeting attended, \$2,000 for each in-person committee meeting attended, and \$1,000 for each telephonic committee meeting attended. Each committee chairperson receives an additional \$1,000 for each in person or telephonic committee meeting attended. Our non-employee directors are also reimbursed for expenses incurred in connection with attending Board and committee meetings.

Mr. Potashner receives an additional annual fee of \$12,000 for his service as Chairman of the Board. At such times as a lead independent director is serving, such director would receive an additional annual fee of \$6,000, prorated for any portion of a year during which he serves. No director served as lead independent director during 2009.

Each non-employee director receives annually restricted stock units having a grant date value of \$120,000. Such restricted stock units vest in full on the first anniversary of the award date. Upon initial appointment or election to our Board, each non-employee director receives restricted stock units having a target grant date value of \$250,000, which vest in 25% increments on each of the first four anniversaries of the award date.

All cash compensation earned by each non-employee director, and the grant date fair values of all equity awards granted to each non-employee director, during the fiscal year ended January 2, 2010 are shown in the table entitled "Director Compensation in Fiscal Year 2009" on page 31 of this proxy statement.

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SUMMARY COMPENSATION TABLE

The following table sets forth compensation earned during the fiscal years ended January 2, 2010, January 3, 2009, and December 29, 2007 by our principal executive officer, Robert J. Phillippy; our principal financial officer, Charles F. Cargile; and our three other most highly compensated executive officers who were serving as executive officers at January 2, 2010 and whose total compensation exceeded \$100,000 for the fiscal year ended January 2, 2010; as well as the grant date fair values of share-based compensation awarded to such officers during such fiscal years. These officers are referred to in this proxy statement as the “named executive officers.”

Summary Compensation Table

| Name and Principal Position   | Year | Salary(1)<br>(\$) | Stock Awards(2)<br>(\$) | Option Awards(3)<br>(\$) | Non-Equity Incentive Plan Compensation(4)<br>(\$) | All Other Compensation(5)<br>(\$) | Total<br>(\$) |
|---|------|-------------------|-------------------------|--------------------------|---|-----------------------------------|---------------|
| Robert J. Phillippy(6)<br>President and Chief Executive Officer                       | 2009 | \$ 411,923        | \$ 348,612              | \$ 136,776               | \$ 389,925  | \$ 35,662                         | \$ 1,322,898  |
|   | 2008 | 442,788           | 983,197                 | —                        | 69,051  | 26,072                            | 1,521,108     |
|   | 2007 | 336,541           | 806,651                 | —                        | 28,091  | 31,585                            | 1,202,868     |
| Charles F. Cargile<br>Senior Vice President,<br>Chief Financial Officer and Treasurer | 2009 | 302,077           | 174,306                 | 68,388                   | 214,459   | 32,768                            | 791,998       |
|   | 2008 | 324,808           | 491,598                 | —                        | 62,350  | 25,279                            | 904,035       |
|   | 2007 | 312,000           | 455,621                 | —                        | 19,500  | 33,214                            | 820,335       |
| Jeffrey B. Coyne<br>Senior Vice President,<br>General Counsel and Corporate Secretary | 2009 | 256,308           | 139,696                 | 54,809                   | 121,310   | 28,493                            | 600,616       |
|   | 2008 | 269,907           | 393,397                 | —                        | 34,541  | 23,987                            | 721,832       |
|   | 2007 | 245,011           | 325,377                 | —                        | 24,050  | 31,402                            | 625,840       |
| Gary J. Spiegel<br>Vice President, Sales, Marketing<br>and Business Development       | 2009 | 251,731           | 114,992                 | 45,116                   | 74,731  | 39,640                            | 526,210       |
|   | 2008 | 272,114           | 344,148                 | —                        | 36,395  | 27,124                            | 679,781       |
|   | 2007 | 264,996           | 260,487                 | —                        | 24,063  | 54,848                            | 604,394       |
| David J. Allen(7)<br>Vice President and General Manager,<br>Lasers Division           | 2009 | 252,431           | 114,992                 | 45,116                   | 67,795  | 6,748                             | 487,082       |
|   | 2008 | 277,115           | 324,390                 | —                        | 43,703  | 1,393                             | 646,601       |
|   | 2007 | 212,885           | 309,155                 | —                        | 54,555  | 1,095                             | 577,690       |

(1) In February 2009, due to business conditions and our financial outlook for 2009, the base salaries of all of the named executive officers were temporarily reduced by 10%. Such base salaries have been reinstated effective at the beginning of April 2010.

(2) Reflects the grant date fair values of restricted stock units awarded to each named executive officer in each year, which were computed based on the closing market price of our common stock on the grant date. The vesting of all restricted stock units awarded to the named executive officers in each year is conditioned upon the achievement of certain financial performance goals. The vesting of restricted stock units awarded in 2007 was conditioned upon the achievement of performance goals for our fiscal years 2007, 2008 and 2009. The vesting of restricted stock units awarded in 2008 was and is conditioned upon the achievement of performance goals for our fiscal years 2008, 2009 and 2010. The vesting of restricted stock units awarded in 2009 is conditioned upon the achievement of a performance goal for 2009, as well as a time-based vesting schedule. As of the grant date of each award, the achievement of the applicable performance conditions was considered probable and, therefore, the full grant date fair values of the awards are shown in the table above. However, for the awards granted in 2007 and 2008, we did not achieve the 2007, 2008 and/or 2009 performance goals applicable to

such awards and, therefore, a substantial portion of such awards has been forfeited, as follows: (i) all of the 2007 awards have been forfeited in full, (ii) the portion of the 2008 awards originally tied to 2008 performance goals established under those awards has been forfeited, and (iii) 50% of the portion of the 2008 awards tied to 2009 performance goals established under those awards has been forfeited. The remaining 50% of the portion of the 2008 awards tied to 2009 performance goals remains outstanding and eligible for vesting conditioned on our achievement of the target performance goals established for such awards for 2010. For the awards granted in 2009, we have achieved the applicable performance goal, and such awards will continue to vest in accordance with the applicable time-based vesting schedule. See additional information regarding the 2009 awards under the heading "Compensation Discussion and Analysis" above and in the table entitled "Grants of Plan-Based Awards in Fiscal Year 2009" below.

- (3) Reflects the grant date fair values of stock-settled stock appreciation rights awarded to each named executive officer in 2009. No stock options or stock appreciation rights were awarded to the named executive officers in 2007 or 2008. The fair value of the stock-settled stock appreciation rights was estimated on the grant date using the Black-Scholes-Merton option pricing model. The assumptions used in the valuation of such stock appreciation rights are discussed in Note 1, under the heading "Stock-Based Compensation," and in Note 5 to our consolidated financial statements included in our Annual Report on Form 10-K for our fiscal year ended January 2, 2010. The vesting of the stock appreciation rights awarded in 2009 is conditioned upon the achievement of a performance goal for 2009, as well as a time-based vesting schedule. As of the grant date of each award, the achievement of the applicable performance conditions was considered probable and, therefore, the full grant date fair values of the awards is shown in the table above. Such performance goal has been achieved, and such awards will continue to vest in accordance with the applicable time-based vesting schedule. See additional information regarding these awards under the heading "Compensation Discussion and Analysis" above and in the table entitled "Grants of Plan-Based Awards in Fiscal Year 2009" below.
- (4) Reflects the amounts earned by each named executive officer under our cash incentive plans based upon the achievement of financial and/or non-financial performance goals for our 2009, 2008 and 2007 fiscal years, which amounts were paid in March of 2010, 2009 and 2008, respectively, in accordance with the terms of such plans.
- (5) All other compensation for 2009 consists of: (i) company contributions to our 401(k) plan for each named executive officer (other than Mr. Allen), which totaled \$13,200 for Messrs. Phillippy, Cargile and Spiegel, and \$10,180 for Mr. Coyne; (ii) company-paid premiums for term life insurance for the benefit of each named executive officer; (iii) company-paid premiums for supplemental long-term disability insurance for the benefit of each named executive officer, which totaled \$11,002 for Mr. Phillippy and \$12,224 for Mr. Spiegel; (iv) auto allowances paid to each named executive officer (other than Mr. Allen); and (v) company-paid costs for an annual executive physical for Mr. Spiegel.
- (6) Mr. Phillippy was promoted to President and Chief Executive Officer in September 2007. Mr. Phillippy's annual base salary was increased to \$425,000 at that time, was increased to \$450,000 in 2008, and was temporarily reduced by 10% in 2009.
- (7) Mr. Allen joined us in March 2007. The amounts set forth for the year 2007 reflect amounts earned by Mr. Allen from March through December of 2007.

GRANTS OF PLAN-BASED AWARDS

The following table sets forth information regarding grants of awards to each named executive officer during our fiscal year ended January 2, 2010 under our equity and non-equity incentive plans.

Grants of Plan-Based Awards in Fiscal Year 2009

| Name                | Grant Date | Estimated Possible Payouts under Non-Equity Incentive Plan Awards(1) |             |              | Estimated Future Payouts under Equity Incentive Plan Awards(2) (#) | Exercise or Base Price of Option Awards(3) (\$) | Grant Date Fair Value of Stock and Option Awards(4) (\$) |
|---------------------|------------|--|-------------|--------------|--|---|--|
|                     |            | Threshold (\$)   | Target (\$) | Maximum (\$) |  |   |  |
| Robert J. Phillippy |            |  | \$ 225,000  | \$ 450,000   |  |   |  |
|                     |            |  | 225,000     | 450,000      |  |   |  |
|                     | 03/20/09   |  |             |              | 83,400   |   | 348,612  |
|                     | 03/20/09   |  |             |              | 83,400   | 4.18  | 136,776  |
| Charles F. Cargile  |            |  | 123,750     | 247,500      |  |   |  |
|                     |            |  | 123,750     | 247,500      |  |   |  |
|                     | 03/20/09   |  |             |              | 41,700   |   | 174,306  |
|                     | 03/20/09   |  |             |              | 41,700   | 4.18  | 68,388   |
| Jeffrey B. Coyne    |            |  | 70,000      | 140,000      |  |   |  |
|                     |            |  | 70,000      | 140,000      |  |   |  |
|                     | 03/20/09   |  |             |              | 33,420   |   | 139,696  |
|                     | 03/20/09   |  |             |              | 33,420   | 4.18  | 54,809   |
| Gary J. Spiegel     |            |  | 68,750      | 137,500      |  |   |  |
|                     |            |  | 68,750      | 137,500      |  |   |  |
|                     | 03/20/09   |  |             |              | 27,510   |   | 114,992  |
|                     | 03/20/09   |  |             |              | 27,510   | 4.18  | 45,116   |
| David J. Allen      |            |  | 70,000      | 140,000      |  |   |  |
|                     |            |  | 70,000      | 140,000      |  |   |  |
|                     | 03/20/09   |  |             |              | 27,510   |   | 114,992  |
|                     | 03/20/09   |  |             |              | 27,510   | 4.18  | 45,116   |

(1) Reflects the potential payouts to the named executive officers under two equal half-year awards granted to each named executive officer under our half-year cash incentive plans established for 2009, which are described in more detail under the heading "Compensation Discussion and Analysis" above. The amounts shown as threshold, target and maximum payouts represent 0%, 100% and 200% payouts, respectively, based on minimum, target and maximum performance levels for certain financial performance measures established under such plan for each half-year period. Payouts would be made for a particular financial measure only if we exceeded the minimum performance level for that measure, subject to additional conditions described in more detail under the heading "Compensation Discussion and Analysis" above. No amounts were earned under the awards relating to the first half of 2009. The actual amounts earned by the named executive officers under the awards relating to the second half of 2009 are included in the Summary Compensation Table above under the column heading "Non-Equity Incentive Plan Compensation" for the year 2009.

(2) The equity incentive plan awards set forth in the table above consist of an equal number of restricted stock units and stock-settled stock appreciation rights awarded to each



named executive officer under our 2006 Performance-Based Stock Incentive Plan, which awards and plan are described in more detail under the heading "Compensation Discussion and Analysis" above. No consideration was paid by any named executive officer for any equity incentive plan award. The vesting of such awards is conditioned upon achievement of a single target performance level for a single financial measure established under the plan, as well as a time-based vesting schedule, as described in more detail under the heading "Compensation Discussion and Analysis" above. We have achieved the target performance level for such awards and, therefore, such awards will continue to vest in accordance with the applicable time-based vesting schedule.

- (3) Reflects the base value of the stock-settled stock appreciation rights awarded to each named executive officer, which is equal to the closing price of our common stock on the grant date.
- (4) Reflects the grant date fair values of the restricted stock units and stock-settled stock appreciation rights awarded to each named executive officer. The fair values of the restricted stock units were determined based on the closing price of our common stock on the grant date, which was \$4.18 per share. The fair values of stock appreciation rights were estimated on the grant date using the Black-Scholes-Merton option pricing model. The assumptions used in the valuation of such stock appreciation rights are discussed in Note 1, under the heading "Stock-Based Compensation," and in Note 5 to our consolidated financial statements included in our Annual Report on Form 10-K for our fiscal year ended January 2, 2010. As of the grant date of each award, the achievement of the applicable performance conditions was considered probable and, therefore, the full grant date fair values of the awards are shown in the table above.

OUTSTANDING EQUITY AWARDS

The table below sets forth information regarding outstanding equity awards held by each named executive officer as of January 2, 2010 including: (i) the number of shares of our common stock underlying both exercisable and unexercisable stock options and stock-settled stock appreciation rights held by each named executive officer and the exercise prices (or base values) and expiration dates thereof, (ii) the number of restricted stock units held by each named executive officer and the market value thereof that were earned but had not yet vested as of January 2, 2010; and (iii) the number of restricted stock units held by each named executive officer and the market value thereof that were unearned and unvested as of January 2, 2010.

Outstanding Equity Awards at 2009 Fiscal Year End

|   | Option Awards        |                  | Stock Awards |  |
|---|----------------------|------------------|--------------|--|
|   | Number of Securities |                  | Number of    | Market or  |
|   |                      |                  |              | Equity Incentive Plan Awards: Market Awards: or Payout Value |
| Capital in excess of par value                    | 3,793                | <b>3,797</b>     |              |  |
| Accumulated deficit                               | (2,286)              | <b>(2,059)</b>   |              |  |
| Accumulated other comprehensive income (loss)     | (46)                 | <b>(51)</b>      |              |  |
| <b>Total stockholder's equity</b>                 | <b>1,461</b>         | <b>1,687</b>     |              |  |
| <b>Total Liabilities and Stockholder's Equity</b> | <b>\$ 12,550</b>     | <b>\$ 10,587</b> |              |  |

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****SunGard Data Systems Inc.****Consolidated Statements of Comprehensive Income****(In millions)****(Unaudited)**

|  | Three Months Ended<br>June 30, |        | Six Months Ended<br>June 30, |          |
|--|--------------------------------|--------|------------------------------|----------|
|  | 2011                           | 2012   | 2011                         | 2012     |
| <b>Revenue:</b>  |                                |        |                              |          |
| Services   | \$ 1,022                       | \$ 986 | \$ 2,017                     | \$ 1,975 |
| License and resale fees                                      | 81                             | 83     | 142                          | 114      |
| Total products and services                                  | 1,103                          | 1,069  | 2,159                        | 2,089    |
| Reimbursed expenses  | 30                             | 15     | 60                           | 34       |
| Total revenue  | 1,133                          | 1,084  | 2,219                        | 2,123    |
| <b>Costs and expenses:</b>                                   |                                |        |                              |          |
| Cost of sales and direct operating                           | 482                            | 446    | 975                          | 915      |
| Sales, marketing and administration                          | 293                            | 266    | 555                          | 524      |
| Product development and maintenance                          | 103                            | 97     | 199                          | 185      |
| Depreciation and amortization                                | 68                             | 70     | 137                          | 141      |
| Amortization of acquisition-related intangible assets        | 110                            | 101    | 227                          | 203      |
| Total costs and expenses                                     | 1,056                          | 980    | 2,093                        | 1,968    |
| Operating income (loss)                                      | 77                             | 104    | 126                          | 155      |
| Interest income  | 1                              |        | 2                            |          |
| Interest expense and amortization of deferred financing fees | (129)                          | (101)  | (266)                        | (223)    |
| Loss on extinguishment of debt                               |                                | (36)   | (2)                          | (51)     |
| Other income (expense)                                       |                                |        |                              | 2        |
| Income (loss) from continuing operations before income taxes | (51)                           | (33)   | (140)                        | (117)    |
| Benefit from (provision for) income taxes                    | 20                             | 25     | 31                           | 32       |
| Income (loss) from continuing operations                     | (31)                           | (8)    | (109)                        | (85)     |
| Income (loss) from discontinued operations, net of tax       | (42)                           |        | 13                           | 312      |
| Net income (loss)  | (73)                           | (8)    | (96)                         | 227      |
| <b>Other comprehensive income (loss):</b>                    |                                |        |                              |          |
| Foreign currency translation                                 | 18                             | (44)   | 75                           | (11)     |
| Foreign currency translation, net                            | 18                             | (44)   | 75                           | (11)     |
| Unrealized gain (loss) on derivative instruments             | (9)                            |        | (10)                         |          |
| Less: gain (loss) on derivatives reclassified into income    | 7                              | 4      | 20                           | 8        |
| Less: income tax benefit (expense)                           | (1)                            | (1)    | (5)                          | (2)      |
| Unrealized gain (loss) on derivative instruments, net of tax | (3)                            | 3      | 5                            | 6        |

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|                             |         |         |         |        |
|-----------------------------|---------|---------|---------|--------|
| Comprehensive income (loss) | \$ (58) | \$ (49) | \$ (16) | \$ 222 |
|-----------------------------|---------|---------|---------|--------|

The accompanying notes are an integral part of these consolidated financial statements.

**Table of Contents****SunGard Data Systems Inc.****Consolidated Statements of Cash Flows****(In millions)****(Unaudited)**

|  | Six Months Ended June 30, |         |
|--|---------------------------|---------|
|  | 2011                      | 2012    |
| <b><i>Cash flow from operations:</i></b>   |                           |         |
| Net income (loss)  | \$ (96)                   | \$ 227  |
| Income (loss) from discontinued operations   | 13                        | 312     |
| Income (loss) from continuing operations   | (109)                     | (85)    |
| Reconciliation of income (loss) from continuing operations to cash flow from (used in) operations: |                           |         |
| Depreciation and amortization  | 364                       | 344     |
| Deferred income tax provision (benefit)  | (45)                      | 13      |
| Stock compensation expense   | 14                        | 20      |
| Amortization of deferred financing costs and debt discount   | 20                        | 19      |
| Loss on extinguishment of debt   | 2                         | 51      |
| Other noncash items  | 1                         | (1)     |
| Accounts receivable and other current assets   | 73                        | 109     |
| Accounts payable and accrued expenses  | (112)                     | (121)   |
| Accrued income tax   | (6)                       | (87)    |
| Clearing broker assets and liabilities, net  | (7)                       | 3       |
| Deferred revenue   | (19)                      | (45)    |
| Cash flow from (used in) continuing operations   | 176                       | 220     |
| Cash flow from (used in) discontinued operations   | 1                         | (234)   |
| Cash flow from (used in) operations  | 177                       | (14)    |
| <b><i>Investment activities:</i></b>   |                           |         |
| Cash paid for acquired businesses, net of cash acquired  | (26)                      | (9)     |
| Cash paid for property and equipment and software  | (128)                     | (115)   |
| Other investing activities   | (1)                       | 3       |
| Cash provided by (used in) continuing operations   | (155)                     | (121)   |
| Cash provided by (used in) discontinued operations   | (5)                       | 1,742   |
| Cash provided by (used in) investment activities   | (160)                     | 1,621   |
| <b><i>Financing activities:</i></b>  |                           |         |
| Cash received from borrowings, net of fees   | 14                        | (17)    |
| Cash used to repay debt  | (2)                       | (1,725) |
| Premium paid to retire debt  |                           | (27)    |
| Other financing activities   | (7)                       | (15)    |
| Cash provided by (used in) continuing operations   | 5                         | (1,784) |
| Cash provided by (used in) discontinued operations   |                           |         |
| Cash provided by (used in) financing activities  | 5                         | (1,784) |

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|   |        |               |
|---|--------|---------------|
| Effect of exchange rate changes on cash   | 21     | <b>3</b>      |
| Increase (decrease) in cash and cash equivalents  | 43     | <b>(174)</b>  |
| Beginning cash and cash equivalents includes cash of discontinued operations: 2011, \$7 2012, \$5 | 778    | <b>873</b>    |
| Ending cash and cash equivalents includes cash of discontinued operations: 2011, \$8; 2012, \$0   | \$ 821 | \$ <b>699</b> |

The accompanying notes are an integral part of these consolidated financial statements.

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**SUNGARD CAPITAL CORP.**

**SUNGARD CAPITAL CORP. II**

**SUNGARD DATA SYSTEMS INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**1. Basis of Presentation:**

SunGard Data Systems Inc. ( SunGard ) was acquired on August 11, 2005 (the LBO ) in a leveraged buy-out by a consortium of private equity investment funds associated with Bain Capital Partners, The Blackstone Group, Goldman Sachs & Co., Kohlberg Kravis Roberts & Co., Providence Equity Partners, Silver Lake and TPG (collectively, the Sponsors ).

SunGard is a wholly owned subsidiary of SunGard Holdco LLC, which is wholly owned by SunGard Holding Corp., which is wholly owned by SunGard Capital Corp. II ( SCCII ), which is a subsidiary of SunGard Capital Corp. ( SCC ). All four of these companies were formed for the purpose of facilitating the LBO and are collectively referred to as the Holding Companies. SCC, SCCII and SunGard are separate reporting companies and, together with their direct and indirect subsidiaries, are collectively referred to as the Company .

The Company has three reportable segments: Financial Systems ( FS ), Availability Services ( AS ) and Other, which is comprised of K-12 Education ( K-12 ) and Public Sector ( PS ). The consolidated financial statements include the accounts of the Company and its majority-owned subsidiaries. All significant intercompany transactions and accounts have been eliminated.

The accompanying interim consolidated financial statements of the Company have been prepared in conformity with accounting principles generally accepted in the United States of America ( GAAP ), consistent in all material respects with those applied in the Company s Annual Report on Form 10-K for the year ended December 31, 2011 for SCC and SCCII and the Company s Registration Statement on Form S-1 dated June 4, 2012 for SunGard. Interim financial reporting does not include all of the information and footnotes required by GAAP for annual financial statements. The interim financial information is unaudited, but, in the opinion of management, includes all adjustments, consisting only of normal recurring adjustments necessary to provide a fair statement of results for the interim periods presented. Operating results for the interim periods presented are not necessarily indicative of the results that may be expected for the year ending December 31, 2012.

The presentation of certain prior year amounts has been revised to conform to the current year presentation.

**Recent Accounting Pronouncements**

In October 2011, the Financial Accounting Standards Board ( FASB ) announced that the specific requirement to present items that are reclassified from other comprehensive income to net income alongside their respective components of net income and other comprehensive income will be deferred. Therefore, those requirements related to the presentation of comprehensive income have not been adopted by the Company.

In September 2011, the FASB issued amended guidance that could simplify how entities test goodwill for impairment. After assessment of certain qualitative factors, if it is determined to be more likely than not that the fair value of a reporting unit is less than its carrying amount, entities must perform the quantitative analysis of the goodwill impairment test. Otherwise, the quantitative test(s) become optional. This guidance will be applicable for the annual goodwill impairment test performed as of July 1, 2012.

On July 27, 2012, the FASB issued Accounting Standards Update No. 2012-02, *Intangibles - Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment*. The Update simplifies the guidance for testing the decline in the realizable value (impairment) of indefinite-lived intangible assets other than goodwill. Examples of intangible assets subject to the guidance include indefinite-lived trademarks, licenses, and distribution rights. The amendments allow an organization the option to first assess qualitative factors to determine whether it is necessary to perform the quantitative impairment test. An organization electing to perform a qualitative assessment is no longer required to calculate the fair value of an indefinite-lived intangible asset unless the organization determines, based on a qualitative assessment, that it is more likely than not that the asset is impaired. Under former guidance, an organization was required to test an indefinite-lived intangible asset for impairment on at least an annual basis by comparing the fair value of the asset with its carrying amount. If the carrying amount of an indefinite-lived intangible asset exceeded its fair value, an impairment loss was recognized in an amount equal to the difference. The amendments in this Update are effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company is currently evaluating the impact of this Update, but does not expect the Update to have a material impact on the



consolidated financial statements.

**2. Acquisitions and Discontinued Operations:**

**Acquisitions**

The Company seeks to acquire businesses that broaden its existing product lines and service offerings by adding complementary products and service offerings and by expanding its geographic reach. During the six months ended June 30, 2012, the Company completed one acquisition in its FS segment. Cash paid, net of cash acquired, was \$9 million. The impact of this acquisition was not material to the consolidated financial statements.

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At June 30, 2012, contingent purchase price obligations that depend on the operating performance of certain acquired businesses were \$6 million, of which \$3 million is included in other accrued expenses.

**Discontinued Operations**

In January 2012, the Company sold its Higher Education ( HE ) business and used the net cash proceeds (as defined in its senior secured credit agreement ( Credit Agreement )) of \$1.222 billion, which is the gross transaction value of \$1.775 billion less applicable taxes and fees, to repay a pro-rata portion of its outstanding term loans (see note 5). The results for the discontinued operations for the three and six months ended June 30, 2011 and 2012 were as follows (in millions):

|  | Three Months Ended<br>June 30, |      | Six Months Ended<br>June 30, |        |
|--|--------------------------------|------|------------------------------|--------|
|  | 2011                           | 2012 | 2011                         | 2012   |
| Revenue                                    | \$ 133                         | \$   | \$ 257                       | \$ 23  |
| Operating income (loss)                    | 30                             |      | 44                           | (2)    |
| Gain on sale of business                   |                                |      |                              | 563    |
| Income (loss) before income taxes          | 30                             |      | 44                           | 561    |
| Benefit from (provision for) income taxes  | (72)                           |      | (31)                         | (249)  |
| Income (loss) from discontinued operations | \$ (42)                        | \$   | \$ 13                        | \$ 312 |

Assets held for sale and liabilities related to assets held for sale consisted of the following (in millions) at December 31, 2011 and for the closing balance sheet on January 20, 2012:

|   | December 31,<br>2011 | January 20,<br>2012 |
|---|----------------------|---------------------|
| Cash  | \$ 5                 | \$ 7                |
| Accounts receivable, net                    | 88                   | 90                  |
| Prepaid expenses and other current assets   | 13                   | 14                  |
| Property and equipment, net                 | 31                   | 31                  |
| Software products, net                      | 78                   | 78                  |
| Customer base, net                          | 182                  | 182                 |
| Goodwill                                    | 929                  | 929                 |
| Assets held for sale                        | \$ 1,326             | \$ 1,331            |
| Accounts payable                            | \$ 1                 | \$ 5                |
| Accrued compensation and benefits           | 15                   | 21                  |
| Other accrued expenses                      | 12                   | 9                   |
| Deferred revenue                            | 106                  | 109                 |
| Deferred income taxes                       | 96                   | 96                  |
| Liabilities related to assets held for sale | \$ 230               | \$ 240              |

**Table of Contents****3. Goodwill:**

The following table summarizes changes in goodwill by segment (in millions):

|  | Cost     |          |        | Subtotal | Accumulated Impairment |          |            | Total    |
|--|----------|----------|--------|----------|------------------------|----------|------------|----------|
|  | FS       | AS       | Other  |          | AS                     | Other    | Subtotal   |          |
| Balance at December 31, 2011                               | \$ 3,480 | \$ 2,239 | \$ 545 | \$ 6,264 | \$ (1,162)             | \$ (217) | \$ (1,379) | \$ 4,885 |
| 2012 acquisitions  | 4        |          |        | 4        |                        |          |            | 4        |
| Adjustments related to the LBO and prior year acquisitions | (2)      | (2)      |        | (4)      |                        |          |            | (4)      |
| Effect of foreign currency translation                     | (10)     | (3)      |        | (13)     |                        |          |            | (13)     |
| Balance at June 30, 2012                                   | \$ 3,472 | \$ 2,234 | \$ 545 | \$ 6,251 | \$ (1,162)             | \$ (217) | \$ (1,379) | \$ 4,872 |

**4. Clearing Broker Assets and Liabilities:**

Clearing broker assets and liabilities are comprised of the following (in millions):

|   | December 31,<br>2011 | June 30,<br>2012 |
|---|----------------------|------------------|
| Segregated customer cash and treasury bills | \$ 23                | \$ 13            |
| Securities borrowed                         | 157                  | 50               |
| Receivables from customers and other        | 33                   | 38               |
| Clearing broker assets                      | \$ 213               | \$ 101           |
| Payables to customers                       | \$ 16                | \$ 9             |
| Securities loaned                           | 145                  | 41               |
| Payable to brokers and dealers              | 18                   | 19               |
| Clearing broker liabilities                 | \$ 179               | \$ 69            |

Segregated customer cash is held by the Company on behalf of customers. Securities borrowed and loaned are collateralized financing transactions which are cash deposits made to or received from other broker/dealers. Receivables from and payables to customers represent amounts due or payable on cash and margin transactions.

The Company is currently winding-down the operations of its stock loan and clearing services business. As a result, the Company expects the balances of clearing broker assets and liabilities will continue to decrease through the remainder of 2012.

**5. Debt and Derivatives:**

On January 20, 2012, the Company completed the sale of HE and used net cash proceeds (as defined in the Credit Agreement) of \$1.22 billion to repay, on a pro-rata basis, outstanding term loans.

On April 2, 2012, SunGard redeemed, for \$527 million plus accrued and unpaid interest to the redemption date, all of its outstanding \$500 million 10.625% senior notes due 2015 ( 2015 Notes ) under the Indenture dated as of September 29, 2008 among SunGard, the guarantors named therein, and The Bank of New York Mellon, as trustee (as amended or supplemented from time to time, the 2015 Indenture ). In conjunction with the redemption of the 2015 Notes, the Company expensed approximately \$7 million of unamortized deferred financing costs and the \$3 million issue discount.

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On March 2, 2012, SunGard amended its Credit Agreement to, among other things, extend the maturity date of approximately \$908 million of tranche A and incremental term loans from February 28, 2014 to February 28, 2017, extend the maturity of \$880 million of revolving credit facility commitments from May 11, 2013 to November 29, 2016, and amend certain covenants and other provisions, in order to, among other things, permit the potential spin-off of AS. The tranche B, tranche C and revolving credit facility each have springing maturity provisions which are described in the Company's Credit Agreement as amended and filed with the Company's Form 8-K dated March 2, 2012.

Debt consisted of the following at December 31, 2011 and June 30, 2012 (in millions):

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|   | December 31,<br>2011 | June 30,<br>2012 |
|---|----------------------|------------------|
| <b>Senior Secured Credit Facilities:</b>                                |                      |                  |
| Secured revolving credit facility                                       | \$                   | \$               |
| Tranche A, effective interest rate of 3.33% and 1.99%                   | 1,386                | 255              |
| Tranche B, effective interest rate of 4.32% and 4.38%                   | 2,407                | 1,719            |
| Tranche C, effective interest rate of 3.99%                             |                      | 908              |
| Incremental term loan at 3.78% and 3.75%                                | 479                  | 169              |
| <b>Total Senior Secured Credit Facilities</b>                           | <b>4,272</b>         | <b>3,051</b>     |
| Senior Secured Notes due 2014 at 4.875%, net of discount of \$8 and \$6 | 242                  | 244              |
| Senior Notes due 2015 at 10.625%, net of discount of \$3 and \$0        | 497                  |                  |
| Senior Notes due 2018 at 7.375%   | 900                  | 900              |
| Senior Notes due 2020 at 7.625%   | 700                  | 700              |
| Senior Subordinated Notes due 2015 at 10.25%                            | 1,000                | 1,000            |
| Secured accounts receivable facility, at 3.79% and 3.74%                | 200                  | 200              |
| Other   | 18                   | 16               |
| <b>Total debt</b>   | <b>7,829</b>         | <b>6,111</b>     |
| Short-term borrowings and current portion of long-term debt             | (10)                 | (10)             |
| <b>Long-term debt</b>   | <b>\$ 7,819</b>      | <b>\$ 6,101</b>  |

The Company uses interest rate swap agreements to manage the amount of its floating rate debt in order to reduce its exposure to variable rate interest payments associated with the Credit Agreement. Each of these swap agreements is designated as a cash flow hedge. SunGard pays a stream of fixed interest payments for the term of the swap, and in turn, receives variable interest payments based on LIBOR. The net receipt or payment from the interest rate swap agreements is included in interest expense. The Company does not enter into interest rate swaps for speculative or trading purposes. A summary of the Company's interest rate swaps follows:

| <b>Inception</b> | <b>Maturity</b> | <b>Notional<br/>Amount<br/>(in<br/>millions)</b> | <b>Interest rate<br/>paid</b> | <b>Interest rate<br/>received<br/>(LIBOR)</b> |
|------------------|-----------------|--|-------------------------------|---|
| February 2010    | May 2013        | \$ 500   | 1.99%                         | 3-Month                                       |

The fair values of interest rate swaps designated as cash flow hedging instruments, included in other accrued expenses on the consolidated balance sheets, are \$11 million and \$7 million as of December 31, 2011 and June 30, 2012, respectively.

The Company has no ineffectiveness related to its swap agreements. The Company expects to reclassify in the next twelve months approximately \$7 million from other comprehensive income (loss) into earnings related to the Company's interest rate swaps based on the borrowing rates at June 30, 2012.

**6. Fair Value Measurements:**

The following table summarizes assets and liabilities measured at fair value on a recurring basis at June 30, 2012 (in millions):

|  | <b>Fair Value Measures Using</b> |                |                | <b>Total</b> |
|--|----------------------------------|----------------|----------------|--------------|
|  | <b>Level 1</b>                   | <b>Level 2</b> | <b>Level 3</b> |              |
| <b>Assets</b>                                |                                  |                |                |              |
| Cash and cash equivalents money market funds | \$ 171                           | \$             | \$             | \$ 171       |
| <b>Liabilities</b>                           |                                  |                |                |              |

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|   |    |    |   |    |    |   |
|---|----|----|---|----|----|---|
| Interest rate swap agreements and other | \$ | \$ | 8 | \$ | \$ | 8 |
|---|----|----|---|----|----|---|

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The following table summarizes assets and liabilities measured at fair value on a recurring basis at December 31, 2011 (in millions):

|  | Fair Value Measures Using |         |         | Total  |
|--|---------------------------|---------|---------|--------|
|  | Level 1                   | Level 2 | Level 3 |        |
| <b>Assets</b>                                |                           |         |         |        |
| Cash and cash equivalents money market funds | \$ 351                    | \$      | \$      | \$ 351 |
| <b>Liabilities</b>                           |                           |         |         |        |
| Interest rate swap agreements and other      | \$                        | \$ 15   | \$      | \$ 15  |

A Level 1 fair value measure is based upon quoted prices in active markets for identical assets or liabilities. A Level 2 fair value measure is based upon quoted prices for similar assets and liabilities in active markets or inputs that are observable. A Level 3 fair value measure is based upon inputs that are unobservable (for example, cash flow modeling inputs based on assumptions).

Cash and cash equivalents money market funds is recognized and measured at fair value in the Company's financial statements. Fair values of the interest rate swap agreements are calculated using a discounted cash flow model using observable applicable market swap rates and assumptions and are compared to market valuations obtained from brokers.

The following table presents the carrying amount and estimated fair value of the Company's debt, including current portion and excluding the interest rate swaps, as of December 31, 2011 and June 30, 2012 (in millions):

|                    | December 31, 2011 |            | June 30, 2012  |            |
|--------------------|-------------------|------------|----------------|------------|
|                    | Carrying Value    | Fair Value | Carrying Value | Fair Value |
| Floating rate debt | \$ 4,472          | \$ 4,372   | \$ 3,251       | \$ 3,213   |
| Fixed rate debt    | 3,357             | 3,454      | 2,860          | 3,005      |

The fair value of the Company's floating rate and fixed rate long-term debt (level 2) is determined using actual market quotes and benchmark yields received from independent vendors.

**7. Equity:**

A rollforward of SCC's equity for 2012 follows (in millions):

|   | SunGard Capital Corp. stockholders |                            |                  |          | Noncontrolling interest |                  |          |
|---|------------------------------------|----------------------------|------------------|----------|-------------------------|------------------|----------|
|   | Class L - temporary equity         | Class A - temporary equity | Permanent equity | Total    | Temporary equity        | Permanent equity | Total    |
| Balance at December 31, 2011                                      | \$ 47                              | \$ 6                       | \$ (663)         | \$ (610) | \$ 28                   | \$ 2,038         | \$ 2,066 |
| Net income (loss)   |                                    |                            | 105              | 105      |                         | 122              | 122      |
| Foreign currency translation                                      |                                    |                            | (11)             | (11)     |                         |                  |          |
| Net unrealized gain on derivative instruments                     |                                    |                            | 6                | 6        |                         |                  |          |
| Comprehensive income (loss)                                       |                                    |                            | 100              | 100      |                         | 122              | 122      |
| Stock compensation expense  |                                    |                            | 20               | 20       |                         |                  |          |
| Termination of put options due to employee terminations and other | (8)                                | (1)                        | 10               | 1        | (5)                     | 3                | (2)      |
| Purchase of treasury stock  |                                    |                            | (5)              | (5)      |                         | (2)              | (2)      |
| Transfer intrinsic value of vested restricted stock units         | 11                                 | 1                          | (19)             | (7)      | 7                       |                  | 7        |
| Other   |                                    |                            | (8)              | (8)      |                         |                  |          |

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|                          |       |      |          |          |       |          |          |
|--------------------------|-------|------|----------|----------|-------|----------|----------|
| Balance at June 30, 2012 | \$ 50 | \$ 6 | \$ (565) | \$ (509) | \$ 30 | \$ 2,161 | \$ 2,191 |
|--------------------------|-------|------|----------|----------|-------|----------|----------|



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A rollforward of SCC's equity for 2011 follows (in millions):

|   | SunGard Capital Corp. stockholders |                            |                  |                 | Noncontrolling interest |                  |                 |
|---|------------------------------------|----------------------------|------------------|-----------------|-------------------------|------------------|-----------------|
|   | Class L - temporary equity         | Class A - temporary equity | Permanent equity | Total           | Temporary equity        | Permanent equity | Total           |
| Balance at December 31, 2010                                      | \$ 87                              | \$ 11                      | \$ (330)         | \$ (232)        | \$ 54                   | \$ 1,782         | \$ 1,836        |
| Net income (loss)   |                                    |                            | (205)            | (205)           | 2                       | 107              | 109             |
| Foreign currency translation                                      |                                    |                            | 75               | 75              |                         |                  |                 |
| Net unrealized gain on derivative instruments                     |                                    |                            | 5                | 5               |                         |                  |                 |
| <b>Comprehensive income (loss)</b>                                |                                    |                            | <b>(125)</b>     | <b>(125)</b>    | <b>2</b>                | <b>107</b>       | <b>109</b>      |
| Stock compensation expense  |                                    |                            | 15               | 15              |                         |                  |                 |
| Termination of put options due to employee terminations and other | (36)                               | (4)                        | 41               | 1               | (28)                    | 28               |                 |
| Issuance of common and preferred stock                            | (1)                                |                            | 3                | 2               |                         |                  |                 |
| Purchase of treasury stock  |                                    |                            | (1)              | (1)             |                         |                  |                 |
| Transfer intrinsic value of vested restricted stock units         | 5                                  |                            | (8)              | (3)             | 3                       |                  | 3               |
| Other   |                                    |                            | (8)              | (8)             |                         |                  |                 |
| <b>Balance at June 30, 2011</b>                                   | <b>\$ 55</b>                       | <b>\$ 7</b>                | <b>\$ (413)</b>  | <b>\$ (351)</b> | <b>\$ 31</b>            | <b>\$ 1,917</b>  | <b>\$ 1,948</b> |

In the case of termination of employment resulting from disability or death, an employee or his/her estate may exercise a put option which would require the Company to repurchase vested shares at the current fair market value. These common or preferred shares must be classified as temporary equity (between liabilities and equity) on the balance sheet of SCC and SCCII. At vesting or exercise, grant-date intrinsic value or exercise value, respectively, is reclassified to temporary equity. On termination of employment for other than death or disability, the value included in temporary equity is reclassified to permanent equity.

The components of accumulated other comprehensive income (loss) at December 31, 2011 and June 30, 2012 are as follows (in millions):

|  | December 31, 2011 | June 30, 2012  |
|--|-------------------|----------------|
| Foreign currency translation                                 | \$ (37)           | \$ (48)        |
| Unrealized gain (loss) on derivative instruments, net of tax | (9)               | (3)            |
| <b>Accumulated other comprehensive income (loss)</b>         | <b>\$ (46)</b>    | <b>\$ (51)</b> |

**8. Segment Information:**

The Company has three reportable segments: FS, AS and Other. The Company evaluates the performance of its segments based on operating results before interest, income taxes, amortization of acquisition-related intangible assets, stock compensation and certain other costs. The operating results apply to each of SCC, SCCII and SunGard unless otherwise noted. The operating results for each segment follow (in millions):

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|  | Three Months Ended June 30, |                 | Six Months Ended June 30, |                 |
|--|-----------------------------|-----------------|---------------------------|-----------------|
|  | 2011                        | 2012            | 2011                      | 2012            |
| <b>Revenue:</b>  |                             |                 |                           |                 |
| Financial Systems  | \$ 714                      | \$ 683          | \$ 1,386                  | \$ 1,315        |
| Availability Services  | 366                         | 351             | 730                       | 707             |
| Other  | 53                          | 50              | 103                       | 101             |
| <b>Total revenue</b>   | <b>\$ 1,133</b>             | <b>\$ 1,084</b> | <b>\$ 2,219</b>           | <b>\$ 2,123</b> |
| <b>Depreciation and amortization:</b>                          |                             |                 |                           |                 |
| Financial Systems  | \$ 21                       | \$ 20           | \$ 42                     | \$ 41           |
| Availability Services  | 45                          | 48              | 91                        | 96              |
| Other  | 2                           | 2               | 4                         | 4               |
| <b>Total depreciation and amortization</b>                     | <b>\$ 68</b>                | <b>\$ 70</b>    | <b>\$ 137</b>             | <b>\$ 141</b>   |
| <b>Operating income (loss):</b>                                |                             |                 |                           |                 |
| Financial Systems  | \$ 139                      | \$ 147          | \$ 254                    | \$ 252          |
| Availability Services  | 81                          | 72              | 154                       | 135             |
| Other  | 14                          | 13              | 28                        | 27              |
| Corporate  | (30)                        | (13)            | (49)                      | (28)            |
| Other costs <sup>(1)</sup>                                     | (127)                       | (115)           | (261)                     | (231)           |
| <b>Total operating income (loss)</b>                           | <b>\$ 77</b>                | <b>\$ 104</b>   | <b>\$ 126</b>             | <b>\$ 155</b>   |
| <b>Cash paid for property and equipment and software:</b>      |                             |                 |                           |                 |
| Financial Systems  | \$ 21                       | \$ 23           | \$ 44                     | \$ 43           |
| Availability Services  | 45                          | 30              | 80                        | 68              |
| Other  | 1                           | 2               | 2                         | 4               |
| Corporate  |                             |                 | 2                         |                 |
| <b>Total cash paid for property and equipment and software</b> | <b>\$ 67</b>                | <b>\$ 55</b>    | <b>\$ 128</b>             | <b>\$ 115</b>   |

- (1) Includes stock compensation expense, management fees paid to the Sponsors, other items and amortization of acquisition-related intangible assets of \$110 million and \$101 million for the three months ended June 30, 2011 and 2012, respectively, and \$227 million and \$203 million for the six months ended June 30, 2011 and 2012, respectively.

Amortization of acquisition-related intangible assets by segment follows (in millions):

|  | Three Months Ended June 30, |               | Six Months Ended June 30, |               |
|--|-----------------------------|---------------|---------------------------|---------------|
|  | 2011                        | 2012          | 2011                      | 2012          |
| Financial Systems  | \$ 63                       | \$ 53         | \$ 132 <sup>(2)</sup>     | \$ 108        |
| Availability Services  | 43                          | 43            | 86                        | 86            |
| Other  | 4                           | 5             | 9                         | 9             |
| <b>Total amortization of acquisition-related intangible assets</b> | <b>\$ 110</b>               | <b>\$ 101</b> | <b>\$ 227</b>             | <b>\$ 203</b> |

- (2) Includes approximately \$7 million of impairment charges related to customer base and software.

The FS Segment is organized to align with customer-facing business areas. FS revenue by these business areas follows (in millions):

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|                              | Three Months Ended June 30, |            | Six Months Ended June 30, |              |
|------------------------------|-----------------------------|------------|---------------------------|--------------|
|                              | 2011                        | 2012       | 2011                      | 2012         |
| Capital Markets              | \$ 292                      | \$ 275     | \$ 577                    | \$ 513       |
| Asset Management             | 115                         | 113        | 223                       | 226          |
| Wealth Management            | 82                          | 87         | 168                       | 172          |
| Corporate Liquidity & Energy | 73                          | 67         | 134                       | 132          |
| Banking                      | 63                          | 57         | 115                       | 104          |
| Insurance                    | 42                          | 40         | 81                        | 81           |
| Other                        | 47                          | 44         | 88                        | 87           |
| <br>Total Financial Systems  | <br>\$ 714                  | <br>\$ 683 | <br>\$ 1,386              | <br>\$ 1,315 |

**Table of Contents****9. Related Party Transactions:**

In accordance with the Management Agreement between the Company and affiliates of the Sponsors, the Company recorded \$2 million and \$4 million of management fees in sales, marketing and administration expenses during the three months ended June 30, 2011 and 2012, respectively. The Company recorded \$5 million and \$6 million of management fees in sales, marketing and administration expenses during the six months ended June 30, 2011 and 2012, respectively. At December 31, 2011 and June 30, 2012, \$4 million and \$3 million, respectively, was included in other accrued expenses.

Additionally, during the first quarter of 2012, the Company paid to the Sponsors \$17.8 million of management fees related to the sale of HE, which are included in the results of discontinued operations.

**10. Supplemental Cash Flow Information:**

Supplemental cash flow information for the six months ended June 30, 2011 and 2012 follows (in millions):

| <i>Supplemental information:</i>   | Six Months Ended June 30, |                       |
|--|---------------------------|-----------------------|
|  | 2011                      | 2012                  |
| Interest paid  | \$ 258                    | \$ 228                |
| Income taxes paid, net of refunds of \$19 million and \$5 million                            | \$ 27                     | \$ 279 <sup>(1)</sup> |
| <b>Acquired businesses:</b>  |                           |                       |
| Property and equipment   | \$ 1                      | \$                    |
| Software products  | 11                        |                       |
| Customer base  | 12                        | 7                     |
| Goodwill   | 6                         | 4                     |
| Deferred income taxes  | (5)                       | (2)                   |
| Net current liabilities assumed  | 1                         |                       |
| Cash paid for acquired businesses, net of cash acquired of \$4 and \$2 million, respectively | \$ 26                     | \$ 9                  |

(1) Approximately \$241 million is related to the sale of HE and the income tax provision was included in discontinued operations.

**11. Supplemental Guarantor Condensed Consolidating Financial Statements:**

SunGard's senior unsecured notes are jointly and severally, fully and unconditionally guaranteed on a senior unsecured basis and the senior subordinated notes are jointly and severally, fully and unconditionally guaranteed on an unsecured senior subordinated basis, in each case, subject to certain exceptions, by substantially all wholly owned, domestic subsidiaries of SunGard (collectively, the Guarantors). Each of the Guarantors is 100% owned, directly or indirectly, by SunGard. None of the other subsidiaries of SunGard, either direct or indirect, nor any of the Holding Companies, guarantee the senior notes and senior subordinated notes (Non-Guarantors). The Guarantors and SunGard Holdco LLC also unconditionally guarantee the senior secured credit facilities. The Guarantors are subject to release under certain circumstances as described below.

The indentures evidencing the guarantees provide for a Guarantor to be automatically and unconditionally released and discharged from its guarantee obligations in certain circumstances, including upon the earliest to occur of:

The sale, exchange or transfer of the subsidiary's capital stock or all or substantially all of its assets;

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Designation of the Guarantor as an unrestricted subsidiary for purposes of the indenture covenants;

Release or discharge of the Guarantor's guarantee of certain other indebtedness; or

Legal defeasance or covenant defeasance of the indenture obligations when provision has been made for them to be fully satisfied. The following tables present the financial position, results of operations and cash flows of SunGard (referred to as "Parent Company" for purposes of this note only), the Guarantor subsidiaries, the Non-Guarantor subsidiaries and Eliminations as of December 31, 2011 and June 30, 2012, and for the three and six month periods ended June 30, 2011 and 2012 to arrive at the information for SunGard on a consolidated basis. SCC and SCCII are neither parties to nor guarantors of the debt issued as described in the notes to consolidated financial statements included in the Company's Form 10-K for the year ended December 31, 2011.

**Table of Contents****Supplemental Condensed Consolidating Balance Sheet  
December 31, 2011**

| (in millions)                                     | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations       | Consolidated     |
|---|-------------------|---------------------------|-------------------------------|--------------------|------------------|
| <b>Assets</b>                                     |                   |                           |                               |                    |                  |
| Current:  |                   |                           |                               |                    |                  |
| Cash and cash equivalents                         | \$ 529            | \$ (15)                   | \$ 354                        | \$                 | \$ 868           |
| Intercompany balances                             | (5,247)           | 4,516                     | 731                           |                    |                  |
| Trade receivables, net                            | 2                 | 603                       | 346                           |                    | 951              |
| Prepaid expenses, taxes and other current assets  | 1,461             | 54                        | 271                           | (1,456)            | 330              |
| Assets held for sale                              |                   | 1,315                     | 13                            | (2)                | 1,326            |
| <br>  |                   |                           |                               |                    |                  |
| Total current assets                              | (3,255)           | 6,473                     | 1,715                         | (1,458)            | 3,475            |
| Property and equipment, net                       |                   | 588                       | 305                           |                    | 893              |
| Intangible assets, net                            | 120               | 2,701                     | 476                           |                    | 3,297            |
| Intercompany balances                             | 250               | 1                         | (251)                         |                    |                  |
| Goodwill  |                   | 3,784                     | 1,101                         |                    | 4,885            |
| Investment in subsidiaries                        | 12,673            | 2,253                     |                               | (14,926)           |                  |
| <br>  |                   |                           |                               |                    |                  |
| <b>Total Assets</b>                               | <b>\$ 9,788</b>   | <b>\$ 15,800</b>          | <b>\$ 3,346</b>               | <b>\$ (16,384)</b> | <b>\$ 12,550</b> |
| <b>Liabilities and Stockholder's Equity</b>       |                   |                           |                               |                    |                  |
| Current:  |                   |                           |                               |                    |                  |
| Short-term and current portion of long-term debt  | \$                | \$ 3                      | \$ 7                          | \$                 | \$ 10            |
| Accounts payable and other current liabilities    | 296               | 2,170                     | 901                           | (1,456)            | 1,911            |
| Liabilities related to assets held for sale       |                   | 219                       | 11                            |                    | 230              |
| <br>  |                   |                           |                               |                    |                  |
| Total current liabilities                         | 296               | 2,392                     | 919                           | (1,456)            | 2,151            |
| Long-term debt                                    | 7,612             | 2                         | 205                           |                    | 7,819            |
| Intercompany debt                                 | 82                | 19                        | 16                            | (117)              |                  |
| Deferred income taxes                             | 337               | 714                       | 68                            |                    | 1,119            |
| <br>  |                   |                           |                               |                    |                  |
| Total liabilities                                 | 8,327             | 3,127                     | 1,208                         | (1,573)            | 11,089           |
| <br>  |                   |                           |                               |                    |                  |
| Total stockholder's equity                        | 1,461             | 12,673                    | 2,138                         | (14,811)           | 1,461            |
| <br>  |                   |                           |                               |                    |                  |
| <b>Total Liabilities and Stockholder's Equity</b> | <b>\$ 9,788</b>   | <b>\$ 15,800</b>          | <b>\$ 3,346</b>               | <b>\$ (16,384)</b> | <b>\$ 12,550</b> |

**Table of Contents****Supplemental Condensed Consolidating Balance Sheet  
June 30, 2012**

| (in millions)                                     | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations       | Consolidated     |
|---|-------------------|---------------------------|-------------------------------|--------------------|------------------|
| <b>Assets</b>                                     |                   |                           |                               |                    |                  |
| Current:  |                   |                           |                               |                    |                  |
| Cash and cash equivalents                         | \$ 397            | \$ (1)                    | \$ 303                        | \$                 | \$ 699           |
| Intercompany balances                             | (2,789)           | 2,044                     | 745                           |                    |                  |
| Trade receivables, net                            | 4                 | 552                       | 275                           |                    | 831              |
| Prepaid expenses, taxes and other current assets  | 1,284             | 133                       | 186                           | (1,361)            | 242              |
| Assets held for sale                              |                   |                           |                               |                    |                  |
| Total current assets                              | (1,104)           | 2,728                     | 1,509                         | (1,361)            | 1,772            |
| Property and equipment, net                       |                   | 578                       | 293                           |                    | 871              |
| Intangible assets, net                            | 99                | 2,543                     | 430                           |                    | 3,072            |
| Intercompany balances                             | 245               |                           | (245)                         |                    |                  |
| Goodwill  |                   | 3,832                     | 1,040                         |                    | 4,872            |
| Investment in subsidiaries                        | 8,866             | 2,030                     |                               | (10,896)           |                  |
| <b>Total Assets</b>                               | <b>\$ 8,106</b>   | <b>\$ 11,711</b>          | <b>\$ 3,027</b>               | <b>\$ (12,257)</b> | <b>\$ 10,587</b> |
| <b>Liabilities and Stockholder's Equity</b>       |                   |                           |                               |                    |                  |
| Current:  |                   |                           |                               |                    |                  |
| Short-term and current portion of long-term debt  | \$                | \$ 2                      | \$ 8                          | \$                 | \$ 10            |
| Accounts payable and other current liabilities    | 120               | 2,242                     | 710                           | (1,361)            | 1,711            |
| Liabilities related to assets held for sale       |                   |                           |                               |                    |                  |
| Total current liabilities                         | 120               | 2,244                     | 718                           | (1,361)            | 1,721            |
| Long-term debt                                    | 5,894             | 2                         | 205                           |                    | 6,101            |
| Intercompany debt                                 | 83                | (89)                      | 6                             |                    |                  |
| Deferred income taxes                             | 322               | 688                       | 68                            |                    | 1,078            |
| Total liabilities                                 | 6,419             | 2,845                     | 997                           | (1,361)            | 8,900            |
| Total stockholder's equity                        | 1,687             | 8,866                     | 2,030                         | (10,896)           | 1,687            |
| <b>Total Liabilities and Stockholder's Equity</b> | <b>\$ 8,106</b>   | <b>\$ 11,711</b>          | <b>\$ 3,027</b>               | <b>\$ (12,257)</b> | <b>\$ 10,587</b> |

**Supplemental Condensed Consolidating Schedule of Comprehensive Income  
Three Months Ended June 30, 2011**

| (in millions)   | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|-------------------|---------------------------|-------------------------------|--------------|--------------|
| Total revenue   | \$                | \$ 745                    | \$ 520                        | \$ (132)     | \$ 1,133     |
| Costs and expenses:                                   |                   |                           |                               |              |              |
| Cost of sales and administrative expenses             | 38                | 575                       | 397                           | (132)        | 878          |
| Depreciation and amortization                         |                   | 45                        | 23                            |              | 68           |
| Amortization of acquisition-related intangible assets |                   | 90                        | 20                            |              | 110          |
| Total costs and expenses                              | 38                | 710                       | 440                           | (132)        | 1,056        |
| Operating income (loss)                               | (38)              | 35                        | 80                            |              | 77           |
| Net interest income (expense)                         | (120)             |                           | (8)                           |              | (128)        |
| Other income (expense)                                | 73                | 49                        |                               | (122)        |              |

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|  |         |       |       |          |         |
|--|---------|-------|-------|----------|---------|
| Income (loss) from continuing operations before income taxes | (85)    | 84    | 72    | (122)    | (51)    |
| Benefit from (provision for) income taxes                    | 54      | (12)  | (22)  |          | 20      |
| Income (loss) from continuing operations                     | (31)    | 72    | 50    | (122)    | (31)    |
| Income (loss) from discontinued operations, net of tax       | (42)    | (42)  | 2     | 40       | (42)    |
| Net income (loss)  | \$ (73) | \$ 30 | \$ 52 | \$ (82)  | \$ (73) |
| Comprehensive income (loss)                                  | \$ (58) | \$ 48 | \$ 70 | \$ (118) | \$ (58) |



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**Supplemental Condensed Consolidating Schedule of Comprehensive Income**  
**Three Months Ended June 30, 2012**

| (in millions)  | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|-------------------|---------------------------|-------------------------------|--------------|--------------|
| Total revenue  | \$                | \$ 732                    | \$ 438                        | \$ (86)      | \$ 1,084     |
| Costs and expenses:  |                   |                           |                               |              |              |
| Cost of sales and administrative expenses                    | 24                | 522                       | 349                           | (86)         | 809          |
| Depreciation and amortization                                |                   | 48                        | 22                            |              | 70           |
| Amortization of acquisition-related intangible assets        |                   | 85                        | 16                            |              | 101          |
| Total costs and expenses                                     | 24                | 655                       | 387                           | (86)         | 980          |
| Operating income (loss)                                      | (24)              | 77                        | 51                            |              | 104          |
| Net interest income (expense)                                | (95)              |                           | (6)                           |              | (101)        |
| Other income (expense)                                       | 14                | 20                        |                               | (70)         | (36)         |
| Income (loss) from continuing operations before income taxes | (105)             | 97                        | 45                            | (70)         | (33)         |
| Benefit from (provision for) income taxes                    | 97                | (47)                      | (25)                          |              | 25           |
| Income (loss) from continuing operations                     | (8)               | 50                        | 20                            | (70)         | (8)          |
| Income (loss) from discontinued operations, net of tax       |                   | (6)                       | (7)                           | 13           |              |
| Net income (loss)  | \$ (8)            | \$ 44                     | \$ 13                         | \$ (57)      | \$ (8)       |
| Comprehensive income (loss)                                  | \$ (49)           | \$ 15                     | \$ (14)                       | \$ (1)       | \$ (49)      |

**Supplemental Condensed Consolidating Schedule of Comprehensive Income**  
**Six Months Ended June 30, 2011**

| (in millions)  | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|--|-------------------|---------------------------|-------------------------------|--------------|--------------|
| Total revenue  | \$                | \$ 1,471                  | \$ 964                        | \$ (216)     | \$ 2,219     |
| Costs and expenses:  |                   |                           |                               |              |              |
| Cost of sales and administrative expenses                    | 64                | 1,096                     | 785                           | (216)        | 1,729        |
| Depreciation and amortization                                |                   | 92                        | 45                            |              | 137          |
| Amortization of acquisition-related intangible assets        |                   | 181                       | 46                            |              | 227          |
| Total costs and expenses                                     | 64                | 1,369                     | 876                           | (216)        | 2,093        |
| Operating income (loss)                                      | (64)              | 102                       | 88                            |              | 126          |
| Net interest income (expense)                                | (247)             | (1)                       | (16)                          |              | (264)        |
| Other income (expense)                                       | 94                | 49                        |                               | (145)        | (2)          |
| Income (loss) from continuing operations before income taxes | (217)             | 150                       | 72                            | (145)        | (140)        |
| Benefit from (provision for) income taxes                    | 108               | (55)                      | (22)                          |              | 31           |
| Income (loss) from continuing operations                     | (109)             | 95                        | 50                            | (145)        | (109)        |
| Income (loss) from discontinued operations, net of tax       | 13                | 13                        | 2                             | (15)         | 13           |
| Net income (loss)  | \$ (96)           | \$ 108                    | \$ 52                         | \$ (160)     | \$ (96)      |

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|                             |         |        |        |          |         |
|-----------------------------|---------|--------|--------|----------|---------|
| Comprehensive income (loss) | \$ (16) | \$ 182 | \$ 123 | \$ (305) | \$ (16) |
|-----------------------------|---------|--------|--------|----------|---------|

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**Supplemental Condensed Consolidating Schedule of Comprehensive  
Income**

| (in millions)  | <b>Six Months Ended June 30, 2012</b> |                                   |                                       |                     |                     |
|--|---------------------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
|  | <b>Parent<br/>Company</b>             | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| Total revenue  | \$                                    | \$ 1,445                          | \$ 851                                | \$ (173)            | \$ 2,123            |
| Costs and expenses:  |                                       |                                   |                                       |                     |                     |
| Cost of sales and administrative expenses                    | 49                                    | 1,056                             | 692                                   | (173)               | 1,624               |
| Depreciation and amortization                                |                                       | 96                                | 45                                    |                     | 141                 |
| Amortization of acquisition-related intangible assets        |                                       | 169                               | 34                                    |                     | 203                 |
| Total costs and expenses                                     | 49                                    | 1,321                             | 771                                   | (173)               | 1,968               |
| Operating income (loss)                                      | (49)                                  | 124                               | 80                                    |                     | 155                 |
| Net interest income (expense)                                | (209)                                 |                                   | (14)                                  |                     | (223)               |
| Other income (expense)                                       | 66                                    | 43                                | 2                                     | (160)               | (49)                |
| Income (loss) from continuing operations before income taxes | (192)                                 | 167                               | 68                                    | (160)               | (117)               |
| Benefit from (provision for) income taxes                    | 107                                   | (50)                              | (25)                                  |                     | 32                  |
| Income (loss) from continuing operations                     | (85)                                  | 117                               | 43                                    | (160)               | (85)                |
| Income (loss) from discontinued operations, net of tax       | 312                                   | 87                                | (3)                                   | (84)                | 312                 |
| Net income (loss)  | \$ 227                                | \$ 204                            | \$ 40                                 | \$ (244)            | \$ 227              |
| Comprehensive income (loss)                                  | \$ 222                                | \$ 200                            | \$ 35                                 | \$ (235)            | \$ 222              |

**Supplemental Condensed Consolidating Schedule of Cash Flows**

| (in millions)   | <b>Six Months Ended June 30, 2011</b> |                                   |                                       |                     |                     |
|---|---------------------------------------|-----------------------------------|---------------------------------------|---------------------|---------------------|
|   | <b>Parent<br/>Company</b>             | <b>Guarantor<br/>Subsidiaries</b> | <b>Non-Guarantor<br/>Subsidiaries</b> | <b>Eliminations</b> | <b>Consolidated</b> |
| <i>Cash flow from operations:</i>                       |                                       |                                   |                                       |                     |                     |
| Net income (loss)                                       | \$ (96)                               | \$ 108                            | \$ 52                                 | \$ (160)            | \$ (96)             |
| Income (loss) from discontinued operations              | 13                                    | 13                                | 2                                     | (15)                | 13                  |
| Income (loss) from continuing operations                | (109)                                 | 95                                | 50                                    | (145)               | (109)               |
| Non cash adjustments                                    | (70)                                  | 186                               | 95                                    | 145                 | 356                 |
| Changes in operating assets and liabilities             | (110)                                 | 74                                | (35)                                  |                     | (71)                |
| Cash flow provided by (used in) continuing operations   | (289)                                 | 355                               | 110                                   |                     | 176                 |
| Cash flow provided by (used in) discontinued operations |                                       | 2                                 | (1)                                   |                     | 1                   |
| Cash flow provided by (used in) operations              | (289)                                 | 357                               | 109                                   |                     | 177                 |
| <i>Investment activities:</i>                           |                                       |                                   |                                       |                     |                     |
| Intercompany transactions                               | 349                                   | (252)                             | (97)                                  |                     |                     |
| Cash paid for acquired businesses, net of cash acquired |                                       | (6)                               | (20)                                  |                     | (26)                |
| Cash paid for property and equipment and software       | (1)                                   | (91)                              | (36)                                  |                     | (128)               |
| Other investing activities                              | (3)                                   |                                   | 2                                     |                     | (1)                 |
| Cash provided by (used in) continuing operations        | 345                                   | (349)                             | (151)                                 |                     | (155)               |
| Cash provided by (used in) discontinued operations      |                                       | (5)                               |                                       |                     | (5)                 |

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|  |        |       |        |        |
|--|--------|-------|--------|--------|
| Cash provided by (used in) investment activities   | 345    | (354) | (151)  | (160)  |
| <i>Financing activities:</i>                       |        |       |        |        |
| Net repayments of long-term debt                   | (5)    | 1     | 16     | 12     |
| Other financing activities                         | (6)    |       | (1)    | (7)    |
| Cash provided by (used in) continuing operations   | (11)   | 1     | 15     | 5      |
| Cash provided by (used in) discontinued operations |        |       |        |        |
| Cash provided by (used in) financing activities    | (11)   | 1     | 15     | 5      |
| Effect of exchange rate changes on cash            |        |       | 21     | 21     |
| Increase (decrease) in cash and cash equivalents   | 45     | 4     | (6)    | 43     |
| Beginning cash and cash equivalents                | 179    |       | 599    | 778    |
| Ending cash and cash equivalents                   | \$ 224 | \$ 4  | \$ 593 | \$ 821 |

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**Supplemental Condensed Consolidating Schedule of Cash Flows**  
**Six Months Ended June 30, 2012**

| (in millions)   | Parent<br>Company | Guarantor<br>Subsidiaries | Non-Guarantor<br>Subsidiaries | Eliminations | Consolidated |
|---|-------------------|---------------------------|-------------------------------|--------------|--------------|
| <i>Cash flow from operations:</i>                       |                   |                           |                               |              |              |
| Net income (loss)                                       | \$ 227            | \$ 204                    | \$ 40                         | \$ (244)     | \$ 227       |
| Income (loss) from discontinued operations              | 312               | 87                        | (3)                           | (84)         | 312          |
| Income (loss) from continuing operations                | (85)              | 117                       | 43                            | (160)        | (85)         |
| Non cash adjustments                                    | 13                | 199                       | 74                            | 160          | 446          |
| Changes in operating assets and liabilities             | (151)             | 30                        | (20)                          |              | (141)        |
| Cash flow from (used in) continuing operations          | (223)             | 346                       | 97                            |              | 220          |
| Cash flow from (used in) discontinued operations        | (240)             | 3                         | 3                             |              | (234)        |
| Cash flow from (used in) operations                     | (463)             | 349                       | 100                           |              | (14)         |
| <i>Investment activities:</i>                           |                   |                           |                               |              |              |
| Intercompany transactions                               | 2,115             | (223)                     | (121)                         | (1,771)      |              |
| Cash paid for acquired businesses, net of cash acquired |                   |                           | (9)                           |              | (9)          |
| Cash paid for property and equipment and software       |                   | (83)                      | (32)                          |              | (115)        |
| Other investing activities                              |                   |                           | 3                             |              | 3            |
| Cash provided by (used in) continuing operations        | 2,115             | (306)                     | (159)                         | (1,771)      | (121)        |
| Cash provided by (used in) discontinued operations      |                   | 1,742                     |                               |              | 1,742        |
| Cash provided by (used in) investment activities        | 2,115             | 1,436                     | (159)                         | (1,771)      | 1,621        |
| <i>Financing activities:</i>                            |                   |                           |                               |              |              |
| Intercompany dividends of HE sale proceeds              |                   | (1,771)                   |                               | 1,771        |              |
| Net repayments of long-term debt                        | (1,742)           |                           |                               |              | (1,742)      |
| Premium paid to retire debt                             | (27)              |                           |                               |              | (27)         |
| Other financing activities                              | (15)              |                           |                               |              | (15)         |
| Cash provided by (used in) continuing operations        | (1,784)           | (1,771)                   |                               | 1,771        | (1,784)      |
| Cash provided by (used in) discontinued operations      |                   |                           |                               |              |              |
| Cash provided by (used in) financing activities         | (1,784)           | (1,771)                   |                               | 1,771        | (1,784)      |
| Effect of exchange rate changes on cash                 |                   |                           | 3                             |              | 3            |
| Increase (decrease) in cash and cash equivalents        | (132)             | 14                        | (56)                          |              | (174)        |
| Beginning cash and cash equivalents                     | 529               | (15)                      | 359                           |              | 873          |
| Ending cash and cash equivalents                        | \$ 397            | \$ (1)                    | \$ 303                        | \$           | \$ 699       |

During the first quarter of 2012, the Company determined that it had incorrectly accounted for intercompany dividend income and the related eliminations presented in the Supplemental Condensed Consolidating Schedules of Operations in the Company's Form 10-K for the periods ended December 31, 2009, 2010 and 2011. The Company determined that the incorrect presentation resulted in an understatement of income (or overstatement of loss) from continuing operations and net income (loss) for both the Non-Guarantor subsidiaries and the Guarantor subsidiaries. It was further determined that cash flows from operations and cash flows from investment activities for Parent (SunGard), Guarantor subsidiaries and Non-Guarantor subsidiaries were each affected between operating and investing. The Company also identified a misclassification of expense between Guarantor subsidiaries and Non-Guarantor subsidiaries in 2010 totaling \$91 million. In addition, the Company also determined that it had incorrectly recorded intercompany transactions between certain Guarantor and Non-Guarantor subsidiaries as a component of net interest income (expense) resulting in an understatement of operating expenses for the Guarantor subsidiaries and an understatement of revenues for the Non-Guarantor subsidiaries. These errors had no impact on the consolidated financial statements of SunGard or any debt covenants and had no impact on the ability of SunGard's subsidiaries to dividend cash to SunGard for debt service requirements. The Company assessed the materiality of these items on previously issued annual and interim financial statements in accordance with SEC Staff Accounting Bulletin No. 99, and

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concluded that the errors were not material to the consolidated financial statements. The preceding tables for 2011 have been revised to reflect the correction of these errors.

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The following is a summary of the impacts of the errors on each of the statements that were included in the Quarterly Report on Form 10-Q for the periods indicated (n/c = no change).

| (in millions)  | Parent Company |                      | Guarantor   |                         | Non-Guarantor |                       | Eliminations |                         |
|--|----------------|----------------------|-------------|-------------------------|---------------|-----------------------|--------------|-------------------------|
|  | As Reported    | As Revised           | As Reported | As Revised              | As Reported   | As Revised            | As Reported  | As Revised              |
| <b>Three Months Ended June 30, 2011</b>                      |                |                      |             |                         |               |                       |              |                         |
| Revenue  | n/c            | n/c                  | \$ 866      | \$ 745 <sup>(c)</sup>   | \$ 399        | \$ 520 <sup>(c)</sup> | \$ 1         | \$ (132) <sup>(c)</sup> |
| Operating income (loss)                                      | \$ (39)        | \$ (38)              | 194         | 35 <sup>(c)</sup>       | (49)          | 80 <sup>(c)</sup>     | n/c          | n/c                     |
| Other income (loss)  | 29             | 73 <sup>(a)</sup>    | 12          | 49 <sup>(a)</sup>       | n/c           | n/c <sup>(a)</sup>    | (40)         | (122) <sup>(a)</sup>    |
| Income (loss) from before income taxes                       | (128)          | n/a                  | 129         | n/a                     | 18            | n/a                   | (40)         | n/a                     |
| Income (loss) from continuing operations before income taxes | n/a            | (85) <sup>(a)</sup>  | n/a         | 84 <sup>(a)</sup>       | n/a           | 72 <sup>(a)</sup>     | n/a          | (122) <sup>(a)</sup>    |
| Income (loss) from continuing operations                     | n/a            | (31) <sup>(a)</sup>  | n/a         | 72 <sup>(a)</sup>       | n/a           | 50 <sup>(a)</sup>     | n/a          | (122) <sup>(a)</sup>    |
| Net loss   | n/c            | n/c                  | 28          | 30 <sup>(a)</sup>       | 12            | 52 <sup>(a)</sup>     | (40)         | (82) <sup>(a)</sup>     |
| <b>Six Months Ended June 30, 2011</b>                        |                |                      |             |                         |               |                       |              |                         |
| Revenue  | n/c            | n/c                  | \$ 1,711    | \$ 1,471 <sup>(c)</sup> | \$ 765        | \$ 964 <sup>(c)</sup> | \$           | \$ (216) <sup>(c)</sup> |
| Operating income (loss)                                      | \$ (65)        | \$ (64)              | 359         | 102 <sup>(c)</sup>      | (125)         | 88 <sup>(c)</sup>     | n/c          | n/c                     |
| Other income   | 78             | 94 <sup>(b)</sup>    | (50)        | 49 <sup>(b)</sup>       | n/c           | n/c <sup>(b)</sup>    | (29)         | (145) <sup>(b)</sup>    |
| Income (loss) from before income taxes                       | (192)          | n/a                  | 197         | n/a                     | (72)          | n/a                   | (29)         | n/a                     |
| Income (loss) from continuing operations before income taxes | n/a            | (217) <sup>(b)</sup> | n/a         | 150 <sup>(b)</sup>      | n/a           | 72 <sup>(b)</sup>     | n/a          | (145) <sup>(b)</sup>    |
| Income (loss) from continuing operations                     | n/a            | (109) <sup>(b)</sup> | n/a         | 95 <sup>(b)</sup>       | n/a           | 50 <sup>(b)</sup>     | n/a          | (145) <sup>(b)</sup>    |
| Net loss   | n/c            | n/c                  | 79          | 108 <sup>(b)</sup>      | (50)          | 52 <sup>(b)</sup>     | (29)         | (160) <sup>(b)</sup>    |

In addition to the change in the presentation of HE as a discontinued operation subsequent to the initial reporting, the changes outlined below have been made in the amounts presented As Revised .

- (a) Impact of the correction of intercompany dividends of \$2 million, \$54 million and \$(56) million for Parent, guarantor subsidiaries and non-guarantor subsidiaries, respectively.
- (b) Impact of the correction of intercompany dividends of \$42 million, \$105 million and \$(147) million for Parent, guarantor subsidiaries and non-guarantor subsidiaries, respectively.
- (c) The correction of the error related to intercompany transactions caused an increase in Non-Guarantor Revenue and an increase in Guarantor Costs of sales and administrative expenses. As the amounts are intercompany charges, the related eliminations also increased by an equal amount. These amounts had previously been reported in the caption Interest income (expense) and correction of the error decreases Interest income for the Non-Guarantor subsidiaries and decreases Interest expense for the Guarantor subsidiaries. The impacts to each of the periods presented in the table above for this error were as follows:

Three months ended June 30, 2011: \$132 million;

Six months ended June 30, 2011: \$216 million.

n/a = not applicable as the Company did not report discontinued operations in the original filing.

**Table of Contents****Supplemental Condensed Consolidating Schedule of Cash Flows**

| (in millions)  | Parent Company |               | Guarantor<br>Subsidiaries |               | Non-Guarantor<br>Subsidiaries |               | Eliminations   |               |
|--|----------------|---------------|---------------------------|---------------|-------------------------------|---------------|----------------|---------------|
|  | As<br>Reported | As<br>Revised | As<br>Reported            | As<br>Revised | As<br>Reported                | As<br>Revised | As<br>Reported | As<br>Revised |
| <b>Six Months Ended June 30, 2011</b>                          |                |               |                           |               |                               |               |                |               |
| <b>Cash flow from operations:</b>                              |                |               |                           |               |                               |               |                |               |
| Net income (loss)  | n/c            | n/c           | \$ 79                     | \$ 108        | \$ (50)                       | \$ 52         | \$ (29)        | \$ (160)      |
| Income (loss) from continuing operations                       | n/a            | \$ (109)      | n/a                       | 95            | n/a                           | 50            | n/a            | (145)         |
| Non-cash adjustments   | \$ (53)        | (70)          | 322                       | 186           | 98                            | 95            | 29             | 145           |
| Changes in operating assets and liabilities                    | 82             | (110)         | (131)                     | 74            | (74)                          | (35)          | n/c            | n/c           |
| Cash flow from (used in) continuing operations                 | n/a            | (289)         | n/a                       | 355           | n/a                           | 110           | n/a            |               |
| Cash flow from (used in) operations                            | (67)           | (289)         | 270                       | 357           | (26)                          | 109           | n/c            | n/c           |
| <b>Investment activities:</b>                                  |                |               |                           |               |                               |               |                |               |
| Intercompany transactions                                      | 127            | 349           | (165)                     | (252)         | 38                            | (97)          | n/c            | n/c           |
| Cash provided by (used in) continuing operations               | n/a            | 345           | n/a                       | (349)         | n/a                           | (151)         | n/a            |               |
| Cash provided by (used in) operations in investment activities | 123            | 345           | (267)                     | (354)         | (16)                          | (151)         | n/c            | n/c           |

The impact of the dividend elimination error is shown above as the difference between As Reported and As Revised Cash flow from (used in) operations and Cash provided by (used in) investment activities. Other captions presented above have been adjusted to reflect both the error and the presentation of HE as a discontinued operation.

The Company will revise the September 30, 2011 financial statements, which were presented in the Form 10-Q for the three and nine months ended September 30, 2011 to reflect the revisions discussed above, the next time such financial statements are included for comparative purposes. Condensed summaries of the As Reported and As Revised results of operations for the three and nine months ended September 30, 2011 and cash flows for the nine months ended September 30, 2011 were presented in Note 11 of Notes to Consolidated Financial Statements included in the Company's Form 10-Q for the three months ended March 31, 2012. See Note 11 of Notes to Consolidated Financial Statements included in the Company's Form 10-Q for the three months ended March 31, 2012 for other periods corrected as a result of the errors, including the three and nine months ended September 30, 2011.



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**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations:  
Introduction**

The following discussion and analysis supplements management's discussion and analysis in the Company's Annual Report on Form 10-K for the year ended December 31, 2011 and presumes that readers have read or have access to the discussion and analysis in this filing. The following discussion and analysis includes historical and certain forward-looking information that should be read together with the accompanying Consolidated Financial Statements, related footnotes, and the discussion below of certain risks and uncertainties that could cause future operating results to differ materially from historical results or from the expected results indicated by forward-looking statements. The following discussion reflects the results of operations and financial condition of SCC, which are materially the same as the results of operations and financial condition of SCCII and SunGard. Therefore, the discussions provided are applicable to each of SCC, SCCII and SunGard unless otherwise noted.

Except as otherwise noted, all explanations below exclude the impacts from changes in currency translation, which we refer to as constant currency, a non-GAAP measure. We believe presenting our results on a constant currency basis is meaningful for assessing how our underlying businesses have performed due to the fact that we have international operations that are material to our overall operations. As a result, total revenues and expenses are affected by changes in the U.S. Dollar against international currencies. To present this information, current period results for entities reporting in currencies other than U.S. Dollars are converted to U.S. Dollars at the average exchange rate used in the prior year period rather than the actual exchange rates in effect during the current year period. In each of the tables below, we present the percent change based on actual, unrounded results in reported currency and in constant currency. Also, percentages may not add due to rounding.

**Table of Contents****Results of Operations:****Three Months Ended June 30, 2012 Compared To Three Months Ended June 30, 2011**

The following table sets forth, for the periods indicated, certain amounts included in our Consolidated Statements of Operations, the relative percentage that those amounts represent to consolidated revenue (unless otherwise indicated), and the percentage change in those amounts from period to period.

|   | Three Months Ended June 30, 2011 |       | Three Months Ended June 30, 2012 |      | Percent Increase (Decrease) 2012 vs. 2011 | Constant Currency Three Months Ended June 30, 2012 |      | Percent Increase (Decrease) 2012 vs. 2011 |
|---|----------------------------------|-------|----------------------------------|------|---|--|------|---|
|   | percent of revenue               |       | percent of revenue               |      |   | percent of revenue                                 |      |   |
| <b>Revenue</b>  |                                  |       |                                  |      |   |  |      |   |
| Financial Systems (FS)                                | \$ 714                           | 63%   | \$ 683                           | 63%  | (4)%                                      | \$ 703   | 63%  | (2)%                                      |
| Availability Services (AS)                            | 366                              | 32%   | 351                              | 32%  | (4)%                                      | 357  | 32%  | (2)%                                      |
| Other <sup>(1)</sup>                                  | 53                               | 5%    | 50                               | 5%   | (3)%                                      | 50   | 5%   | (3)%                                      |
|   | \$ 1,133                         | 100%  | \$ 1,084                         | 100% | (4)%                                      | \$ 1,110   | 100% | (2)%                                      |
| <b>Costs and Expenses</b>                             |                                  |       |                                  |      |   |  |      |   |
| Cost of sales and direct operating                    | \$ 482                           | 43%   | \$ 446                           | 41%  | (7)%                                      | \$ 456   | 41%  | (5)%                                      |
| Sales, marketing and administration                   | 293                              | 26%   | 266                              | 25%  | (8)%                                      | 274  | 25%  | (6)%                                      |
| Product development and maintenance                   | 103                              | 9%    | 97                               | 9%   | (6)%                                      | 104  | 9%   | 1%  |
| Depreciation and amortization                         | 68                               | 6%    | 70                               | 6%   | 3%  | 70   | 6%   | 3%  |
| Amortization of acquisition-related intangible assets | 110                              | 10%   | 101                              | 9%   | (9)%                                      | 101  | 9%   | (9)%                                      |
|   | \$ 1,056                         | 93%   | \$ 980                           | 90%  | (7)%                                      | \$ 1,005   | 90%  | (5)%                                      |
| <b>Operating Income</b>                               |                                  |       |                                  |      |   |  |      |   |
| Financial Systems <sup>(2)</sup>                      | \$ 139                           | 19%   | \$ 147                           | 22%  | 6%  | \$ 146   | 21%  | 5%  |
| Availability Services <sup>(2)</sup>                  | 81                               | 22%   | 72                               | 20%  | (11)%                                     | 74   | 21%  | (8)%                                      |
| Other <sup>(1)(2)</sup>                               | 14                               | 28%   | 13                               | 26%  | (12)%                                     | 13   | 26%  | (12)%                                     |
| Corporate   | (30)                             | (3)%  | (13)                             | (1)% | 55%                                       | (13)   | (1)% | 55%                                       |
| Amortization of acquisition-related intangible assets | (110)                            | (10)% | (101)                            | (9)% | 9%  | (101)  | (9)% | 9%  |
| Stock compensation expense                            | (8)                              | (1)%  | (9)                              | (1)% | (6)%                                      | (9)  | (1)% | (6)%                                      |
| Other costs <sup>(3)</sup>                            | (9)                              | (1)%  | (5)                              | %    | 36%                                       | (5)  | %    | 36%                                       |
|   | \$ 77                            | 7%    | \$ 104                           | 10%  | 34%                                       | \$ 105   | 10%  | 36%                                       |

(1) Other includes our Public Sector and K-12 businesses.

(2) Percent of revenue is calculated as a percent of revenue from FS, AS and Other, respectively.

(3) Other costs include management fees paid to the Sponsors, purchase accounting adjustments and certain other costs, partially offset in each year by capitalized software development costs.



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The following table sets forth, for the periods indicated, certain supplemental revenue data, the relative percentage that those amounts represent to total revenue and the percentage change in those amounts from period to period.

| (in millions)                | Three Months        |                    | Three Months        |                    | Percent Increase (Decrease) 2012 vs. 2011 | Constant Currency Three Months |                    | Percent Increase (Decrease) 2012 vs. 2011 |
|------------------------------|---------------------|--------------------|---------------------|--------------------|---|--------------------------------|--------------------|---|
|                              | Ended June 30, 2011 | percent of revenue | Ended June 30, 2012 | percent of revenue |   | Ended June 30, 2012            | percent of revenue |   |
| <b>Financial Systems</b>     |                     |                    |                     |                    |   |                                |                    |   |
| Services                     | \$ 616              | 54%                | \$ 596              | 55%                | (3)%                                      | \$ 611                         | 55%                | (1)%                                      |
| License and resale fees      | 73                  | 6%                 | 76                  | 7%                 | 5%  | 81                             | 7%                 | 12%                                       |
| Total products and services  | 689                 | 61%                | 672                 | 62%                | (2)%                                      | 692                            | 62%                | 1%  |
| Reimbursed expenses          | 25                  | 2%                 | 11                  | 1%                 | (57)%                                     | 11                             | 1%                 | (57)%                                     |
|                              | \$ 714              | 63%                | \$ 683              | 63%                | (4)%                                      | \$ 703                         | 63%                | (2)%                                      |
| <b>Availability Services</b> |                     |                    |                     |                    |   |                                |                    |   |
| Services                     | \$ 361              | 32%                | \$ 346              | 32%                | (4)%                                      | \$ 352                         | 32%                | (2)%                                      |
| License and resale fees      | 1                   | %                  | 1                   | %                  | (25)%                                     | 1                              | %                  | (24)%                                     |
| Total products and services  | 362                 | 32%                | 347                 | 32%                | (4)%                                      | 353                            | 32%                | (2)%                                      |
| Reimbursed expenses          | 4                   | %                  | 4                   | %                  | 6%  | 4                              | %                  | 13%                                       |
|                              | \$ 366              | 32%                | \$ 351              | 32%                | (4)%                                      | \$ 357                         | 32%                | (2)%                                      |
| <b>Other</b>                 |                     |                    |                     |                    |   |                                |                    |   |
| Services                     | \$ 45               | 4%                 | \$ 44               | 4%                 | (2)%                                      | \$ 44                          | 4%                 | (2)%                                      |
| License and resale fees      | 7                   | 1%                 | 6                   | 1%                 | (11)%                                     | 6                              | 1%                 | (11)%                                     |
| Total products and services  | 52                  | 5%                 | 50                  | 5%                 | (3)%                                      | 50                             | 5%                 | (3)%                                      |
| Reimbursed expenses          | 1                   | %                  |                     | %                  | (19)%                                     |                                | %                  | (19)%                                     |
|                              | \$ 53               | 5%                 | \$ 50               | 5%                 | (3)%                                      | \$ 50                          | 5%                 | (3)%                                      |
| <b>Total Revenue</b>         |                     |                    |                     |                    |   |                                |                    |   |
| Services                     | \$ 1,022            | 90%                | \$ 986              | 91%                | (3)%                                      | \$ 1,007                       | 91%                | (1)%                                      |
| License and resale fees      | 81                  | 7%                 | 83                  | 8%                 | 3%  | 88                             | 8%                 | 9%  |
| Total products and services  | 1,103               | 97%                | 1,069               | 99%                | (3)%                                      | 1,095                          | 99%                | (1)%                                      |
| Reimbursed expenses          | 30                  | 3%                 | 15                  | 1%                 | (48)%                                     | 15                             | 1%                 | (47)%                                     |
|                              | \$ 1,133            | 100%               | \$ 1,084            | 100%               | (4)%                                      | \$ 1,110                       | 100%               | (2)%                                      |

**Income from Operations:**

Our total operating margin was 10% for the three months ended June 30, 2012, compared to 7% for the three months ended June 30, 2011. The more significant factors impacting the 260 basis point increase in operating margin are the \$16 million decrease in employment-related expenses, which had a 140 basis point impact on the operating margin; a 90 basis point impact, or \$9 million, from the decrease in amortization of acquisition-related intangible assets; the 70 basis point impact, or \$9 million, from the increase in software license fee revenue; the 40 basis

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point impact, or \$4 million, from the decrease in facilities costs; and the 40 basis point impact, or \$4 million, from the decrease in external services fees; partially offset by the (30) basis point impact, or \$3 million, from the increase in currency transaction losses.

### *Financial Systems:*

The FS operating margin was 21% and 19% for the three months ended June 30, 2012 and 2011, respectively. The more significant factors impacting the 140 basis point increase in operating margin are a \$9 million increase in software license fee revenue, which had a 100 basis point impact on the operating margin; the 70 basis point impact, or \$5 million, from the decrease in employment-related expenses; the 60 basis point impact, or \$4 million, from the decrease in facilities costs; and the 30 basis point impact from the lower activity level of the Broker/Dealer; partially offset by the (40) basis point impact, or \$3 million, from the increase in currency transaction losses; and the (40) basis point impact from acquisitions in the past twelve months.

**Table of Contents***Availability Services:*

The AS operating margin was 21% and 22% for the three months ended June 30, 2012 and 2011, respectively, a decrease of 120 basis points. In North America, recovery services, which typically uses shared resources, had a (160) basis point impact on AS operating margin in 2012 due primarily to a \$14 million decrease in higher margin recovery services revenue, partially offset by a \$5 million decrease in equipment expense. Professional services had a (40) basis point impact on the margin in 2012 due primarily to an increase in employment-related expenses. Managed services helped the margin in 2012 by 70 basis points due primarily to a \$4 million increase in managed services revenue, which typically uses dedicated resources and is therefore lower in margin than recovery services revenue, and a \$1 million decrease in facilities costs, partially offset by a \$1 million increase in depreciation and amortization and a combined \$1 million of increased employment-related and equipment expenses.

*Other:*

The operating margin from Other was 26% and 28% for the three months ended June 30, 2012 and 2011, respectively, and operating income decreased \$1 million. The operating margin decreased due primarily to unchanged costs on lower revenue.

**Revenue:**

Total reported revenue decreased \$49 million, or 4%, for the three months ended June 30, 2012 compared to the second quarter of 2011. On a constant currency basis, revenue decreased \$23 million, or 2%. Approximately \$21 million of the \$23 million decrease was due to a decrease in revenue from one of our Capital Markets businesses, a broker/dealer. This business, whose performance is a function of market volatility and customer mix (the Broker/Dealer), had an inherently lower margin than our other financial systems businesses. The \$21 million decrease was due primarily to no longer providing correspondent clearing services for a large, former Broker/Dealer customer that has since begun to self-clear its broker/dealer operations. The remaining decrease in total revenue is due mainly to a \$14 million decrease in AS recovery services and a \$6 million decrease in FS professional services revenue, partially offset by an increase in FS software license revenue of \$9 million and a \$4 million increase in AS managed services.

*Financial Systems:*

FS reported revenue decreased \$31 million, or 4%, in the second quarter of 2012 from the prior year period, and decreased 2% on a constant currency basis. Four percentage points of the decrease on a constant currency basis was related to lower revenues from the Broker/Dealer. Reported revenue from license and resale fees included software license revenue of \$73 million, an increase of \$4 million, or 6%, compared to the same quarter in 2011. On a constant currency basis, software license fees increased \$9 million, or 13%, due primarily to an increase in high-value, multi-year license transactions with some scope expansion. Professional services revenue decreased \$6 million, or 4%, due primarily to successful completion of projects in the second quarter of 2011 and relatively lower demand in 2012 driven by economic conditions and related budget constraints.

*Availability Services:*

AS reported revenue decreased \$15 million, or 4%, in the second quarter of 2012 from the prior year period. On a constant currency basis, revenue decreased \$9 million, or 2%, in the quarter. In North America, which accounts for over 75% of our AS business, revenue decreased 2%, where decreases in recovery services revenue exceeded growth in managed services revenue. Revenue in Europe, primarily from our U.K. operations, increased 1%, where an increase in managed services, consulting services and application software revenue was mostly offset by a decrease in recovery services revenue. Our recovery services revenue has been declining due to customers' shift from tape-based backup and recovery to either in-house solutions or disk- and cloud-based solutions. Separately, in managed services, demand has been increasing for outsourced management of IT operations and applications. We expect these trends to continue in the future.

*Other:*

Reported revenue and constant currency revenue from Other decreased \$3 million, or 3%, for the three months ended June 30, 2012 from the corresponding period in 2011. Reported revenue from license and resale fees included software license revenue of \$2 million in the three months ended June 30, 2012, a decrease of approximately \$0.5 million from the prior year period.

**Table of Contents****Costs and Expenses:**

Cost of sales and direct operating expenses as a percentage of total revenue was 41% and 43% in the three-month periods ended June 30, 2012 and 2011, respectively, and decreased \$26 million. Impacting the period was a \$18 million decrease in reimbursed expenses relating to the operations of the Broker/Dealer business due primarily to no longer providing correspondent clearing services for a large, former Broker/Dealer customer that has since begun to self-clear its broker/dealer operations; an \$8 million decrease in FS employment-related expenses; a \$6 million decrease in AS equipment costs associated with lower equipment leases, equipment and software maintenance and decreased network costs; and a decrease in FS facilities costs, partially offset by a \$2 million increase from FS acquired businesses.

Sales, marketing and administration expenses as a percentage of total revenue was 25% and 26% in the three months ended June 30, 2012 and 2011, respectively, and decreased \$19 million. Decreases in sales, marketing and administration expenses were due primarily to decreases in corporate employment-related expenses of \$15 million mainly as a result of executive transition costs incurred in the second quarter of 2011; FS employment-related expenses of \$7 million due primarily to the impact from severance actions taken in 2011; external services fees of \$4 million; and AS and corporate advertising expense of \$4 million mainly resulting from cost savings initiatives; partially offset by increases in FS facilities costs; FS currency transaction losses of \$3 million; AS employment-related expenses of \$2 million; and management fee expense of \$2 million.

Because AS product development and maintenance costs are insignificant, it is more meaningful to measure product development and maintenance expenses as a percentage of revenue excluding AS. For the three months ended June 30, 2012 and 2011, product development and maintenance costs were 14% and 13%, respectively, of revenue excluding AS, respectively, and increased \$1 million. The increase is primarily related to a \$10 million increase in FS employment-related expenses, partially offset by a decrease in FS facilities costs and a \$3 million increase in FS costs capitalized as software assets in the second quarter of 2012 from the prior year period.

Amortization of acquisition-related intangible assets was 9% and 10% of total revenue in the three months ended June 30, 2012 and 2011, respectively, and decreased \$9 million. The decrease is due primarily to the \$10 million impact of software assets that were fully amortized in the prior year.

Interest expense was \$101 million and \$129 million for the three months ended June 30, 2012 and 2011, respectively. The decrease in interest expense was due primarily to the repayment in January 2012 of \$1.22 billion of our outstanding term loans as a result of the sale of HE, the early extinguishment in April 2012 of \$500 million, 10.625% senior notes due 2015 ( 2015 Notes ) and interest rate decreases resulting from the expiration of interest rate swaps in each of February 2011 and 2012.

Loss on extinguishment of debt of \$36 million for the three months ended June 30, 2012 was due to the repayment of the 2015 Notes.

The effective income tax rates for the three months ended June 30, 2012 and 2011 were 76% and 39%, respectively. The Company's effective tax rate fluctuates from period to period due to the timing of recording discrete items, changes in the mix of income or losses in jurisdictions with a wide range of tax rates and permanent differences between GAAP and local tax laws. The effective tax rate for the three months ended June 30, 2012 was also impacted by the application of the loss limitation guidance, which requires that when the interim period loss before taxes exceeds the forecasted loss before taxes for the annual period, the tax benefit recognized associated with the interim period loss should be limited to the tax benefit associated with the loss expected to be recognized for the annual period.

Accreted dividends on SCCII's cumulative preferred stock were \$60 million and \$55 million for the three months ended June 30, 2012 and 2011, respectively. The increase in dividends is due to compounding. No dividends have been declared by SCCII.

**Six Months Ended June 30, 2012 Compared To Six Months Ended June 30, 2011**

The following table sets forth, for the periods indicated, certain amounts included in our Consolidated Statements of Operations, the relative percentage that those amounts represent to consolidated revenue (unless otherwise indicated), and the percentage change in those amounts from period to period.

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| (in millions)   | Six Months Ended |                       | Six Months Ended |                       | Percent Increase<br>(Decrease)<br>2012 vs. 2011 | Constant Currency |                       | Percent Increase<br>(Decrease)<br>2012 vs. 2011 |
|---|------------------|-----------------------|------------------|-----------------------|---|-------------------|-----------------------|---|
|   | June 30,<br>2011 | percent of<br>revenue | June 30,<br>2012 | percent of<br>revenue |   | June 30,<br>2012  | percent of<br>revenue |   |
| <b>Revenue</b>  |                  |                       |                  |                       |   |                   |                       |   |
| Financial Systems (FS)                                | \$ 1,386         | 62%                   | \$ 1,315         | 62%                   | (5)%  | \$ 1,339          | 62%                   | (3)%  |
| Availability Services (AS)                            | 730              | 33%                   | 707              | 33%                   | (3)%  | 716               | 33%                   | (2)%  |
| Other <sup>(1)</sup>                                  | 103              | 5%                    | 101              | 5%                    | (1)%  | 101               | 5%                    | (1)%  |
|   | \$ 2,219         | 100%                  | \$ 2,123         | 100%                  | (4)%  | \$ 2,156          | 100%                  | (3)%  |
| <b>Costs and Expenses</b>                             |                  |                       |                  |                       |   |                   |                       |   |
| Cost of sales and direct operating                    | \$ 975           | 44%                   | \$ 915           | 43%                   | (6)%  | \$ 928            | 43%                   | (5)%  |
| Sales, marketing and administration                   | 555              | 25%                   | 524              | 25%                   | (6)%  | 534               | 25%                   | (4)%  |
| Product development and maintenance                   | 199              | 9%                    | 185              | 9%                    | (7)%  | 194               | 9%                    | (3)%  |
| Depreciation and amortization                         | 137              | 6%                    | 141              | 7%                    | 3%  | 141               | 7%                    | 3%  |
| Amortization of acquisition-related intangible assets | 227              | 10%                   | 203              | 10%                   | (11)%   | 203               | 9%                    | (11)%   |
|   | \$ 2,093         | 94%                   | \$ 1,968         | 93%                   | (6)%  | \$ 2,000          | 93%                   | (4)%  |
| <b>Operating Income</b>                               |                  |                       |                  |                       |   |                   |                       |   |
| Financial Systems <sup>(2)</sup>                      | \$ 254           | 18%                   | \$ 252           | 19%                   | (1)%  | \$ 250            | 19%                   | (2)%  |
| Availability Services <sup>(2)</sup>                  | 154              | 21%                   | 135              | 19%                   | (12)%   | 138               | 19%                   | (10)%   |
| Other <sup>(1)(2)</sup>                               | 28               | 28%                   | 27               | 27%                   | (3)%  | 27                | 27%                   | (3)%  |
| Corporate   | (49)             | (2)%                  | (28)             | (1)%                  | 42%   | (28)              | (1)%                  | 41%   |
| Amortization of acquisition-related intangible assets | (227)            | (10)%                 | (203)            | (10)%                 | 11%   | (203)             | (9)%                  | 11%   |
| Stock compensation expense                            | (14)             | (1)%                  | (20)             | (1)%                  | (43)%   | (20)              | (1)%                  | (43)%   |
| Other costs <sup>(3)</sup>                            | (20)             | (1)%                  | (8)              | %                     | 58%   | (8)               | %                     | 58%   |
|   | \$ 126           | 6%                    | \$ 155           | 7%                    | 23%   | \$ 156            | 7%                    | 24%   |

(1) Other includes our Public Sector and K-12 businesses.

(2) Percent of revenue is calculated as a percent of revenue from FS, AS and Other, respectively.

(3) Other costs include management fees paid to the Sponsors, purchase accounting adjustments and certain other costs, partially offset in each year by capitalized software development costs.



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The following table sets forth, for the periods indicated, certain supplemental revenue data, the relative percentage that those amounts represent to total revenue and the percentage change in those amounts from period to period.

|                              | Six Months Ended |                          | Six Months Ended |                          | Percent Increase<br>(Decrease)<br>2012 vs. 2011 | Constant Currency |                          | Percent Increase<br>(Decrease)<br>2012 vs. 2011 |
|------------------------------|------------------|--------------------------|------------------|--------------------------|---|-------------------|--------------------------|---|
|                              | June 30,<br>2011 | percent<br>of<br>revenue | June 30,<br>2012 | percent<br>of<br>revenue |   | June 30,<br>2012  | percent<br>of<br>revenue |   |
| (in millions)                |                  |                          |                  |                          |   |                   |                          |   |
| <b>Financial Systems</b>     |                  |                          |                  |                          |   |                   |                          |   |
| Services                     | \$ 1,208         | 54%                      | \$ 1,193         | 56%                      | (1)%  | \$ 1,212          | 56%                      | %   |
| License and resale fees      | 127              | 6%                       | 100              | 5%                       | (21)%   | 105               | 5%                       | (17)%   |
| Total products and services  | 1,335            | 60%                      | 1,293            | 61%                      | (3)%  | 1,317             | 61%                      | (1)%  |
| Reimbursed expenses          | 51               | 2%                       | 22               | 1%                       | (58)%   | 22                | 1%                       | (58)%   |
|                              | \$ 1,386         | 62%                      | \$ 1,315         | 62%                      | (5)%  | \$ 1,339          | 62%                      | (3)%  |
| <b>Availability Services</b> |                  |                          |                  |                          |   |                   |                          |   |
| Services                     | \$ 722           | 33%                      | \$ 695           | 33%                      | (4)%  | \$ 703            | 33%                      | (3)%  |
| License and resale fees      | 1                | %                        | 1                | %                        | 52%   | 1                 | %                        | 54%   |
| Total products and services  | 723              | 33%                      | 696              | 33%                      | (4)%  | 704               | 33%                      | (3)%  |
| Reimbursed expenses          | 7                | %                        | 11               | 1%                       | 57%   | 12                | 1%                       | 63%   |
|                              | \$ 730           | 33%                      | \$ 707           | 33%                      | (3)%  | \$ 716            | 33%                      | (2)%  |
| <b>Other</b>                 |                  |                          |                  |                          |   |                   |                          |   |
| Services                     | \$ 87            | 4%                       | \$ 87            | 4%                       | %   | \$ 87             | 4%                       | %   |
| License and resale fees      | 14               | 1%                       | 13               | 1%                       | (5)%  | 13                | 1%                       | (5)%  |
| Total products and services  | 101              | 5%                       | 100              | 5%                       | (1)%  | 100               | 5%                       | (1)%  |
| Reimbursed expenses          | 2                | %                        | 1                | %                        | (19)%   | 1                 | %                        | (19)%   |
|                              | \$ 103           | 5%                       | \$ 101           | 5%                       | (1)%  | \$ 101            | 5%                       | (1)%  |
| <b>Total Revenue</b>         |                  |                          |                  |                          |   |                   |                          |   |
| Services                     | \$ 2,017         | 91%                      | \$ 1,975         | 93%                      | (2)%  | \$ 2,002          | 93%                      | (1)%  |
| License and resale fees      | 142              | 6%                       | 114              | 5%                       | (19)%   | 119               | 6%                       | (15)%   |
| Total products and services  | 2,159            | 97%                      | 2,089            | 98%                      | (3)%  | 2,121             | 98%                      | (2)%  |
| Reimbursed expenses          | 60               | 3%                       | 34               | 2%                       | (43)%   | 35                | 2%                       | (42)%   |
|                              | \$ 2,219         | 100%                     | \$ 2,123         | 100%                     | (4)%  | \$ 2,156          | 100%                     | (3)%  |

**Income from Operations:**

Our total operating margin was 7% for the six months ended June 30, 2012, compared to 6% for the six months ended June 30, 2011. The more significant factors impacting the 150 basis point increase in operating margin are a \$24 million decrease in amortization of acquisition-related intangible assets, which had a 110 basis point impact on the operating margin; a 70 basis point impact, or \$15 million, from the decrease in employment-related expense; a 50 basis point impact, or \$10 million, from the decrease in equipment expense; and a 30 basis point impact, or \$7

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million, from the decrease in external services fees; partially offset by a (90) basis point impact, or \$20 million, from the decrease in software license revenue; and a (30) basis point impact, or \$6 million, from the increase in stock compensation expense.

### *Financial Systems:*

The FS operating margin was 19% and 18% for the six months ended June 30, 2012 and 2011, respectively. The more significant factors impacting the 30 basis point change in the operating margin are the 70 basis point impact, or \$9 million, from the decrease in employment-related expense; the 50 basis point impact, or \$7 million, from the decrease in external services fees; the 40 basis point impact from the lower activity level of the Broker/Dealer; and the 30 basis point impact, or \$4.5 million, from the decrease in facilities costs; partially offset by the (120) basis point impact, or \$20 million, from the decrease in software license fee revenue.

**Table of Contents***Availability Services:*

The AS operating margin was 19% and 21% for the six months ended June 30, 2012 and 2011, respectively, a decrease of 170 basis points. In North America, recovery services, which typically uses shared resources, had a (250) basis point impact on AS operating margin in 2012 due primarily to \$28 million decrease in higher margin recovery services revenue, partially offset by a \$9 million decrease in equipment expense. Professional services had a (60) basis point impact on the margin in 2012 due primarily to an increase in employment-related expenses. Managed services helped the margin in 2012 by 120 basis points due primarily to an \$11 million increase in typically lower margin managed services revenue, which uses dedicated resources, and a \$2 million decrease in facilities costs, partially offset by a \$2 million increase in depreciation and amortization and a \$1 million increase in employment-related expenses.

*Other:*

The operating margin from Other was 27% and 28% for the six months ended June 30, 2012 and 2011, respectively. The operating margin decreased 60 basis points due primarily to a \$1 million decrease in revenue and a \$2 million increase in employment-related expenses, partially offset by a \$1 million decrease in external services fees.

**Revenue:**

Total reported revenue decreased \$96 million, or 4%, for the six months ended June 30, 2012 compared to the first quarter of 2011. On a constant currency basis, revenue decreased \$63 million, or 3%. Approximately \$45 million of the \$63 million decrease, or two of the three percentage points of decrease, was due to a decrease in revenue from the Broker/Dealer. The remaining decrease is due mainly to a \$28 million decrease in AS recovery services, a \$20 million decrease in FS software license revenue and an \$8 million decrease in FS professional services revenue, partially offset by a \$12 million increase in FS processing revenue, an \$11 million increase in AS managed services and \$9 million from FS acquisitions.

*Financial Systems:*

FS reported revenue decreased \$71 million or 5% in the six months ended June 30, 2012 from the prior year period, and decreased 3% on a constant currency basis. Three percentage points of the decrease in constant currency was related to lower revenues from the Broker/Dealer. Reported revenue from license and resale fees included software license revenue of \$93 million, a decrease of \$26 million, or 21%, compared to the first half of 2011. On a constant currency basis, software license revenue decreased \$20 million, or 17%, due mainly to high-value, multi-year license renewal transactions with some scope expansion recognized in 2011, including one deal worth \$14 million, for which there were no similarly sized transactions in 2012. Processing revenue increased \$12 million, or 3%, due mainly to the impact of new business signed in 2011, higher volumes in 2012 and annual rate increases and increased \$3 million due to acquisitions. Professional services revenue decreased \$8 million, or 3%, due primarily to successful completion of projects during the first half of 2011 and relatively lower demand in 2012 driven by economic conditions and related budget constraints, and was offset in part by a \$4 million increase from acquisitions.

*Availability Services:*

AS reported revenue decreased \$23 million in the six months ended June 30, 2012 from the prior year period. On a constant currency basis, revenue decreased 2% in the first half of 2012. In North America, which accounts for over 75% of our AS business, revenue decreased 3%, where decreases in recovery services revenue exceeded growth in managed services revenue. Revenue in Europe, primarily from our U.K. operations, increased 2%, where an increase in managed services revenue was partially offset by a decrease in recovery services revenue. Our recovery services revenue has been declining due to customers' shift from tape-based backup and recovery to either in-house solutions or disk- and cloud-based solutions. Separately, in managed services, demand has been increasing for outsourced management of IT operations and applications. We expect these trends to continue in the future.

*Other:*

Reported revenue and constant currency revenue from Other decreased \$2 million, or 1%, for the six months ended June 30, 2012, from the corresponding period in 2011. Reported revenue from license and resale fees included software license revenue of \$4 million in the six months ended June 30, 2012, a decrease of \$0.5 million from the prior year period.

**Table of Contents****Costs and Expenses:**

Cost of sales and direct operating expenses as a percentage of total revenue was 43% and 44% in the six months ended June 30, 2012 and 2011, respectively, and decreased \$47 million. Impacting the period was a \$39 million decrease in reimbursed expenses relating to the operations of the Broker/Dealer businesses due primarily to no longer providing correspondent clearing services for a large, former Broker/Dealer customer that has since begun to self-clear its broker/dealer operations; a \$17 million decrease in FS employment-related expenses; a \$12 million decrease in AS equipment costs associated with lower equipment leases, equipment and software maintenance and decreased network costs; and a decrease in FS facilities costs; partially offset by a \$7 million combined increase in FS and AS reimbursable expenses; a \$5 million increase from FS acquisitions; and a \$5 million increase in AS employment-related expenses.

Sales, marketing and administration expenses as a percentage of total revenue was 25% in each of the six months ended June 30, 2012 and 2011, and decreased \$21 million. Decreases in sales, marketing and administration expenses were due primarily to decreases of \$18 million of corporate employment-related expenses mainly as a result of executive transition costs incurred in the second quarter of 2011; \$7 million of external services fees; \$6 million of AS and corporate advertising expense mainly resulting from cost savings initiatives; \$5 million of FS employment-related expenses; and \$3 million of costs related to the shutdown of the Broker/Dealer professional trading business in 2011; partially offset by increases in FS facilities costs; \$6 million of stock compensation expense; and \$5 million of FS currency transaction losses.

Because AS product development and maintenance costs are insignificant, it is more meaningful to measure product development and maintenance expenses as a percentage of revenue excluding AS. For each of the six months ended June 30, 2012 and 2011, product development and maintenance costs were 13% of revenue excluding AS, respectively, and decreased \$5 million. The decrease is primarily related to a decrease in FS facilities costs, a \$5 million increase in FS costs capitalized as software assets and a \$4 million decrease in consultant expense, partially offset by a \$13 million increase in employment-related expenses.

Depreciation and amortization was 7% and 6% of total revenue in the six months ended June 30, 2012 and 2011, respectively, and increased \$4 million due mainly to AS capital expenditures over the past twelve months.

Amortization of acquisition-related intangible assets was 9% and 10% of total revenue in the six months ended June 30, 2012 and 2011, respectively, and decreased \$24 million. The decrease is due primarily to the \$19 million impact of software assets that were fully amortized in the prior year and \$7 million of impairment charges in the prior year period.

Interest expense was \$223 million and \$266 million for the six months ended June 30, 2012 and 2011, respectively. The decrease in interest expense was due primarily to the repayment in January 2012 of \$1.22 billion of our outstanding term loans as a result of the sale of HE, the early extinguishment in April 2012 of the 2015 Notes and interest rate decreases resulting from the expiration of interest rate swaps in each of February 2011 and 2012.

Loss on extinguishment of debt was \$51 million and \$2 million for the six months ended June 30, 2012 and 2011, respectively. This increase was due primarily to the partial repayment of term loans in January 2012 and the early extinguishment of the 2015 Notes discussed above.

The effective income tax rates for the six months ended June 30, 2012 and 2011 were 27% and 22%, respectively. The Company's effective tax rate fluctuates from period to period due to the timing of recording discrete items, changes in the mix of income or losses in jurisdictions with a wide range of tax rates and permanent differences between GAAP and local tax laws. The effective tax rate for the six months ended June 30, 2012 was also impacted by the application of the loss limitation guidance, which requires that when the interim period loss before taxes exceeds the forecasted loss before taxes for the annual period, the tax benefit recognized associated with the interim period loss should be limited to the tax benefit associated with the loss expected to be recognized for the annual period.

Accreted dividends on SCCII's cumulative preferred stock were \$122 million and \$109 million for the six months ended June 30, 2012 and 2011, respectively. The increase in dividends is due to compounding. No dividends have been declared by SCCII.

**Liquidity and Capital Resources:**

At June 30, 2012, cash and equivalents were \$699 million, a decrease of \$169 million from December 31, 2011. Cash flow from continuing operations was \$220 million in the six months ended June 30, 2012 compared to \$176 million in the six months ended June 30, 2011. Impacting cash flow from continuing operations was \$27 million less of interest payments made in the six months ended June 30, 2012 from the prior year period, due primarily to the partial repayment in January 2012 of \$1.22 billion of term loans resulting from the sale of HE, the retirement of \$500 million 10.625% senior notes due 2015 in



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April 2012 and the expiration of certain of our interest rate swaps, a \$24 million reduction in cash used for working capital, and a \$15 million increase in cash earned from operations, defined as operating income adjusted for certain noncash expenses and the cash portion of other income (expense), partially offset by a \$22 million increase in income tax payments, net of refunds.

Net cash used by continuing operations in investing activities was \$121 million in the six months ended June 30, 2012, comprised of cash paid for property and equipment and other assets and one business acquired by our FS segment. Net cash used by continuing operations in investing activities was \$155 million in the six months ended June 30, 2011, comprised mainly of cash paid for property and equipment and other assets and three businesses acquired in our FS segment. In January 2012, we sold our HE business for gross proceeds of approximately \$1.775 billion less applicable taxes and fees. We expect to pay approximately \$450 million of income taxes in 2012 as a result of the HE sale, of which approximately \$240 million was paid in the second quarter and approximately \$210 million will be paid ratably over the third and fourth quarters.

Net cash used by continuing operations in financing activities was \$1.78 billion for the six months ended June 30, 2012, primarily related to repayments of \$1.22 billion of term loans resulting from the sale of HE and \$527 million related to the early retirement of the 10.625% senior notes due 2015. Net cash provided by continuing operations in financing activities was \$5 million for the six months ended June 30, 2011, primarily related to borrowing under our accounts receivables facility. At June 30, 2012, no amount was outstanding under the revolving credit facility, and \$200 million was outstanding under the receivables facility.

On April 2, 2012, SunGard redeemed for \$527 million plus accrued and unpaid interest to the redemption date all of its outstanding 10.625% senior notes due 2015 under the Indenture dated as of September 29, 2008 (as amended or supplemented from time to time, the 2015 Indenture ) among SunGard, the guarantors named therein, and The Bank of New York Mellon, as trustee.

On March 2, 2012, SunGard amended its Credit Agreement to, among other things, extend the maturity date of approximately \$908 million of tranche A and incremental term loans from February 28, 2014 to February 28, 2017, extend the maturity of \$880 million of revolving credit facility commitments from May 11, 2013 to November 29, 2016, and amend certain covenants and other provisions, in order to, among other things, permit the potential spin-off of AS. The tranche B, tranche C and revolving credit facility each have certain springing maturity provisions which are described in the Company's Credit Agreement as amended and filed with the Company's Form 8-K dated March 2, 2012.

At June 30, 2012, we have outstanding \$6.11 billion in aggregate indebtedness, with additional borrowing capacity of \$858 million under the revolving credit facility (after giving effect to outstanding letters of credit). Under the receivable facility, there was an additional borrowing capacity of \$28 million at June 30, 2012. Also at June 30, 2012, we have outstanding letters of credit and bid bonds that total approximately \$40 million.

In July 2012, we sold one of our European consulting businesses for approximately 14 million.

On August 10, 2012, SunGard executed an interest rate swap derivative with a notional amount of \$200 million. This swap, which matures on February 28, 2017, is designated as a cash flow hedge, and it effectively swaps floating rate debt (1-month LIBOR) to fixed rate debt of 0.73%.

We expect our available cash balances and cash flows from operations, combined with availability under the revolving credit facility and receivables facility, to provide sufficient liquidity to fund our current obligations, projected working capital requirements and capital spending for a period that includes at least the next 12 months.

*Covenant Compliance*

Adjusted EBITDA is used to determine compliance with certain covenants contained in the indentures governing SunGard's senior notes due 2018 and 2020 and senior subordinated notes due 2015 and in SunGard's senior secured credit facilities. Adjusted EBITDA is defined as EBITDA, which we define as earnings before interest, taxes, depreciation and amortization, further adjusted to exclude certain adjustments permitted in calculating covenant compliance under the indentures and senior secured credit facilities. We believe that the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA are appropriate to provide additional information to investors to demonstrate compliance with the financing covenants.

A breach of covenants in SunGard's senior secured credit facilities that are tied to ratios based on Adjusted EBITDA could result in a default under that agreement and the lenders could elect to declare all amounts borrowed due and payable. Any such acceleration would also result in a default under the indentures. Additionally, under SunGard's debt agreements, our ability to engage in activities such as incurring additional indebtedness, making investments and paying dividends is also tied to ratios based on Adjusted EBITDA.



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Adjusted EBITDA is calculated as follows (in millions):

|  | Three Months Ended June 30, |               | Six Months Ended June 30, |               | Last Twelve Months |
|--|-----------------------------|---------------|---------------------------|---------------|--------------------|
|  | 2011                        | 2012          | 2011                      | 2012          | June 30, 2012      |
| Income (loss) from continuing operations   | \$ (31)                     | \$ (8)        | \$ (109)                  | \$ (85)       | \$ (49)            |
| Interest expense, net  | 128                         | 101           | 264                       | 223           | 480                |
| Taxes  | (20)                        | (25)          | (31)                      | (32)          | (119)              |
| Depreciation and amortization  | 178                         | 171           | 364                       | 344           | 690                |
| <b>EBITDA</b>  | <b>255</b>                  | <b>239</b>    | <b>488</b>                | <b>450</b>    | <b>1,002</b>       |
| Goodwill impairment charge   |                             |               |                           |               | 48                 |
| Purchase accounting adjustments <sup>(a)</sup>   | 2                           | 3             | 6                         | 5             | 10                 |
| Non-cash charges <sup>(b)</sup>  | 9                           | 9             | 14                        | 20            | 40                 |
| Restructuring and other <sup>(c)</sup>   | 16                          | 9             | 27                        | 13            | 85                 |
| Acquired EBITDA, net of disposed EBITDA <sup>(d)</sup>   |                             |               |                           |               | 1                  |
| Loss on extinguishment of debt <sup>(d)</sup>  |                             | 36            | 2                         | 51            | 52                 |
| <b>Adjusted EBITDA senior secured credit facilities, senior notes due 2018 and 2020 and senior subordinated notes due 2015</b> | <b>\$ 282</b>               | <b>\$ 296</b> | <b>\$ 537</b>             | <b>\$ 539</b> | <b>\$ 1,238</b>    |

- (a) Purchase accounting adjustments include the adjustment of deferred revenue and lease reserves to fair value at the date of the LBO and subsequent acquisitions made by the Company and certain acquisition-related compensation expense.
- (b) Non-cash charges include stock-based compensation and loss on the sale of assets.
- (c) Restructuring and other charges include severance and related payroll taxes, reserves to consolidate certain facilities, strategic initiative expenses, certain other expenses associated with acquisitions made by the Company, management fees paid to the Sponsors (see Note 9 of Notes to Financial Statements) and franchise and similar taxes reported in operating expenses, partially offset by certain charges relating to the receivables facility.
- (d) Loss on extinguishment of debt includes the write-off of deferred financing fees associated with the January 2012 repayment of \$1.22 billion of our term loans and the April 2, 2012 retirement of \$500 million, 10.625% senior notes due 2015.

The covenant requirements and actual ratios for the twelve months ended June 30, 2012 are as follows. All covenants are in compliance.

|   | Covenant Requirements | Actual Ratios |
|---|-----------------------|---------------|
| <b>Senior secured credit facilities <sup>(1)</sup></b>  |                       |               |
| Minimum Adjusted EBITDA to consolidated interest expense ratio  | 1.95x                 | 3.40x         |
| Maximum total debt to Adjusted EBITDA   | 5.75x                 | 4.26x         |
| <b>Senior notes due 2018 and 2020 and senior subordinated notes due 2015 <sup>(2)</sup></b>                   |                       |               |
| Minimum Adjusted EBITDA to fixed charges ratio required to incur additional debt pursuant to ratio provisions | 2.00x                 | 3.39x         |

- (1) The senior secured credit facilities require us to maintain an Adjusted EBITDA to consolidated interest expense ratio starting at a minimum of 1.95x for the four-quarter period ended December 31, 2011 and increasing over time to 2.10x by the end of 2012 and 2.20x by the end of 2013. Consolidated interest expense is defined in the senior secured credit facilities as consolidated cash interest expense less cash interest income further adjusted for certain non-cash or non-recurring interest expense and the elimination of interest expense and fees



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associated with SunGard's receivables facility. Beginning with the four-quarter period ending December 31, 2011, we are required to maintain a consolidated total debt to Adjusted EBITDA ratio of 5.75x and decreasing over time to 5.25x by the end of 2012 and to 4.75x by the end of 2013. Consolidated total debt is defined in the senior secured credit facilities as total debt less certain indebtedness and further adjusted for cash and cash equivalents on our balance sheet in excess of \$50 million. Failure to satisfy these ratio requirements would constitute a

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default under the senior secured credit facilities. If our lenders failed to waive any such default, our repayment obligations under the senior secured credit facilities could be accelerated, which would also constitute a default under our indentures.

- (2) SunGard's ability to incur additional debt and make certain restricted payments under our indentures, subject to specified exceptions, is tied to an Adjusted EBITDA to fixed charges ratio of at least 2.0x, except that we may incur certain debt and make certain restricted payments and certain permitted investments without regard to the ratio, such as the ability to incur up to an aggregate principal amount of \$5.75 billion under credit facilities (inclusive of amounts outstanding under the senior credit facilities from time to time; as of June 30, 2012, we had \$3.05 billion outstanding under the term loan facilities and available commitments of \$858 million under the revolving credit facility), to acquire persons engaged in a similar business that become restricted subsidiaries and to make other investments equal to 6% of our consolidated assets. Fixed charges is defined in the indentures governing the Senior Notes due 2018 and 2020 and the Senior Subordinated Notes due 2015 as consolidated interest expense less interest income, adjusted for acquisitions, and further adjusted for non-cash interest and the elimination of interest expense and fees associated with the receivables facility.

**Certain Risks and Uncertainties**

Certain of the matters we discuss in this Report on Form 10-Q may constitute forward-looking statements. You can identify forward-looking statements because they contain words such as believes, expects, may, will, should, seeks, approximately, intends, plans, anticipates or similar expressions which concern our strategy, plans or intentions. All statements we make relating to estimated and projected earnings, margins, costs, expenditures, cash flows, growth rates and financial results are forward-looking statements. In addition, we, through our senior management, from time to time make forward-looking public statements concerning our expected future operations and performance and other developments. All of these forward-looking statements are subject to risks and uncertainties that may change at any time, and, therefore, our actual results may differ materially from those we expected. We derive most of our forward-looking statements from our operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, of course, it is impossible for us to anticipate all factors that could affect our actual results. Some of the factors that we believe could affect our results include: general economic and market conditions; the overall condition of the financial services industry, including the effect of any further consolidation among financial services firms; our high degree of leverage; the effect of war, terrorism, natural disasters or other catastrophic events; the effect of disruptions to our systems and infrastructure; the timing and magnitude of software sales; the timing and scope of technological advances; customers taking their information availability solutions in-house; the trend in information availability toward solutions utilizing more dedicated resources; the market and credit risks associated with broker/dealer operations; the ability to retain and attract customers and key personnel; risks relating to the foreign countries where we transact business; the integration and performance of acquired businesses; the ability to obtain patent protection and avoid patent-related liabilities in the context of a rapidly developing legal framework for software and business-method patents; a material weakness in our internal controls; and unanticipated changes in our tax provision or the adoption of new tax legislation. The factors described in this paragraph and other factors that may affect our business or future financial results are discussed in our filings with the Securities and Exchange Commission, including this Form 10-Q. We assume no obligation to update any written or oral forward-looking statement made by us or on our behalf as a result of new information, future events or other factors.

**Item 3. Quantitative and Qualitative Disclosures about Market Risk:**

We do not use derivative financial instruments for trading or speculative purposes. We have invested our available cash in short-term, highly liquid financial instruments, with a substantial portion having initial maturities of three months or less. When necessary, we have borrowed to fund acquisitions.

At June 30, 2012, we had total debt of \$6.11 billion, including \$3.25 billion of variable rate debt. We have entered into interest rate swap agreements which expire in May 2013 and effectively fix the interest rates for \$500 million of our variable rate debt at 1.99%. Our remaining variable rate debt of \$2.75 billion is subject to changes in underlying interest rates, and, accordingly, our interest payments will fluctuate. During the period when all of our interest rate swap agreements are effective, a 1% change in interest rates would result in a change in interest of approximately \$28 million per year. Upon the expiration of the interest rate swap agreements in May 2013, a 1% change in interest rates would result in a change in interest of approximately \$33 million per year.

**Table of Contents****Item 4. Controls and Procedures:  
Evaluation of Disclosure Controls and Procedures**

Our management is responsible for establishing and maintaining a system of disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Exchange Act is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow for timely decisions regarding required disclosure.

The Company previously reported a material weakness in internal control over financial reporting related to accounting for deferred income taxes, which was described in Item 9A including Management's Annual Report on Internal Control Over Financial Reporting in the Company's Annual Report on Form 10-K for the year ended December 31, 2011. As a result of this material weakness, which was not remediated as of June 30, 2012, our management, with the participation of our Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were not effective as of June 30, 2012.

Notwithstanding the material weakness in accounting for deferred income taxes, we concluded that the interim financial statements included in this Form 10-Q fairly present, in all material respects, our financial condition, results of operations and cash flows as of and for the periods presented in accordance with generally accepted accounting principles.

**Remediation of Material Control Weakness**

The Company is continuing to implement steps to remediate the material weakness discussed above and to improve its internal control over financial reporting related to accounting for deferred income taxes. Specifically, the Company hired a new Vice President of Tax, effective June 1, 2012, and is in the process of searching for additional qualified tax personnel. The Company is continuing to review all areas of the income tax accounting process, strengthening controls, and increasing the level of certain income tax review activities during the financial close process. The Company is enhancing reporting tools in its existing systems to improve the quality of data used in the analysis of deferred income tax accounts and related disclosures.

Management is committed to improving the Company's internal control processes and has developed and presented to the Audit Committee a plan and timetable for the implementation of the remediation measures described above and is meeting regularly with the Committee to monitor the status of remediation activities. Management believes that the measures described above should remediate the material weakness identified and strengthen the Company's internal control over financial reporting related to accounting for deferred income taxes. As the Company continues to evaluate and improve its internal control over financial reporting related to accounting for deferred income taxes, additional measures to remediate the material weakness or modifications to certain of the remediation procedures described above may be necessary. The Company expects to make progress each quarter and expects to achieve remediation of the material weakness when it completes its year end procedures in connection with filing the Company's Annual Report on Form 10-K for 2012.

**Change in Internal Control Over Financial Reporting**

Other than changes related to the ongoing remediation of the material weakness in accounting for deferred income taxes, no change in our internal control over financial reporting occurred during our most recent fiscal quarter ended June 30, 2012 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Part II Other Information:**

**Item 1. Legal Proceedings:** We are presently a party to certain lawsuits arising in the ordinary course of our business. We believe that none of our current legal proceedings will be material to our business, financial condition or results of operations.

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**Item 1A. Risk Factors:** There have been no material changes to SCC s, SCCII s or SunGard s Risk Factors as previously disclosed in their Form 10-K for the year ended December 31, 2011.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds:** None.

**Item 3. Defaults Upon Senior Securities:** None.

**Item 4. Mine Safety Disclosures:** None.

**Item 5. Other Information:**

(a) None.

(b) None.

**Item 6. Exhibits:**

| Number | Document   |
|--------|--|
| 10.1   | SunGard Data Systems Inc. Annual Incentive Compensation Plan dated May 9, 2012.  |
| 10.2   | Letter Agreement dated June 26, 2012 between Robert Woods and SunGard Data Systems Inc.  |
| 12.1   | Computation of Ratio of Earnings to Fixed Charges.   |
| 31.1   | Certification of Russell P. Fradin, Chief Executive Officer of SunGard Capital Corp., SunGard Capital Corp. II and SunGard Data Systems Inc. required by Rule 13a-14(a) or Rule 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002.   |
| 31.2   | Certification of Charles J. Neral, Chief Financial Officer of SunGard Capital Corp., SunGard Capital Corp. II and SunGard Data Systems Inc. required by Rule 13a-14(a) or Rule 15d-14(a) and Section 302 of the Sarbanes-Oxley Act of 2002.  |
| 32.1   | Certification of Russell P. Fradin, Chief Executive Officer of SunGard Capital Corp., SunGard Capital Corp. II and SunGard Data Systems Inc. required by Rule 13a-14(b) or Rule 15d-14(b) and Section 906 of the Sarbanes-Oxley Act of 2002.   |
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| 101    | Interactive Data Files for SunGard Capital Corp., SunGard Capital Corp. II and SunGard Data Systems Inc. pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of December 31, 2011 and June 30, 2012, (ii) Consolidated Statements of Comprehensive Income for the Three and Six Months Ended June 30, 2011 and 2012, (iii) Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2011 and 2012 and (iv) Notes to Consolidated Financial Statements. |

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

**SUNGARD CAPITAL CORP.**

**SUNGARD CAPITAL CORP. II**

**SUNGARD DATA SYSTEMS INC.**

Dated: August 10, 2012

By: /s/ Charles J. Neral  
Charles J. Neral  
Senior Vice President-Finance and Chief Financial Officer  
(Principal Financial Officer)

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