

NEWPORT CORP
Form 10-Q
August 09, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2012

OR

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

For the transition period from to

Commission File Number: 000-01649

NEWPORT CORPORATION

(Exact name of registrant as specified in its charter)

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Nevada
(State or other jurisdiction of
incorporation or organization)

94-0849175
(IRS Employer
Identification No.)

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

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

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

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

Large accelerated filer Accelerated filer

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

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

As of July 27, 2012, 38,252,472 shares of the registrant's sole class of common stock were outstanding.

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

	Three Months Ended		Six Months Ended	
	June 30,	July 2,	June 30,	July 2,
	2012	2011	2012	2011
Net sales	\$ 153,655	\$ 130,132	\$ 310,822	\$ 258,543
Cost of sales	86,772	70,460	175,870	140,995
Gross profit	66,883	59,672	134,952	117,548
Selling, general and administrative expenses	41,887	32,739	85,947	63,212
Research and development expense	13,651	10,196	27,450	20,633
Operating income	11,345	16,737	21,555	33,703
Foreign currency translation gain from dissolution of subsidiary				7,198
Gain on sale of investment	5,298		5,298	
Interest and other expense, net	(2,828)	(1,624)	(5,015)	(4,029)
Income before income taxes	13,815	15,113	21,838	36,872
Income tax provision	4,754	1,191	6,189	2,191
Net income	9,061	13,922	15,649	34,681
Net loss attributable to non-controlling interests	(93)		(97)	
Net income attributable to Newport Corporation	\$ 9,154	\$ 13,922	\$ 15,746	\$ 34,681
Net income	\$ 9,061	\$ 13,922	\$ 15,649	\$ 34,681
Other comprehensive income:				
Foreign currency translation gains (losses)	(3,485)	902	(1,898)	(3,135)
Unrecognized net pension gains	102	559	86	425
Unrealized losses on marketable securities	(140)	(900)	(107)	(762)
Comprehensive income	\$ 5,538	\$ 14,483	\$ 13,730	\$ 31,209
Comprehensive loss attributable to non-controlling interests	\$ (69)	\$	\$ (115)	\$
Comprehensive income attributable to Newport Corporation	5,607	14,483	13,845	31,209
Comprehensive income	\$ 5,538	\$ 14,483	\$ 13,730	\$ 31,209

Net income per share attributable to Newport Corporation:

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Basic	\$ 0.24	\$ 0.37	\$ 0.41	\$ 0.93
Diluted	\$ 0.24	\$ 0.36	\$ 0.40	\$ 0.89
Shares used in per share calculations:				
Basic	38,220	37,477	37,975	37,241
Diluted	38,898	38,788	38,915	38,812

See accompanying notes.

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

	June 30, 2012	December 31, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 49,718	\$ 55,701
Restricted cash	2,938	12,367
Marketable securities	4,776	4,787
Accounts receivable, net of allowance for doubtful accounts of \$1,523 and \$2,532 as of June 30, 2012 and December 31, 2011, respectively	100,742	97,690
Notes receivable	3,366	2,091
Inventories	108,718	112,968
Deferred income taxes	29,746	30,339
Prepaid expenses and other current assets	14,623	15,374
Total current assets	314,627	331,317
Property and equipment, net	86,267	89,873
Goodwill	146,793	143,259
Deferred income taxes	8,938	9,289
Intangible assets, net	145,075	150,572
Other assets	40,149	39,759
	\$ 741,849	\$ 764,069
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Short-term borrowings, net	\$ 31,625	\$ 45,149
Accounts payable	31,067	30,856
Accrued payroll and related expenses	30,468	36,914
Accrued expenses and other current liabilities	37,627	39,800
Total current liabilities	130,787	152,719
Long-term debt, net	158,943	178,043
Accrued pension liabilities	24,887	24,444
Deferred income taxes and other liabilities	37,823	36,586
Commitments and contingencies		
Stockholders' equity:		
Common stock, par value \$0.1167 per share, 200,000,000 shares authorized; 38,251,805 and 37,634,403 shares issued and outstanding as of June 30, 2012 and December 31, 2011, respectively	4,464	4,392
Capital in excess of par value	434,976	431,606
Accumulated other comprehensive loss	(7,890)	(5,989)
Accumulated deficit	(44,005)	(59,751)
Total stockholders' equity of Newport Corporation	387,545	370,258

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Non-controlling interests	1,864	2,019
Total stockholders' equity	389,409	372,277
	\$ 741,849	\$ 764,069

See accompanying notes.

Table of Contents**NEWPORT CORPORATION****Consolidated Statements of Cash Flows****(In thousands)****(Unaudited)**

	Six Months Ended	
	June 30,	July 2,
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 15,649	\$ 34,681
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,365	8,714
Amortization of discount on convertible subordinated notes	12	2,081
Gain on sale of assets	(5,323)	(619)
Foreign currency gain		(7,198)
Provision for losses on inventories	3,790	2,177
Stock-based compensation expense	4,092	3,170
Provision for doubtful accounts	191	319
Loss on disposal of property and equipment	130	94
Deferred income taxes	1,361	278
Increase (decrease) in cash, net of acquisition, due to changes in:		
Accounts and notes receivable	(3,915)	(1,185)
Inventories	(1,803)	(12,547)
Prepaid expenses and other assets	448	(217)
Accounts payable	703	(7,049)
Accrued payroll and related expenses	(6,604)	(6,077)
Accrued expenses and other liabilities	(1,963)	2,036
Other long-term liabilities	180	185
Net cash provided by operating activities	28,313	18,843
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(6,186)	(5,209)
Restricted cash	9,412	
Gain on sale of assets	5,323	619
Business acquisition, net of cash acquired	(8,939)	
Purchase of marketable securities	(1,206)	(74,731)
Proceeds from the sale of marketable securities	1,161	86,330
Net cash provided by (used in) investing activities	(435)	7,009
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from long-term debt		2,440
Repayment of long-term debt and obligations under capital leases	(15,420)	(87)
Proceeds from short-term borrowings	5,207	14,812
Repayment of short-term borrowings	(22,250)	(17,923)
Proceeds from the issuance of common stock under employee plans	2,403	2,426
Tax withholding payments related to net share settlement of equity awards	(3,053)	(3,435)
Net cash used in financing activities	(33,113)	(1,767)
Impact of foreign exchange rate changes on cash balances	(748)	1,574

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Net increase (decrease) in cash and cash equivalents	(5,983)	25,659
Cash and cash equivalents at beginning of period	55,701	90,992
Cash and cash equivalents at end of period	\$ 49,718	\$ 116,651

Supplemental disclosures of cash flow information:

Cash paid during the period for:

Interest	\$ 3,501	\$ 1,758
Income taxes, net	\$ 2,837	\$ 1,124
Property and equipment accrued in accounts payable	\$ 138	\$ 122

See accompanying notes.

Table of Contents**NEWPORT CORPORATION****Notes to Consolidated Financial Statements****June 30, 2012****NOTE 1 BASIS OF PRESENTATION**

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

The accompanying unaudited consolidated financial statements do not include certain footnotes and financial presentations normally required under generally accepted accounting principles (GAAP) and, therefore, should be read in conjunction with the consolidated financial statements and related notes contained in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2011. The results for the interim periods are not necessarily indicative of the results the Company will have for the full year ending December 29, 2012. The December 31, 2011 balances reported herein are derived from the audited consolidated financial statements included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2011.

NOTE 2 MARKETABLE SECURITIES

All marketable securities of the Company were classified as available for sale and were recorded at market value using the specific identification method, and unrealized gains and losses are reflected in *accumulated other comprehensive loss* in the accompanying consolidated balance sheets. The aggregate fair value of available for sale securities and aggregate amount of unrealized gains and losses for available for sale securities at June 30, 2012 were as follows:

(In thousands)	Aggregate Fair Value	Aggregate Amount of Unrealized	
		Gains	Losses
Equity securities	\$ 532	\$ 88	\$
Certificates of deposit	4,244		
	\$ 4,776	\$ 88	\$

The aggregate fair value of available for sale securities and aggregate amount of unrealized gains and losses for available for sale securities at December 31, 2011 were as follows:

(In thousands)	Aggregate Fair Value	Aggregate Amount of Unrealized	
		Gains	Losses
Equity securities	\$ 542	\$ 93	\$
Certificates of deposit	4,245		
	\$ 4,787	\$ 93	\$

Table of Contents**NEWPORT CORPORATION****Notes to Consolidated Financial Statements****June 30, 2012**

The contractual maturities of certificates of deposit were as follows:

(In thousands)	June 30, 2012
0 1 Year	\$ 4,244
1 2 Years	
2 3 Years	
3 5 Years	
5 10 Years	
More than 10 years	
	\$ 4,244

The gross realized gains and losses on sales of available for sale securities were as follows:

(In thousands)	Three Months Ended		Six Months Ended	
	June 30, 2012	July 2, 2011	June 30, 2012	July 2, 2011
Gross realized gains	\$	\$ 39	\$	\$ 66
Gross realized losses				
	\$	\$ 39	\$	\$ 66

NOTE 3 FAIR VALUE MEASUREMENTS

Accounting Standards Codification (ASC) 820-10, *Fair Value Measurements and Disclosures*, requires that for any assets and liabilities stated at fair value on a recurring basis in the Company's financial statements, the fair value of such assets and liabilities be measured based on the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Level 1 asset and liability values are derived from quoted prices in active markets for identical assets and liabilities and Level 2 asset and liability values are derived from quoted prices in inactive markets or based on other observable inputs. The Company's assets and liabilities measured at fair value on a recurring basis are categorized in the table below based upon their level within the fair value hierarchy as of June 30, 2012.

Table of Contents**NEWPORT CORPORATION****Notes to Consolidated Financial Statements****June 30, 2012**

(In thousands)	Description	June 30, 2012	Fair Value Measurements at Reporting Date Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					
	Restricted Cash	\$ 2,938	\$ 2,938	\$	\$
Marketable securities:					
	Equity securities	532	532		
	Certificates of deposit	4,244		4,244	
		4,776	532	4,244	
Derivative assets:					
	Forward contracts	6		6	
	Option contracts	546		546	
		552		552	
	Pension assets not owned by plan	6,523		6,523	
		\$ 14,789	\$ 3,470	\$ 11,319	\$
Liabilities:					
Derivative liabilities:					
	Forward contracts	\$ 170	\$	\$ 170	\$
	Option contracts	853		853	
		\$ 1,023	\$	\$ 1,023	\$

The Company's assets and liabilities measured at fair value on a recurring basis are categorized in the table below based upon their level within the fair value hierarchy as of December 31, 2011.

(In thousands)	Description	December 31, 2011	Fair Value Measurements at Reporting Date Using		
			Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:					

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Restricted Cash	\$	12,367	\$ 12,367	\$	\$
Marketable securities:					
Equity securities		542	542		
Certificates of deposit		4,245		4,245	
		4,787	542	4,245	
Derivative assets:					
Option contracts		117		117	
Pension assets not owned by plan					
		6,572		6,572	
	\$	23,843	\$ 12,909	\$	10,934 \$
Liabilities:					
Derivative liabilities:					
Forward contracts		388		388	
Option contracts		440		440	
	\$	828	\$	\$	828 \$

Table of Contents**NEWPORT CORPORATION****Notes to Consolidated Financial Statements****June 30, 2012**

The Company's other financial instruments include short-term borrowings and long-term debt. The fair value of these financial instruments was estimated based on current rates for similar issues or on the current rates offered to the Company for debt of similar remaining maturities. The estimated fair values of these financial instruments were as follows:

(In thousands)	June 30, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Short-term borrowings	\$ 31,625	\$ 31,239	\$ 45,149	\$ 44,063
Long-term debt	\$ 158,943	\$ 156,560		