NEWPORT CORP
Form S-1
March 30, 2005
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As filed with the Securities and Exchange Commission on March 30, 2005

Registration No. 333-_____

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM S-1

REGISTRATION STATEMENT

Under

The Securities Act of 1933

NEWPORT CORPORATION

(Exact name of registrant as specified in its charter)

Nevada	**3821**	**94-0849175**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification No.)**

1791 Deere Avenue, Irvine, California 92606

(949) 863-3144

(Address, including zip code, and telephone number, including area code, of registrant s principal executive offices)

Jeffrey B. Coyne, Esq.

Senior Vice President and General Counsel

Newport Corporation

1791 Deere Avenue

Irvine, California 92606

(949) 863-3144

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

K.C. Schaaf, Esq.

Stradling Yocca Carlson & Rauth

660 Newport Center Drive, Suite 1600

Newport Beach, California 92660

(949) 725-4000

Approximate date of commencement of proposed sale to the public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. þ

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box. ¨

CALCULATION OF REGISTRATION FEE

Title of securities to be registered	Amount to be registered	Proposed maximum offering price per share (1)	Proposed maximum aggregate offering price	Amount of registration fee
Common Stock, $0.1167 par value per share	3,220,300 shares	$14.66	$47,209,598	$5,556.57

(1) The offering price is estimated solely for the purpose of calculating the registration fee in accordance with Rule 457(c) using the average of the high and low price reported by the Nasdaq National Market for the Registrant s common stock on March 29, 2005, which was $14.66 per share.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. The selling stockholder may not sell these securities until the registration statement filed with the Securities and Exchange Commission is declared effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

Issued _____, 2005

NEWPORT CORPORATION

3,220,300 Shares of Common Stock

This prospectus relates to the public offering, which is not being underwritten, of up to 3,220,300 shares of our common stock which are held by Thermo Electron Corporation, or Thermo, who we refer to in this prospectus as the selling stockholder. We originally issued the shares of our common stock offered pursuant to this prospectus to the selling stockholder in connection with our acquisition of Spectra-Physics, Inc. and certain related entities.

The selling stockholder may sell these shares from time to time on the over-the-counter market in regular brokerage transactions, in transactions directly with market makers or in privately negotiated transactions. For additional information on the methods of sale that may be used by the selling stockholder, see the section entitled Plan of Distribution on page 67. We will not receive any of the proceeds from the sale of these shares. We will bear the costs relating to the registration of these shares.

Our common stock is quoted on the Nasdaq National Market under the symbol NEWP. On _____, 2005, the last reported sale price of our common stock was $[_____] per share.

See Risk Factors beginning on page 2 to read about the risks you should consider carefully before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2005.

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You should rely only on the information contained in this prospectus. We have not authorized any other person to provide you with different information. This prospectus is not an offer to sell, nor is it seeking an offer to buy, these securities in any state where the offer or sale is not permitted. The information in this prospectus is complete and accurate as of the date on the front cover, but the information may have changed since that date.

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PROSPECTUS SUMMARY

We are a global supplier of advanced technology products and systems to a wide range of industries, including semiconductor manufacturing, scientific research, aerospace and defense/security, life and health sciences and communications.

In July 2004, we acquired all of the issued and outstanding capital stock of Spectra-Physics, Inc., which was founded in 1961 as the world s first commercial laser company, and certain related entities (collectively, Spectra-Physics). Spectra-Physics manufactures high-power solid-state, gas and dye lasers, high-power laser diodes, and ultrafast laser systems, as well as photonics instruments and components, including light sources, monochromators, spectroscopy instrumentation, optical filters, ruled and holographic diffraction gratings and crystals. We have incorporated Spectra-Physics laser and laser-related technology business into our new Lasers Division, and we have combined Spectra-Physics photonics businesses with our Industrial and Scientific Technologies Division to create our new Photonics and Precision Technologies Division.

As a result of the Spectra-Physics acquisition, we now provide a significantly expanded product portfolio to our newly-aligned target customer end markets: scientific research, aerospace and defense/security; microelectronics (which is comprised primarily of semiconductor capital equipment customers); life and health sciences; and all other end markets (which include general industrial and fiber optic communications customers). This extensive portfolio enables us to offer our customers an end-to-end resource for products that make, manage and measure light. We provide:

- high-power solid-state, gas and dye lasers and laser technology used in a wide array of applications, including scientific research, industrial and microelectronic manufacturing and life and health sciences;
- components and integrated subsystems to manufacturers of semiconductor processing equipment, biomedical instrumentation and medical devices;
- advanced automated assembly and test systems for manufacturers of communications and electronics devices; and
- a broad array of high-precision systems, components and instruments to commercial, academic and government customers worldwide.

Our products leverage our expertise in laser technology, photonics instrumentation, precision robotics and automation, sub-micron positioning systems, vibration isolation, and optical subsystems and are designed to enhance the capabilities and productivity of our customers manufacturing, engineering and research applications.

We were established in 1969 as Newport Research Corporation. In 1978, Newport Research Corporation merged into James Dole Corporation, an entity which was incorporated in Nevada in 1938, and the company was renamed Newport Corporation following the merger.

Our principal executive offices are located at 1791 Deere Avenue, Irvine, California 92606. Our telephone number at this location is (949) 863-3144. Our web site address is www.newport.com. Our web site and the information contained in or connected to our web site are not a part of this prospectus.

Newport, Spectra-Physics and our logos are our trademarks. This prospectus also contains other trade names, trademarks and service marks of ours and of other persons.

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RISK FACTORS

The following is a summary of certain risks we face in our business. They are not the only risks we face. Additional risks of which we are not presently aware or that we currently believe are immaterial may also harm our business and results of operations. The trading price of our common stock could decline due to the occurrence of any of these risks, and investors could lose all or part of their investment. In assessing these risks, investors should also refer to the other information contained or incorporated by reference in our other filings with the Securities and Exchange Commission.

We may not be able to effectively or completely integrate the business and operations of Spectra-Physics or future acquisitions, which could materially harm our operating results.

In connection with our acquisition of Spectra-Physics, we face several significant challenges in integrating the business and operations of Spectra-Physics with our own. We may not be able to achieve the integration in an effective, complete, timely or cost-efficient manner. The acquisition of Spectra-Physics approximately doubled our size, including with respect to revenue, number of employees and facilities. The acquisition and integration of Spectra-Physics with our operations involves substantial risks, including:

- our overall ability to integrate and manage Spectra-Physics operations, products and personnel;
- our ability to integrate the products of Spectra-Physics so that they complement our own;
- our ability to continue the development of the Spectra-Physics products and underlying technology;
- our ability to manufacture and sell the Spectra-Physics products;
- a decline in the demand for the Spectra-Physics products in the marketplace;
- our ability to retain and expand the customer base of Spectra-Physics;
- customer dissatisfaction or performance problems with the Spectra-Physics products;
- our ability to integrate the international operations of Spectra-Physics, particularly in those countries in which we have not had prior operations;
- our ability to retain key personnel who remained employed with Spectra-Physics following the acquisition;
- our ability to expand our financial and management controls and reporting systems and procedures to integrate and manage Spectra-Physics;

our ability to realize expected synergies resulting from the acquisition;

diversion of management s time and attention;

administrative integration and elimination of redundancies;

assumption of unknown or contingent liabilities, or other unanticipated events or circumstances;

our ability to maintain the competitiveness of Spectra-Physics and its products and technology in the marketplace; and

the need to incur or record significant cash or non-cash charges or write down the carrying value of intangible assets obtained in the Spectra-Physics acquisition, which could adversely impact our cash flow or lower our earnings in the period or periods for which we incur such charges or write down such assets.

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The business and operations of Spectra-Physics may not achieve the anticipated revenues and operating results. We may in the future choose to close or divest certain sectors or divisions of Spectra-Physics, which could require us to record losses and/or spend cash relating to such closures or divestitures. Any of the foregoing risks could materially harm our business, financial conditions and results of operations.

In addition, we have in the past, and expect in the future, to achieve growth through a combination of internally developed new products and acquisitions. In recent years we have acquired several companies and technologies in addition to Spectra-Physics, and we expect to continue to pursue acquisitions of other companies, technologies and complementary product lines in the future to expand our product offerings and technology base to further our strategic goals. We have faced and continue to face the same and other similar risks as referenced above in connection with our prior acquisitions, and we expect that we would face the same and other similar risks as referenced above in connection with any such future acquisitions.

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

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

- fluctuations in our customers capital spending, industry cyclicality (particularly in the semiconductor industry), levels of government funding available to our customers, and other economic conditions within the markets we serve;
- demand for our products and the products sold by our customers;
- the level of orders within a given quarter and preceding quarters;
- the timing and level of cancellations and delays of orders for our products;
- the timing of product shipments within a given quarter;
- our timing in introducing new products;
- variations in the mix of products we sell in each of the markets in which we do business;
- changes in our pricing policies or in the pricing policies of our competitors or suppliers;
- market acceptance of any new or enhanced versions of our products;
- the availability and cost of key components and raw materials we use to manufacture our products;

our ability to manufacture a sufficient quantity of our products to meet customer demand;

fluctuations in foreign currency exchange rates;

timing of new product introductions by our competitors; and

our levels of expenses.

We may in the future choose to change prices, increase spending, or add or eliminate products in response to actions by competitors or in an effort to pursue new market opportunities. These actions may also adversely affect our business and operating results and may cause our quarterly results to be lower than the results of previous quarters.

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

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

We are highly dependent on the semiconductor equipment industry, which is volatile and unpredictable.

A substantial portion of our current and expected future business comes from sales of components, subsystems and laser products to manufacturers of semiconductor fabrication, metrology and wafer inspection equipment and sales of capital equipment to integrated semiconductor device manufacturers. The semiconductor market has historically been characterized by sudden and severe cyclical variations in product supply and demand. The timing, severity and duration of these market cycles are difficult to predict, and we may not be able to respond effectively to these cycles. The continuing uncertainty in this market severely limits our ability to predict our business prospects or financial results in this market.

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

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

Our sales to the microelectronics market (which is comprised primarily of semiconductor capital equipment customers) constituted 33.4%, 38.0% and 40.2% of our consolidated net sales for the year ended January 1, 2005 (which includes Spectra-Physics results of operations for the period after July 16, 2004, the date of acquisition), and for the years ended December 31, 2003 and 2002, respectively. We rely on a limited number of customers for a significant portion of our sales to this market. Our top five customers in this market comprised approximately 56.5%, 62.0%, and 69.8% of our sales to this market for the year ended January 1, 2005 (which includes Spectra-Physics results of operations for the period after July 16, 2004, the date of acquisition), and for the years ended December 31, 2003 and 2002, respectively. No single customer in this market comprised 10% or more of our consolidated net sales in 2004. If any of our principal customers discontinues its relationship with us, replaces us as a vendor for certain products or suffers downturns in its business, our business and results of operations could be

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harmed significantly. In addition, because a relatively small number of companies dominate the front-end equipment portion of this market, and because those companies rarely change vendors in the middle of a product s life cycle, it may be particularly difficult for us to replace these customers if we lose their business.

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

A significant portion of our future growth is dependent on the growth of 300mm semiconductor wafer processes and lower than expected demand for equipment designed for these processes could negatively impact our revenues.

A significant portion of our expected future system and subsystem business in the semiconductor capital equipment market is comprised of products for the fabrication, inspection and metrology of 300mm semiconductor wafers. Wafer fabrication, inspection and metrology equipment for 300mm wafers is in an early stage of its adoption, and is expected to be driven by the need for the ability to manufacture more semiconductor chips at lower cost. The deployment of such equipment requires a significant capital investment by semiconductor manufacturers, and many semiconductor manufacturers have delayed plans to deploy such equipment until market conditions improve. In addition, certain industry analysts have recently forecasted more conservative capital equipment spending and slower adoption of new technologies by semiconductor manufacturers in future periods. If the demand for capital equipment for 300mm wafers does not increase, or increases more slowly than expected, demand for our system and subsystem products will likewise be adversely affected, and our business and results of operations could be harmed significantly.

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

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

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

We offer products for a number of markets, including semiconductor capital equipment, scientific research, aerospace and defense/security, life and health sciences and fiber optic communications. Because we operate in multiple markets, we must work constantly to understand the needs,

standards and technical requirements of several different industries and must devote significant resources to developing different products for these industries. Product development is costly and time consuming. Many of our products are used by our customers to develop,

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manufacture and test their own products. As a result, we must anticipate trends in our customers industries and develop products before our customers products are commercialized. If we do not accurately predict our customers needs and future activities, we may invest substantial resources in developing products that do not achieve broad market acceptance. Our decision to continue to offer products to a given market or to penetrate new markets is based in part on our judgment of the size, growth rate and other factors that contribute to the attractiveness of a particular market. If our product offerings in any particular market are not competitive or our analyses of a market are incorrect, our business and results of operations would be harmed.

Because the sales cycle for some of our products is long and difficult to predict, and certain of our orders are subject to rescheduling or cancellation, we may experience fluctuations in our operating results.

Many of our capital equipment, system and subsystem products are complex, and customers for these products require substantial time to make purchase decisions. These customers often perform, or require us to perform extensive configuration, testing and evaluation of our products before committing to purchasing them. The sales cycle for our capital equipment, system and subsystem products from initial contact through shipment typically varies, is difficult to predict and can last as long as one year. The orders comprising our backlog are often subject to cancellation and changes in delivery schedules by our customers without significant penalty. We have from time to time experienced order rescheduling and cancellations that have caused our revenues in a given period to be materially less than would have been expected based on our backlog at the beginning of the period. If we experience such rescheduling and/or cancellations in the future, our operating results will fluctuate from period to period. These fluctuations could harm our results of operations and cause our stock price to drop.

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

Because certain of our products, particularly lasers, are sophisticated and complex, we may experience delays in introducing new products or enhancements to our existing products. If we do not introduce our new products or enhancements into the marketplace in a timely fashion, our customers may choose to use competitors products. In addition, because certain of our markets, such as the semiconductor equipment market, are highly cyclical in nature, if we fail to timely introduce new products in advance of an upturn in the market s cycle, we may be foreclosed from selling products to many customers until the next cycle. As such, our inability to introduce new or enhanced products in a timely manner could cause our business and results of operations to suffer. In addition, our products may contain defects or undetected errors. As a result, we could incur substantial expenses in fixing any defects or undetected errors, which could result in damage to our competitive position and harm our business and results of operations.

We face significant risks from doing business in foreign countries.

Our business is subject to risks inherent in conducting business internationally. For the year ended January 1, 2005 (which includes Spectra-Physics results of operations for the period after July 16, 2004, the date of acquisition), and for the years ended December 31, 2003 and 2002, our international revenues accounted for approximately 37.8%, 31.5% and 29.1%, respectively, of total net sales, with a substantial portion of international sales originating in Europe. We expect that international revenues will continue to account for a significant percentage of total net sales for the foreseeable future, and that, in particular, the proportion of our sales to Asian customers will increase as a result of the purchase of Spectra-Physics. Our international operations expose us to various risks, which include:

adverse changes in the political or economic conditions in countries or regions where we manufacture or sell our products;

challenges of administering our business globally;

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compliance with multiple and potentially conflicting regulatory requirements including export requirements, tariffs and other trade barriers;

longer accounts receivable collection periods;

overlapping, differing or more burdensome tax structures;

adverse currency fluctuations;

differing protection of intellectual property;

difficulties in staffing and managing each of our individual foreign operations;

increased risk of exposure to terrorist activities; and

trade restrictions and licensing requirements.

In addition, fluctuations in foreign exchange rates could affect the sales price in local currencies of our products in foreign markets, potentially making our products less price competitive. Such exchange rate fluctuations could also increase the costs and expenses of our foreign operations or require us to modify our current business practices. If we experience any of the risks associated with international business, our business and results of operations could be significantly harmed.

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

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

If we fail to protect our intellectual property and proprietary technology, we may lose our competitive advantage.

Our success and ability to compete depend in large part upon protecting our proprietary technology. We rely on a combination of patent, trademark and trade secret protection and nondisclosure agreements to protect our proprietary rights. The steps we have taken may not be

sufficient to prevent the misappropriation of our intellectual property, particularly in foreign countries where the laws may not protect our proprietary rights as fully as in the United States. The patent and trademark law and trade secret protection may not be adequate to deter third party infringement or misappropriation of our patents, trademarks and similar proprietary rights. In addition, patents issued to us may be challenged, invalidated or circumvented. Our rights granted under those patents may not provide competitive advantages to us, and the claims under our patent applications may not be allowed. We have in the past and may in the future be subject to or may initiate interference proceedings in the United States Patent and Trademark Office, which can demand significant financial and management resources. The process of seeking patent protection can be time consuming and expensive and patents may not be issued from currently pending or future applications. Moreover, our existing patents or any new patents that may be issued may not be sufficient in

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scope or strength to provide meaningful protection or any commercial advantage to us. We may in the future initiate claims or litigation against third parties for infringement of our proprietary rights in order to determine the scope and validity of our proprietary rights or the proprietary rights of our competitors, which claims could result in costly litigation, the diversion of our technical and management personnel and the assertion of counterclaims by the defendants, including counterclaims asserting invalidity of our patents. For example, we have notified several manufacturers of semiconductor wafer handling robots and load ports that we believe that they are infringing upon certain of our U.S. patents, and may institute litigation against one or more of such companies in the future. We will take such actions where we believe that they are of sufficient strategic or economic importance to us to justify the cost.

We have experienced, and may in the future experience, intellectual property infringement claims, which could be costly and time-consuming to defend.

We have from time to time received communications from third parties alleging that we are infringing certain trademarks, patents or other intellectual property rights held by them. Whenever such claims arise, we evaluate their merits. Any claims of infringement brought by third parties could result in protracted and costly litigation, and we could become subject to damages for infringement, or to an injunction preventing us from selling one or more of our products or using one or more of our trademarks. Such claims could also result in the necessity of obtaining a license relating to one or more of our products or current or future technologies, which may not be available on commercially reasonable terms or at all. Any intellectual property litigation and the failure to obtain necessary licenses or other rights or develop substitute technology may divert management s attention from other matters and could have a material adverse effect on our business, financial condition and results of operations. In addition, the terms of our customer contracts typically require us to indemnify the customer in the event of any claim of infringement brought by a third party based on our products. Any such claims of this kind may have a material adverse effect on our business, financial condition or results of operations.

If we are unable to attract new employees and retain and motivate existing employees, our business and results of operations will suffer.

Our ability to maintain and grow our business is directly related to the service of our employees in each area of our operations. Our future performance will be directly tied to our ability to hire, train, motivate and retain qualified personnel. Competition for personnel in the technology marketplace is intense, and if we are unable to hire sufficient numbers of employees with the experience and skills we need or to retain our employees, our business and results of operations would be harmed.

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

We obtain some of the materials used to build our systems and subsystems, such as the sheet steel used in some of our vibration isolation tables, and the laser crystals used in certain of our laser products, from single or limited sources due to unique component designs as well as specialized quality and performance requirements needed to manufacture our products. If our components or raw materials are unavailable in adequate amounts at acceptable quality levels or are unavailable on satisfactory terms, we may be required to purchase them from alternative sources, if available, which could increase our costs and cause delays in the production and distribution of our products. If we do not obtain comparable replacement components from other sources in a timely manner, our business and results of operations will be harmed. Many of our suppliers require long lead-times to deliver the quantities of components that we need. If we fail to accurately forecast our needs, or if we fail to obtain sufficient quantities of components that we use to manufacture our products, then delays or reductions in production and shipment could occur, which would harm our business and results of operations.

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

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

We provide warranties for our products, and we accrue allowances for estimated warranty costs at the time we recognize revenue for the sale of the products. The determination of such allowances requires us to make estimates of product return rates and expected costs to repair or replace the products under warranty. We establish warranty reserves based on historical warranty costs for our products. If actual return rates or repair and replacement costs differ significantly from our estimates, adjustments to recognize additional cost of sales may be required in future periods.

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

- loss of customers;
- increased costs of product returns and warranty expenses;
- damage to our brand reputation;
- failure to attract new customers or achieve market acceptance;
- diversion of development and engineering resources; or
- legal action by our customers.

The occurrence of any one or more of the foregoing factors could seriously harm our business, financial condition and results of operations.

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

We are exposed to significant risks for product liability claims if personal injury or death results from the use of our products. We may experience material product liability losses in the future. We currently maintain insurance against product liability claims. However, our

insurance coverage may not continue to be available on terms that we accept, if at all. This insurance coverage also may not adequately cover liabilities that we incur. Further, if our products are defective, we may be required to recall or redesign these products. A successful claim against us that exceeds our insurance coverage level, or any claim or product recall, could have a material adverse effect on our business, financial condition and results of operations.

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While we believe we currently have adequate internal control over financial reporting, we are required to evaluate our internal control over financial reporting under Section 404 of the Sarbanes-Oxley Act of 2002, and any adverse results from such evaluation could result in a loss of investor confidence in our financial reports and have an adverse effect on our stock price.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (Section 404), we are required to furnish a report by our management each year on our internal control over financial reporting. This report contains, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. This report must also contain a statement that our auditors have issued an attestation report on management s assessment of such internal controls.

The Committee of Sponsoring Organizations of the Treadway Commission (COSO) provides a framework for companies to assess and improve their internal control systems. Auditing Standard No. 2 provides the professional standards and related performance guidance for auditors to attest to, and report on, management s assessment of the effectiveness of internal control over financial reporting under Section 404. Management s assessment of internal controls over financial reporting requires management to make subjective judgments and, particularly because Section 404 and Auditing Standard No. 2 are newly effective, some of the judgments will be in areas that may be open to interpretation and therefore the report may be uniquely difficult to prepare and our auditors may not agree with our assessments.

Spectra-Physics, which now constitutes over half of our business, was formerly a division of a much larger organization with more complex and integrated internal control processes, causing our review of those internal controls over financial reporting to be time-consuming and costly. While we currently believe that the internal control over financial reporting of Spectra-Physics is effective, we are still performing the system and process documentation and evaluation relating to Spectra-Physics needed to comply with Section 404 and, as permitted by the Securities and Exchange Commission, will not complete such work until 2005. During this process, if our management identifies one or more material weaknesses in our internal control over financial reporting, we will be unable to assert such internal control is effective.

If we are unable to assert each year that our internal control over financial reporting is effective (or if our auditors are unable to attest that our management s report is fairly stated or they are unable to express an opinion on the effectiveness of our internal controls), we could lose investor confidence in the accuracy and completeness of our financial reports, which would have an adverse effect on our stock price. In addition, if any such unidentified material weaknesses were to result in fraudulent activity and/or a material misstatement or omission in our financial statements, we could suffer losses and be subject to civil and criminal penalties, all of which could have a material adverse effect on our business, financial condition and results of operations.

Our financial results could be adversely affected by changes in the accounting rules governing the recognition of stock-based compensation expense.

We measure compensation expense for our employee stock compensation plans under the intrinsic value method of accounting prescribed by APB Opinion No. 25, *Accounting for Stock Issued to Employees*. Recently, the Financial Accounting Standards Board has adopted changes to the accounting rules concerning the recognition of stock option compensation expense which would require us to account for equity compensation under the fair value method of accounting prescribed by SFAS No. 123R, *Share-Based Payment*. We provide disclosures of our operating results as if we had applied the fair value method of accounting on a pro forma basis in accordance with SFAS No. 123, *Accounting for Stock-Based Compensation*. Beginning in the third quarter of 2005, we and other companies currently using the intrinsic value method will be required to measure compensation expense using the fair value method, which will adversely affect our results of operations by significantly increasing our equity compensation expense.

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Compliance with environmental regulations and potential environmental liabilities could adversely affect our financial results.

Our operations are subject to various federal, state and local environmental protection regulations relating to the protection of the environment, including those governing discharges of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. In the United States, we are subject to the federal regulation and control of the Environmental Protection Agency. Comparable authorities are involved in other countries. Some of our operations require environmental permits and controls to prevent and reduce air and water pollution, and these permits are subject to modification, renewal and revocation by issuing authorities. Future developments, administrative actions or liabilities relating to environmental matters could have a material adverse effect on our business, results of operations or financial condition.

Although we believe that our safety procedures for using, handling, storing and disposing of such materials comply with the standards required by state and federal laws and regulations, we cannot completely eliminate the risk of accidental contamination or injury from these materials. In the event of such an accident involving such materials, we could be liable for damages and such liability could exceed the amount of our liability insurance coverage and the resources of our business.

Spectra-Physics Mountain View, California facility is an EPA-designated Superfund site and is subject to a cleanup and abatement order from the California Regional Water Quality Control Board. Spectra-Physics, along with several other entities with facilities located near the Mountain View, California facility, have been identified as Responsible Parties with respect to this Superfund site, due to releases of hazardous substances during the 1960s and 1970s. The site is mature, and investigations and remediation efforts have been ongoing for approximately 20 years. Spectra-Physics and the other Responsible Parties have entered into a cost-sharing agreement covering the costs of remediating the off-site groundwater impact. We have established reserves relating to the estimated cost of these remediation efforts, however our ultimate costs of remediation are difficult to predict. In addition, while we are not aware of any unresolved property damage or personal injury claims relating to this site, such claims could be made against us in the future. While Thermo Electron Corporation has agreed in connection with our purchase of Spectra-Physics to indemnify us, subject to certain conditions, for environmental liabilities relating to this site in excess of our reserves, this indemnity may not cover all liabilities relating to this site. In such event, our business, financial condition and results of operations could be adversely affected.

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

We are headquartered, and have significant operations, in the State of California and other areas where our operations are susceptible to damages from earthquakes, floods, fire, loss of power or water supplies, or other similar contingencies. If any of our facilities were to experience a catastrophic loss or significant power outages, it could disrupt our operations, delay production, shipments and revenue, and result in large expenses to repair or replace the facility, any of which would harm our business. We are predominantly uninsured for losses and interruptions caused by earthquakes.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and we intend that such forward-looking statements be subject to the safe harbors created thereby. For this purpose, any statements contained in this prospectus except for historical information may be deemed to be forward-looking statements. Without limiting the generality of the foregoing, words such as may, will, expect, believe, anticipate, intend, could, estimate, or continue or other variations thereof or comparable terminology are intended to identify forward-looking statements. In addition, any statements that refer to projections of our future financial performance, trends in our businesses, or other characterizations of future events or circumstances are forward-looking statements. The forward-looking statements included herein are based on current expectations and involve a number of risks and uncertainties, all of which are difficult or impossible to predict accurately and many of which are beyond our control. As such, our actual results may differ significantly from those expressed in any forward-looking statements. Factors that may cause or contribute to such differences include, but are not limited to, those discussed in more detail under the sections of this prospectus entitled Risk Factors and Business and elsewhere in this prospectus. Readers should carefully review these risks, as well as the additional risks described in other documents we file from time to time with the Securities and Exchange Commission. In light of the significant risks and uncertainties inherent in the forward-looking information included herein, the inclusion of such information should not be regarded as a representation by us or any other person that such results will be achieved, and readers are cautioned not to place undue reliance on such forward-looking information. We undertake no obligation to revise the forward-looking statements contained herein to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

USE OF PROCEEDS

All proceeds from the sale of our common stock covered by this prospectus will belong to the selling stockholder upon the sale of its shares. We will not receive any proceeds from the sale of the common stock by the selling stockholder.

DIVIDEND POLICY

We declared no dividends on our common stock in 2004 or 2003. We do not intend to pay cash dividends in the foreseeable future, however, we will periodically review this issue in the future based on changes in our financial position and investment opportunities, as well as any changes in the tax treatment of dividends.

PRICE RANGE OF COMMON STOCK

Our common stock is traded on the Nasdaq National Market under the symbol NEWP. As of February 28, 2005, we had 1,198 common stockholders of record based upon the records of our transfer agent which do not include beneficial owners of common stock whose shares are held in the names of various securities brokers, dealers and registered clearing agencies. The following table reflects the high and low sales prices of our common stock for each quarterly period during the last two completed fiscal years:

Quarter Ended	High	Low

January 1, 2005	$ 14.37	$ 10.96
October 2, 2004	15.83	11.05
July 3, 2004	17.73	13.74
April 3, 2004	22.33	15.25
December 31, 2003	17.57	14.14
September 30, 2003	19.18	14.02
June 30, 2003	16.67	11.41
March 31, 2003	14.99	10.49

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SELECTED CONSOLIDATED FINANCIAL DATA

The table below presents selected consolidated financial data of Newport and our subsidiaries as of and for the years ended January 1, 2005 and December 31, 2003, 2002, 2001 and 2000. The consolidated balance sheet data as of January 1, 2005 and December 31, 2003, and the consolidated statement of operations data for the years ended January 1, 2005, December 31, 2003 and December 31, 2002 have been derived from our audited consolidated financial statements included in this prospectus. The consolidated balance sheet data as of December 31, 2002, 2001 and 2000 and the consolidated statement of operations data for the years ended December 31, 2001 and December 31, 2000 have been derived from our audited consolidated financial statements not included in this prospectus.

The selected consolidated financial data set forth below should be read in conjunction with our consolidated financial statements and related notes thereto and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

		As of or for the Years Ended December 31,			
	January 1,				
(In thousands, except percentages)	**2005**	**2003**	**2002**	**2001**	**2000**
	(1)(2)		**(3)**	**(4)**	**(4)**
CONSOLIDATED STATEMENTS OF OPERATIONS:					
Net sales	**$ 285,781**	$ 134,789	$ 163,994	$ 289,963	$ 262,597
Cost of sales **(5)**	**200,667**	90,746	138,183	192,698	138,539
Gross profit	**85,114**	44,043	25,811	97,265	124,058
Selling, general and administrative expense	**77,873**	43,573	50,222	57,311	51,453
Research and development expense	**26,096**	18,145	24,383	26,073	21,682
Restructuring, impairment and other charges **(6)**	**61,362**	1,705	11,883	11,584	-
Acquisition and other non-recurring charges **(7)**	**-**	-	-	10,683	-
Operating income (loss)	**(80,217)**	(19,380)	(60,677)	(8,386)	50,923
Interest and other income (expense), net	**(560)**	8,013	10,269	13,786	6,041
Investment write-downs **(8)**	**(1,419)**	-	(6,490)	-	-
Income (loss) from continuing operations before income taxes	**(82,196)**	(11,367)	(56,898)	5,400	56,964
Income tax provision (benefit) **(9)**	**(1,328)**	(812)	14,011	1,929	12,936
Income (loss) from continuing operations	**(80,868)**	(10,555)	(70,909)	3,471	44,028
Loss from discontinued operations, net of income taxes **(10)**	**(568)**	(2,605)	(15,209)	(9,743)	(2,055)
Cumulative effect of a change in accounting principle **(11)**	**-**	-	(14,500)	-	-
Net income (loss)	**$ (81,436)**	$ (13,160)	$ (100,618)	$ (6,272)	$ 41,973
Percentage of net sales:					
Gross profit	**29.8%**	32.7%	15.7%	33.5%	47.2%
Selling, general and administrative expense	**27.3**	32.3	30.6	19.8	19.6
Research and development expense	**9.1**	13.5	14.9	9.0	8.2
Restructuring, impairment and other charges	**21.5**	1.3	7.2	3.9	-
Acquisition and other non-recurring charges	**-**	-	-	3.7	-
Operating income (loss)	**(28.1)**	(14.4)	(37.0)	(2.9)	19.4
Income (loss) from continuing operations	**(28.3)**	(7.9)	(43.2)	1.2	16.8

Net income (loss)	**(28.5)**	(9.8)	(61.4)	(2.2)	16.0

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(In thousands, except per share and worldwide employment figures)	**January 1, 2005**	**As of or for the Years Ended December 31, 2003**	**2002**	**2001**	**2000**
PER SHARE INFORMATION: (12)					
Basic and diluted income (loss) per share:					
Earnings (loss) per share, basic:					
Income (loss) from continuing operations	**$ (1.98)**	$ (0.27)	$ (1.87)	$ 0.10	$ 1.32
Loss from discontinued operations, net of income taxes	**(0.01)**	(0.07)	(0.40)	(0.27)	(0.07)
Cumulative effect of a change in accounting principle	**-**	-	(0.38)	-	-
Net income (loss)	**$ (1.99)**	$ (0.34)	$ (2.65)	$ (0.17)	$ 1.25
Earnings (loss) per share, diluted:					
Income (loss) from continuing operations	**$ (1.98)**	$ (0.27)	$ (1.87)	$ 0.09	$ 1.23
Loss from discontinued operations, net of income taxes	**(0.01)**	(0.07)	(0.40)	(0.26)	(0.06)
Cumulative effect of a change in accounting principle	**-**	-	(0.38)	-	-
Net income (loss)	**$ (1.99)**	$ (0.34)	$ (2.65)	$ (0.17)	$ 1.17
Shares used in computation of income (loss) per share:					
Basic	**40,838**	38,685	37,970	36,405	33,464
Diluted	**40,838**	38,685	37,970	37,830	35,835
Dividends paid	**$ -**	$ -	$ -	$ 0.01	$ 0.02
Total stockholders equity per diluted share	**$ 10.17**	$ 11.33	$ 11.76	$ 12.93	$ 13.56
BALANCE SHEET INFORMATION:					
Cash and marketable securities	**$ 108,182**	$ 267,302	$ 284,313	$ 281,601	$ 306,642
Working capital	**179,503**	324,825	333,393	389,318	426,294
Total assets	**578,468**	468,219	486,338	543,877	557,020
Short-term obligations	**17,186**	-	-	-	-
Long-term obligations (includes obligations under capital leases)	**48,453**	1,884	3,444	9,598	17,130
Stockholders equity	**415,509**	438,409	446,517	489,007	485,965
MISCELLANEOUS STATISTICS:					
Common shares outstanding **(12)**	**43,023**	39,033	38,560	36,693	36,196
Annual average worldwide employment	**1,499**	999	1,276	1,515	1,170
Sales per employee	**$ 191**	$ 135	$ 129	$ 191	$ 224

(1) Effective in 2004, we changed to a conventional 52/53-week accounting fiscal year. Our fiscal year ends on the Saturday closest to December 31, and our fiscal quarters end on the Saturday closest to the end of each corresponding calendar quarter. Fiscal year 2004 (referred to herein as 2004) ended on January 1, 2005 and fiscal years 2003, 2002, 2001 and 2000 ended on December 31 of each respective year.

(2) In July 2004, we acquired Spectra-Physics, Inc. and certain related entities. The transaction was accounted for using the purchase method. See further discussion in Note 2 of Notes to Consolidated Financial Statements.

(3) In February 2002, we acquired all of the issued and outstanding capital stock of Micro Robotics Systems, Inc. The transaction was accounted for using the purchase method. See further discussion in Note 2 of Notes to Consolidated Financial Statements.

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(4) In February 2001, we acquired Kensington Laboratories, Inc. (KLI). The KLI acquisition was accounted for as a pooling of interests for all periods presented. In February 2001, we acquired Design Technology Corporation (DTC), a systems integrator specializing in the use of robotics and flexible automation solutions for manufacturing processes. The DTC acquisition was accounted for using the purchase method. In August 2000, we acquired Unique Equipment Co., (Unique), a systems integrator specializing in the use of robotics for the fiber optics and semiconductor industries. The Unique acquisition was accounted for as a pooling of interests for all periods presented.

(5) For 2004, cost of sales includes $3.3 million in asset impairment charges. For 2002 and 2001, cost of sales includes inventory reserves of $28.7 million and $22.7 million, respectively, related to restructuring activities. See further discussion in Note 4 of the Notes to Consolidated Financial Statements.

(6) For all years presented, such amounts include restructuring, asset impairment, including goodwill, and other charges. For 2002 to 2004, see further discussion in Note 4 of the Notes to Consolidated Financial Statements.

(7) Amount for 2001 includes $9.2 million for investment banking, legal and accounting fees related to our acquisition of KLI and a charge of $1.5 million related to accelerated vesting of stock options held by a retiring officer.

(8) Includes write-downs of minority interest investments due to other-than-temporary impairments in value. See further discussion in Note 3 of the Notes to Consolidated Financial Statements.

(9) We established a valuation allowance in 2002 against our deferred tax assets, due to uncertainty as to the timing and ultimate realization of those assets. See further discussion of income taxes in Note 9 of the Notes to Consolidated Financial Statements.

(10) In 2002, our Board of Directors approved a plan to sell our operation in Plymouth, Minnesota and our Industrial Metrology Systems Division (IMSD). Both of these divestitures have been accounted for as discontinued operations for all periods presented. See further discussion in Note 2 of the Notes to Consolidated Financial Statements.

(11) The cumulative effect of a change in accounting principle reflects our adoption of Statement of Financial Accounting Standards No. 142 as of January 1, 2002, which resulted in an impairment charge of $14.5 million. See further discussion in Note 1 of Notes to Consolidated Financial Statements.

(12) Share and per share amounts have been adjusted to reflect the May 2000 three-for-one stock split.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with Selected Consolidated Financial Data and our consolidated financial statements and related notes appearing elsewhere in this prospectus. This discussion and analysis contains forward-looking statements that involve risks and uncertainties. We base these statements on assumptions that we consider reasonable. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors including, but not limited to, those discussed in the sections of this prospectus entitled Risk Factors and Business and elsewhere in this prospectus.

Overview

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

Acquisitions

In July 2004, we acquired all of the issued and outstanding capital stock of Spectra-Physics, Inc. and certain related entities (collectively, Spectra-Physics). Spectra-Physics manufactures high-power solid-state, gas and dye lasers, high-power laser diodes and ultrafast laser systems, as well as other photonics components and devices used in a wide range of applications, including scientific research, industrial and microelectronics manufacturing and analytical instrumentation for life and health sciences. The transaction was accounted for using the purchase method. Our results of operations for 2004 included the results of operations of Spectra-Physics from the date of acquisition on July 16, 2004. The acquisition has more than doubled our size in terms of revenue, number of employees and operating facilities. Accordingly, comparisons of financial results with the corresponding amounts in prior periods may not be meaningful. See further discussion in Note 2 of the Notes to Consolidated Financial Statements included elsewhere in this prospectus.

In February 2002, we acquired Micro Robotics Systems, Inc. (MRSI), a manufacturer of high-precision, automated assembly and dispensing systems. The transaction was accounted for using the purchase method. Our results of operations for 2002 included the results of operations of MRSI from the date of acquisition on February 15, 2002. See further discussion in Note 2 of the Notes to Consolidated Financial Statements included elsewhere in this prospectus.

This discussion includes the effects of the acquisitions of Spectra-Physics and MRSI from their respective dates of acquisition.

Divestitures

In August 2002, to increase the efficiency of our product development and manufacturing efforts, our Board of Directors approved management s plan to sell our operation in Plymouth, Minnesota, which manufactured high-precision motion stages for the semiconductor equipment, computer peripheral, fiber optic communications and life and health sciences markets. In the first quarter of 2003, due to the weak response from potential buyers, we shut down the operation and liquidated the majority of the remaining assets. This operation was included in our former Industrial and Scientific Technologies Division.

In March 2002, to more efficiently deploy our resources to those areas that are critical to product development efforts for our strategic markets, our Board of Directors approved management s plan to sell our Industrial Metrology Systems Division (IMSD), including the business of CEJohansson AB, a Sweden-based global supplier of advanced metrology systems that we acquired in December 2000. The sale of IMSD was substantially completed in 2002. In February 2005, we settled an outstanding dispute with the purchaser of a portion of IMSD, resulting in a charge to discontinued operations of approximately $0.6 million in the fourth quarter of 2004.

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Both of these divestitures have been accounted for as discontinued operations for all periods presented.

Fiscal Year End

Effective in 2004, we changed to a conventional 52/53-week accounting fiscal year. Our fiscal year ends on the Saturday closest to December 31, and our fiscal quarters end on the Saturday closest to the end of each corresponding calendar quarter. Fiscal year 2004 (referred to herein as 2004) ended on January 1, 2005 and fiscal years 2003 and 2002 ended on December 31, 2003 and 2002, respectively.

End Markets

In connection with our acquisition of Spectra-Physics in the third quarter of 2004, we realigned our end markets into four customer markets: scientific research, aerospace and defense/security; microelectronics (which is comprised primarily of semiconductor capital equipment customers); life and health sciences; and all other end markets (which includes general industrial and fiber optic communications customers). Our discussion of our results of operations includes comparisons within these end markets and our results for the fiscal years ended December 31, 2003 and 2002 have been reclassified to conform to this realignment.

Critical Accounting Policies and Estimates

Management s Discussion and Analysis of Financial Condition and Results of Operations is based on our consolidated financial statements included in this prospectus, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and related disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. On an ongoing basis, we evaluate these estimates and assumptions, including those related to allowance for doubtful accounts, inventory reserves, warranty obligations, restructuring reserves, asset impairment valuations, pension liabilities and income tax valuations. We base these estimates on historical experience and on various other factors which we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. These estimates and assumptions by their nature involve risks and uncertainties, and may prove to be inaccurate. In the event that any of our estimates or assumptions are inaccurate in any material respect, it could have a material adverse effect on our reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

The following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

We recognize revenue after title to and risk of loss of products have passed to the customer (which typically occurs upon shipment), or delivery of the service has been completed, provided that persuasive evidence of an arrangement exists, the fee is fixed or determinable and collectibility is probable. We recognize revenue and related costs for arrangements with multiple deliverables, such as equipment and installation, as each element is delivered or completed based upon its relative fair value, determined based upon the price that would be charged on a standalone basis. However, if a portion of the total contract price is not payable until installation is complete, we defer revenue up to the amount that is not payable. We defer revenues for training until the service is completed. We recognize revenue for extended service contracts over the related contract periods.

Our customers generally have 30 days from the original invoice date (generally 60 days for international customers) to return a standard catalog product purchase for exchange or credit. Catalog products must be returned in the original condition and meet certain other criteria. Product returns of catalog items have historically been insignificant and are charged against revenue in the period returned. Custom, option-configured and certain other

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products as defined in the terms and conditions of sale cannot be returned. For certain non-catalog products, we establish a sales return reserve based on the historical product returns.

Accounts and Notes Receivable

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

Certain of our Japanese customers provide us with promissory notes on the due date of the receivable. The payment date of the promissory notes is generally 90 days from the original receivable due date. Subsequently, certain of these promissory notes are sold with recourse to one of four banks within Japan that we do business with as part of line of credit agreements. Such transactions are conducted in the ordinary course of business. For balance sheet presentation purposes, amounts due to us under such promissory notes are reclassified from accounts receivable to current notes receivable. At January 1, 2005, total promissory notes receivable amounted to $6.9 million. Promissory notes sold with recourse are included in both *notes receivable, net* and *short-term obligations* until the underlying note obligations are ultimately satisfied by payment of the note obligation by the customers to the banks. At January 1, 2005, such discounted note obligations included in *short-term obligations* were $4.3 million. We did not have any notes receivable or notes sold with recourse outstanding at December 31, 2003.

Pension Plans

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

Inventories

We state our inventories at the lower of cost (determined on either a first in, first-out (FIFO) or average cost basis) or fair market value and include materials, labor and manufacturing overhead. We write down excess and obsolete inventory to net realizable value. In assessing the ultimate realization of inventories, we make judgments as to future demand requirements and compare those requirements with the current or committed inventory levels. We record any amounts required to reduce the carrying value of inventory to net realizable value as a charge to cost of sales.

Warranty

Unless otherwise stated in our product literature or in our agreements with our customers, products sold by our Photonics and Precision Technologies Division generally carry a one-year warranty from the original invoice date on all product material and workmanship. Products of such division sold to original equipment manufacturer (OEM) customers generally carry longer warranties, typically 15 to 24 months. Products sold by our Lasers Division generally carry warranties that vary by product and product component, but generally range from 90 days to two years. In certain cases, such warranties are limited by amount of usage of the product. Defective products will be either repaired or replaced, generally at our option, upon meeting certain criteria. We accrue a provision for the estimated costs that may be incurred for product warranties relating to a product as a component of cost of sales at the time revenue for that product is recognized. While we engage in extensive product quality programs and processes, including actively monitoring and evaluating the quality of our component suppliers, our warranty obligations are affected by product failure rates, material usage and service delivery costs incurred in correcting a product failure. Should actual product failure rates, material usage and/or service delivery costs differ from our

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estimates, revisions to the estimated warranty obligation would be required which could adversely affect our operating results.

Impairment of Assets

We assess the impairment of long-lived assets whenever events or changes in circumstances indicate that their carrying value may not be recoverable. The determination of related estimated useful lives and whether or not these assets are impaired involves significant judgments, related primarily to the future profitability and/or future value of the assets. Changes in our strategic plan and/or market conditions could significantly impact these judgments and could require adjustments to recorded asset balances. We hold minority interests in companies having operations or technologies in areas which are within or adjacent to our strategic focus when acquired, all of which are privately held and whose values are difficult to determine. We record an investment impairment charge in any reporting period where we believe an investment has experienced a decline in value that is other than temporary. Future changes in our strategic direction, adverse changes in market conditions or poor operating results of underlying investments could result in losses or an inability to recover the carrying value of the investments that may not be reflected in an investment s current carrying value, thereby possibly requiring an impairment charge in the future.

We perform annual impairment tests of our goodwill and other intangible assets in accordance with Statement of Financial Accounting Standards (SFAS) No. 142, *Goodwill and Other Intangible Assets*. Under SFAS No. 142, goodwill is no longer amortized but is subject to impairment tests based upon a comparison of the fair value of each of our reporting units, as defined, and the carrying value of the reporting units net assets, including goodwill. SFAS No. 142 requires a review of goodwill and other intangible assets for impairment at least annually or when circumstances exist that would indicate an impairment of such goodwill or other intangible assets. We perform the annual impairment review as of the beginning of the fourth quarter of each year.

Income Taxes

We provide for income taxes based on the estimated effective income tax rate for the complete fiscal year. The income tax provision (benefit) is computed on the pretax income (loss) of the consolidated entities located within each taxing jurisdiction based on current tax law. Deferred taxes result from the future tax consequences associated with temporary differences between the recorded amounts of our assets and liabilities for tax and financial accounting purposes. A valuation allowance for deferred tax assets is recorded to the extent we cannot determine, in accordance with the provisions of SFAS No. 109, *Accounting for Income Taxes*, that the ultimate realization of the net deferred tax assets is more likely than not.

We currently have significant deferred tax assets, which are subject to periodic recoverability assessments. We recorded a valuation reserve in the third quarter of 2002 against our deferred tax assets pursuant to SFAS No. 109, due to the uncertainty as to the timing and ultimate realization of those assets. As such, we did not recognize any tax benefit on the losses recorded in 2003 and recorded a valuation allowance against deferred tax assets for the current period. For the foreseeable future, the Federal tax provision related to future earnings will be substantially offset by a reduction in the valuation reserve, and any future pretax losses will not be offset by a tax benefit due to the uncertainty of the recoverability of the deferred tax assets. Accordingly, future tax expense will consist primarily of certain required state income taxes and taxes in certain foreign jurisdictions.

Realization of our deferred tax assets is principally dependent upon our achievement of future taxable income, the estimation of which requires significant management judgment. Our judgments regarding future profitability may change due to many factors, including future market conditions and our ability to successfully execute our business plans and/or tax planning strategies. These changes, if any, may require material adjustments to these deferred tax asset balances.

Acquired deferred tax assets and liabilities, and liabilities for prior tax returns at the date of purchase are based on management s best estimate of the ultimate settlement that will be accepted by the tax authorities. Management continually evaluates these matters. At the date of a material change in management s best estimate of items relating to an acquired entity s prior tax returns, and at the date that the items are settled with the tax authorities, any

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liability previously recognized is adjusted to increase or decrease the remaining balance of goodwill attributable to that acquisition.

In connection with the acquisition of Spectra-Physics, we acquired $25.4 million in domestic deferred tax liabilities and $9.4 million in domestic deferred tax assets. The acquired net deferred tax liability of $16.0 million reduced our previously recorded net deferred tax asset accordingly. The remainder of these deferred taxes were recorded as a reduction to goodwill.

On March 6, 2002, Congress passed the Job Creation and Worker Assistance Act of 2002 (2002 Tax Act). As part of the 2002 Tax Act, the carryback period for net operating losses increased from two to five years. As a result of the tax law change, federal net operating loss carryback benefits relating to the loss sustained during the year ended December 31, 2001 increased by approximately $3.5 million. Such amounts have been included in the federal benefits amount reported for the year ended December 31, 2002.

On October 22, 2004, the American Jobs Creation Act of 2004 (AJCA) was signed into law. The AJCA provides several incentives for US multinational corporations and US manufacturers, Subject to certain limitations, the incentives include an 85% dividends received deduction for certain dividends from controlled foreign corporations that repatriate accumulated income abroad, and a deduction for domestic qualified production activities taxable income. The US Treasury Department is expected to issue guidance with regards to these provisions. Until this guidance is issued, we will not be able to evaluate whether to take advantage of this opportunity and the potential impact on our income tax provision, if any.

We are routinely under audit by federal, state or foreign tax authorities. These audits include questioning the timing and amount of deductions, the nexus of income among various tax jurisdictions and compliance with federal, state and local tax laws. In evaluating the exposure associated with various tax filing positions, we often accrue charges for probable exposures. During 2004, we concluded a number of tax examinations with favorable results. Therefore, during the annual evaluation of tax positions for 2004, we decreased the amount previously accrued for probable exposures. At January 1, 2005, we believe that we have appropriately accrued for probable exposures. To the extent we were to prevail in matters for which accruals have been established or be required to pay amounts in excess of reserves, our effective tax rate in a given financial statement period could be materially affected.

Accrued Restructuring Costs

2004 Restructuring Plan

In connection with the acquisition of Spectra-Physics, we began to formulate a restructuring plan in the third quarter of 2004 to consolidate certain locations and such preliminary plan was approved by our Board of Directors. We are still finalizing this plan with respect to the employee severance, relocation and facility closure costs required for certain locations. Changes in these costs with respect to Spectra-Physics locations will result in adjustments to goodwill. We expect to finalize such plan by the end of the second quarter of 2005.

This plan currently includes $2.2 million for employee relocation and employee severance and related termination costs and $3.2 million related to facility consolidations. The employee severance and relocation actions will involve approximately 100 to 125 employees across all functions and are expected to be completed by the end of 2005.

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The following table summarizes the activity in accrued restructuring costs related to the purchase of Spectra-Physics that involve the payment of cash:

(In thousands)	Employee Relocation and Severance	Facility Consolidation	Total
Liabilities assumed in purchase accounting	**$ 2,171**	**$ 3,186**	**$ 5,357**
Cash payments	**(484)**	**-**	**(484)**
Accrued restructuring at January 1, 2005	**$ 1,687**	**$ 3,186**	**$ 4,873**

The facility consolidation costs will be paid over the associated lease terms, which expire at various dates between 2007 and 2011. At January 1, 2005, $2.1 million of these accrued restructuring costs were expected to be paid within one year and are included in current liabilities in *accrued restructuring costs* and $2.8 million of accrued restructuring costs are included in long-term liabilities in *accrued restructuring costs and other liabilities*.

2002 Restructuring Plan

During 2002, in response to the continued severe downturn in the fiber optic communications market and the uncertainty with respect to the pace of recovery in the semiconductor equipment market, our Board of Directors approved a restructuring and cost reduction plan designed to bring our operating costs in line with our business outlook at that time.

The following table summarizes the activity in accrued restructuring costs related to our 2002 restructuring plan:

(In thousands)	Employee Severance	Facility Consolidation	Other	Total
Accrued restructuring at December 31, 2001	$ 1,900	$ 3,397	$ -	$ 5,297
Restructuring and asset impairment charges	3,079	9,151	203	12,433
Cash payments	(3,221)	(1,790)	(127)	(5,138)
Non-cash write-offs	-	(5,872)	(196)	(6,068)
Reversal of excess 2001 reserves	-	(550)	-	(550)
Reclassifications	-	(120)	120	-
Accrued restructuring at December 31, 2002	1,758	4,216	-	5,974
Restructuring and asset impairment charges	-	651	-	651
Cash payments	(2,343)	(2,595)	-	(4,938)
Reclassifications	585	(585)		-
Accrued restructuring at December 31, 2003	-	1,687	-	1,687
Restructuring and asset impairment charges	**-**	**589**	**-**	**589**
Cash payments	**-**	**(1,443)**	**-**	**(1,443)**
Accrued restructuring at January 1, 2005	**$ -**	**$ 833**	**$ -**	**$ 833**

As of January 1, 2005, $0.8 million of facility-related accruals remained under our 2002 restructuring plan. The facility consolidation reserves will be paid over the associated lease terms, which expire at various dates between 2005 and 2008. At January 1, 2005 and December 31, 2003, $0.6 million and $1.1 million, respectively, of accrued restructuring costs were expected to be paid within one year and are included in current liabilities in *accrued restructuring costs*, and $0.2 million and $0.6 million, respectively, of accrued restructuring costs are included in long-term liabilities in *accrued restructuring costs and other liabilities*. Under our 2002 restructuring plan, we terminated a total of 331 employees, all of whom had been terminated by December 31, 2003.

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Results of Operations for the Years Ended January 1, 2005, December 31, 2003 and December 31, 2002

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

	Percentage of Net Sales For the Years Ended		
	January 1, 2005	**December 31, 2003**	**December 31, 2002**
Net sales	**100.0%**	100.0%	100.0%
Cost of sales	**70.2**	67.3	84.3
Gross profit	**29.8**	32.7	15.7
Selling, general and administrative expense	**27.3**	32.3	30.6
Research and development expense	**9.1**	13.5	14.9
Restructuring, impairment and other charges	**21.5**	1.3	7.2
Operating loss	**(28.1)**	(14.4)	(37.0)
Interest and other income (expense), net	**(0.2)**	5.9	6.3
Investment write-downs	**(0.5)**	-	(4.0)
Loss from continuing operations before income taxes	**(28.8)**	(8.5)	(34.7)
Income tax provision (benefit)	**(0.5)**	(0.6)	8.5
Loss from continuing operations	**(28.3)**	(7.9)	(43.2)
Loss from discontinued operations, net of income taxes	**(0.2)**	(1.9)	(9.3)
Cumulative effect of a change in accounting principle	**-**	-	(8.9)
Net loss	**(28.5)%**	(9.8)%	(61.4)%

Net Sales

For 2004, 2003 and 2002, our net sales totaled $285.8 million, $134.8 million and $164.0 million, respectively. Net sales for 2004 increased $151.0 million, or 112.0%, compared with 2003. The sales increase was due primarily to the addition of Spectra-Physics sales from the acquisition date of July 16, 2004, which contributed $106.6 million. In addition, our existing businesses saw significant sales increases compared with 2003 in each of our primary end markets, which totaled $44.4 million, a 32.9% increase compared with 2003. Net sales for 2003 decreased $29.2 million, or 17.8%, compared with 2002. The decrease in net sales was due primarily to reductions in sales to the microelectronics market and the fiber optic communications market, both of which experienced significant downturns from 2002 levels, as well as to reductions in sales to our other end markets due to generally weak macro-economic conditions, offset in part by a slight increase in sales to the life and health sciences market.

Net sales to the scientific research, aerospace and defense/security markets were $104.0 million, $49.1 million and $51.1 million for 2004, 2003 and 2002, respectively. Net sales to these markets in 2004 increased by $54.9 million, or 111.8%, compared with 2003. The increase was due primarily to the acquisition of Spectra-Physics, which contributed $44.1 million. The increases were also attributable to sales increases in our existing businesses which totaled $10.8 million, a 22.0% increase compared with 2003, due to the overall strength of the economy, our further penetration of the research market, sales of the new products we released during 2003 and 2004, and greater governmental spending on research, defense and homeland security, which led to higher demand for the components and subsystems we sell to customers in these markets. Net sales

for 2003 decreased $2.0 million, or 3.9%, compared with 2002, due primarily to generally weaker macro-economic conditions.

Net sales to the microelectronics market were $95.5 million, $51.3 million and $65.8 million for 2004, 2003 and 2002, respectively. Net sales to this market in 2004 increased by $44.2 million, or 86.2%, compared with 2003. The increase was due in part to sales increases in our existing businesses which totaled $22.3 million, a 43.5% increase compared with 2003, due to heightened demand by semiconductor manufacturers for capital equipment,

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which led to higher demand for the components, subsystems and robots we sell to this market, offset in part by a reduction in sales of the turnkey systems we sell to back-end packaging customers in this market. In addition, our acquisition of Spectra-Physics contributed $21.9 million to our net sales to this market in 2004. Sales to this market in 2003 decreased $14.5 million, or 22.0%, compared with 2002. The decline reflected weakness in demand by semiconductor manufacturers for capital equipment, which led to a significant reduction in demand for the components, subsystems, robots and turnkey systems that we sell to this market, offset in part by the inclusion of sales from MRSI, which we acquired in February 2002.

Net sales to the life and health sciences market were $40.1 million, $10.8 million and $8.6 million for 2004, 2003 and 2002, respectively. Net sales to this market in 2004 increased by $29.3 million, or 271.3%, compared with 2003. The increase in 2004 was due primarily to the acquisition of Spectra-Physics, which contributed $24.3 million. In addition, our existing businesses saw sales increases to this market totaling $5.0 million, a 46.3% increase compared with 2003, due primarily to higher sales of products to one of our largest customers in this market. Net sales to this market in 2003 increased by $2.2 million, or 25.6%, in 2003 compared with 2002. This increase was due primarily to higher sales of products to one of our largest customers in this market in 2003.

Net sales to our other end markets were $46.2 million, $23.6 million and $38.5 million for 2004, 2003 and 2002, respectively. Net sales to this market in 2004 increased by $22.6 million, or 95.8%, compared with 2003. The increase was due primarily to the acquisition of Spectra-Physics, which contributed $16.3 million. In addition, our existing businesses saw sales increases to these markets totaling $6.3 million, a 26.7% increase compared with 2003, due primarily to the overall strength of the economy. Sales to these markets in 2003 decreased $14.9 million, or 38.7%, compared with 2002. The reduction in sales was due primarily to weak overall macro-economic conditions and a continued decline in sales to industrial customers supporting the telecommunications industry.

Domestic and international sales by end market were as follows:

Domestic Sales:	**Year Ended**			
	January 1,	**December 31,**		**Percentage**
(In thousands)	**2005**	**2003**	**Increase**	**Increase**
Scientific research, aerospace and defense/security	**$ 53,333**	$ 27,405	$ 25,928	94.6%
Microelectronics	**79,758**	45,391	34,367	75.7
Life and health sciences	**27,316**	9,815	17,501	178.3
Other end markets	**17,463**	9,774	7,689	78.7
Total domestic sales	**$ 177,870**	$ 92,385	$ 85,485	92.5%

International Sales:	**Year Ended**			
	January 1,	**December 31,**		**Percentage**
(In thousands)	**2005**	**2003**	**Increase**	**Increase**
Scientific research, aerospace and defense/security	**$ 50,672**	$ 21,730	$ 28,942	133.2%
Microelectronics	**15,729**	5,868	9,861	168.0
Life and health sciences	**12,776**	1,018	11,758	1,155.0
Other end markets	**28,734**	13,788	14,946	108.4
Total international sales	**$ 107,911**	$ 42,404	$ 65,507	154.5%

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Domestic Sales:

(In thousands)	Year Ended December 31, 2003	December 31, 2002	Increase	Percentage Increase
Scientific research, aerospace and defense/security	$ 27,405	$ 28,458	$ (1,053)	(3.7)%
Microelectronics	45,391	60,200	(14,809)	(24.6)
Life and health sciences	9,815	7,306	2,509	34.3
Other end markets	9,774	20,272	(10,498)	(51.8)
Total domestic sales	$ 92,385	$ 116,236	$ (23,851)	(20.5)%

International Sales:

(In thousands)	Year Ended December 31, 2003	December 31, 2002	Increase	Percentage Increase
Scientific research, aerospace and defense/security	$ 21,730	$ 22,599	$ (869)	(3.8)%
Microelectronics	5,868	5,589	279	5.0
Life and health sciences	1,018	1,299	(281)	(21.6)
Other end markets	13,788	18,271	(4,483)	(24.5)
Total international sales	$ 42,404	$ 47,758	$ (5,354)	(11.2)%

Geographically, net sales to European customers were $56.5 million, $25.4 million and $29.8 million for 2004, 2003 and 2002, respectively. Net sales to European customers increased $31.1 million, or 122.4%, in 2004 compared with 2003, and decreased $4.4 million, or 14.8%, in 2003 compared with 2002. Net sales to Pacific Rim customers were $40.2 million, $13.5 million and $13.2 million for 2004, 2003 and 2002, respectively. Net sales to Pacific Rim customers increased $26.7 million, or 197.8%, in 2004 compared with 2003, and increased $0.3 million, or 2.3%, in 2003 compared with 2002. Net sales to other international customers were $11.2 million, $3.5 million and $4.8 million for 2004, 2003 and 2002, respectively. Net sales to other international customers increased $7.7 million, or 220.0%, in 2004 compared with 2003, and decreased $1.3 million, or 27.1%, in 2003 compared with 2002. The increase in sales to international customers in 2004 compared with 2003 was due primarily to the addition of Spectra-Physics sales from the July 16, 2004 acquisition date, which contributed $55.9 million to international sales in 2004. In addition, our existing businesses saw sales increases to international customers totaling $9.6 million, a 22.6% increase compared with 2003. The decline in sales to international customers in 2003 compared with 2002 was due primarily to decreases in sales to our end markets as described above, primarily sales to customers in the fiber optic communications market.

The results of our international operations are subject to currency fluctuations. As the value of the U.S. dollar weakens relative to other currencies, sales in those currencies convert to more U.S. dollars; conversely, when the value of the U.S. dollar strengthens relative to other currencies, sales in those countries convert to fewer U.S. dollars. Currency fluctuations did not have a material impact on our results for 2004 compared with 2003 and 2002.

We expect net sales to be flat to down slightly in the first quarter of 2005 compared with the fourth quarter of 2004 due to the continuing softness in the microelectronics market and the historical seasonality in the scientific research market, offset by increases in sales to our other markets. However, our business is subject to risks arising from market conditions in our primary end markets, as well as from general economic conditions.

We expect that our sales to the scientific research, aerospace and defense/security markets will be flat to down slightly in the first quarter of 2005 compared with the fourth quarter of 2004 due to the record fourth quarter sales level and the historical seasonality in the scientific research market. Overall, we expect that our sales to these markets will fluctuate from period to period in line with changes in overall research and defense spending levels, but will increase over time as we increase our penetration of these markets.

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We expect our sales to the microelectronics market to decrease slightly in the first quarter of 2005 compared with the fourth quarter of 2004 and remain flat to slightly down for the next few quarters thereafter, consistent with the overall trend in this market. However, the duration and extent of this downturn is difficult to predict and represents a significant uncertainty with respect to our future operating results.

We expect our sales to the life and health sciences market for the first quarter of 2005 to be flat to up slightly compared with the fourth quarter of 2004 due to increased sales to one of our largest customers in this market. In general, we expect our sales to this market to fluctuate on a quarter to quarter basis in the short term due to our concentration of significant OEM customers in this market, but to increase over time as we increase our penetration of this market.

Gross Margin

Gross margin was 29.8%, 32.7% and 15.7% for 2004, 2003 and 2002, respectively. Gross margin for 2004 was positively impacted by the addition of Spectra-Physics sales, which carried higher overall gross margins, from the July 16, 2004 acquisition date, but this impact was more than offset by charges to cost of sales for acquisition, integration and other items. These included $8.6 million, or 3.0% of net sales, related to the sale of acquired inventory that had been written up to an amount that includes a normal selling margin in accordance with SFAS No. 141, *Business Combinations*, and sold during the second half of 2004. These also included a charge of $9.4 million, or 3.3% of net sales, that was comprised of $4.7 million of inventory associated primarily with certain discontinued product lines that we reserved for and are in the process of disposing of, and $4.7 million for inventory that we wrote off and disposed of in 2004 due to facility consolidations. In addition, gross margins in 2004 were negatively impacted by charges to cost of sales of $1.8 million related to the impairment of certain intangible assets of our APAS division and $1.5 million related to the impairment of an intellectual property intangible asset. These impairment charges are discussed in more detail in Note 4, Restructuring, Impairment and Other Charges, of the Notes to Consolidated Financial Statements included elsewhere in this prospectus.

Our overall gross margins in 2003 were negatively impacted by previously capitalized underabsorbed overhead costs. Products sold in 2003 were produced during periods in which substantial unabsorbed overhead costs were allocated to inventory. These variances, which were caused primarily by lower sales volume and production activity, were capitalized when the inventory was produced and are charged to cost of sales when the related products are sold. The negative effect of these capitalized variances was offset in part by the cost reduction actions that we implemented during the second half of 2002 and throughout 2003, including facility consolidations and headcount reductions. Gross margin for 2002 included charges to cost of sales for increased inventory reserves of $28.7 million, or 17.5% of net sales, as part of the 2002 cost reduction plans discussed previously. In addition to the increased inventory reserve charge, 2002 gross margins were also negatively impacted by underabsorbed overhead costs caused by significantly lower overall sales volume and lower fixed overhead absorption in 2002, offset in part by lower sales to OEM customers.

In the next several quarters, we expect gross margins to continue to improve from the 2004 levels, due primarily to reduced levels of inventory write-offs and previously capitalized variances, and to the positive effects of adding the results of Spectra-Physics, which generally has higher overall gross margins, for a full year. In addition, we expect gross margins to be positively impacted by the results of our integration actions due to increased manufacturing efficiencies.

Selling, General and Administrative (SG&A) Expense

SG&A expense totaled $77.9 million, or 27.3% of net sales, $43.6 million, or 32.3% of net sales, and $50.2 million, or 30.6% of net sales of 2004, 2003 and 2002, respectively. The increase in absolute dollars in 2004 compared with 2003 was attributable primarily to the addition of

$22.6 million of SG&A expense of Spectra-Physics from the acquisition date of July 16, 2004 and to $3.2 million of amortization of acquired intangible assets related to the acquisition. The remainder of the increase in SG&A expense in 2004 compared with 2003 was attributable primarily to an increase in variable selling expenses and incentive compensation associated with the

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higher sales volume, increased accounting and auditing fees due to our increased size, and outside consulting fees related to compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

SG&A expense for 2002 included expenses in the third quarter of $2.5 million, or 1.5% of net sales, for costs incurred in connection with our cost reduction initiatives. The decrease in absolute dollars in 2003 compared with 2002 was attributable primarily to the impact of the significant cost reduction actions we commenced in 2003. The benefits of these cost reduction actions were offset in part by the inclusion of a full year of SG&A expense relating to MRSI, which we acquired in February 2002, and for which there was not a full year of costs in 2002, and by higher legal expenses incurred in 2003 to protect our intellectual property.

We expect that SG&A expense for the first quarter of 2005 will again be impacted significantly by acquisition and integration charges. In general, we expect that SG&A expense will fluctuate as a percentage of sales in the future based on our sales level in any given period. Because the majority of our SG&A expense is fixed in the short term, these fluctuations will likely not be in proportion to the changes in net sales.

Research and Development (R&D) Expense

R&D expense totaled $26.1 million or 9.1% of net sales, $18.1 million, or 13.5% of net sales and $24.4 million, or 14.9% of net sales, for 2004, 2003 and 2002, respectively. R&D expense increased $8.0 million, or 44.2%, in 2004 compared with 2003. This increase was attributable primarily to the addition of expenses for Spectra-Physics from the acquisition date of July 16, 2004, which were $9.6 million, offset in part by reductions in R&D spending in the fiber optic communications area, as well as by the results of our efforts to maximize the focus and efficiency of our R&D activities.

R&D expense decreased $6.3 million, or 25.8%, in 2003 compared with 2002. This decrease was attributable primarily to reductions in R&D spending in the fiber optic communications area, as well as our efforts to maximize the focus and efficiency of our R&D efforts, offset in part by the inclusion of a full year of R&D expenses associated with the operations of MRSI, for which there was not a full year of costs in 2002.

We expect that R&D expense in the first quarter of 2005 will be comparable with the fourth quarter level. We believe that the continued development and advancement of our key products and technologies is critical to our future success, and we intend to continue to invest in key R&D initiatives, while working to ensure that the efforts are focused and the funds are deployed efficiently. In general, we expect that R&D expense as a percentage of net sales will fluctuate in the future based on our sales level in any given period. Because of our commitment to continued product development, and because the majority of our R&D expense is fixed in the short term, these fluctuations will likely not be in proportion to the changes in net sales.

Restructuring, Impairment and Other Charges

Restructuring, impairment and other charges totaled $61.4 million, $1.7 million and $11.9 million for 2004, 2003, and 2002, respectively. The following table summarizes these charges:

	Years Ended		
(In thousands)	**January 1, 2005**	**December 31, 2003**	**December 31, 2002**
Asset impairment, including goodwill	**$ 59,804**	$ -	$ -
2002 restructuring plan charge	**589**	651	11,883
Severance	**969**	1,054	-
	$ 61,362	$ 1,705	$ 11,883

In the fourth quarter of 2004, we completed our annual review of goodwill and other intangible assets and determined that goodwill and other intangible assets at our Advanced Packaging and Automation Systems Division were impaired. In addition, in the third and fourth quarters of 2004, we reviewed fixed assets at facilities impacted

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by the integration of Spectra-Physics and identified duplicate and unnecessary assets. As a result of these actions, we recorded restructuring, impairment and other charges in 2004 for impairment of goodwill and other acquired assets of approximately $59.8 million.

During 2002, in response to the continued severe downturn in the fiber optic communications market and the uncertainty with respect to the pace of recovery in the semiconductor equipment market, our Board of Directors approved a restructuring and cost reduction plan designed to bring our operating costs in line with our business outlook at that time. In connection with this plan, we recorded a charge of $11.9 million in 2002. In 2004 and 2003, we increased our estimate of the required reserve for facility consolidations under this plan by $0.6 million and $0.7 million, respectively, to reflect settlements of our remaining lease obligations for certain leases as well as revised estimates of future sublease income.

Restructuring, impairment and other charges in 2004 also included severance costs of $1.0 million for cost reduction actions taken in 2004 as part of the integration of Spectra-Physics. Such charges for 2003 included severance costs of $1.0 million for cost reduction actions taken in 2003 for employees that were not included in the original 2002 restructuring charge.

These restructuring, impairment and other charges are discussed in more detail in Note 4, Restructuring, Impairment and Other Charges, of the Notes to Consolidated Financial Statements included elsewhere in this prospectus.

Interest and Other Income (Expense), Net

Interest and other expense, net, totaled $0.6 million for 2004, compared with interest and other income, net of $8.0 million and $10.3 million for 2003 and 2002, respectively. Interest and other expense, net was negatively impacted in 2004 compared with 2003 by lower interest income earned due to lower yields on cash and marketable securities and lower overall balances of cash and marketable securities due to the cash paid to fund the cash portion of the purchase price for Spectra-Physics. In addition, such amount was negatively impacted by increased interest expense due to the debt issued to fund the purchase price of Spectra-Physics and interest expense on lines of credit we assumed in the acquisition. Interest and other expense, net in 2004 was also negatively impacted by a charge of $1.7 million for losses on sales of marketable securities prior to their maturity in order to fund the cash portion of the purchase price for Spectra-Physics. The decrease in interest and other income, net in 2003 compared with 2002 was due primarily to lower interest earned due to lower yields on cash and marketable securities.

We expect to incur interest and other expense, net, in future periods, due primarily to interest expense incurred on short-term and long-term debt, offset in part by interest earned on cash and marketable securities.

Investment Write-Downs

In 2004, we determined that a minority interest investment made in prior years in a manufacturer of precision mechanical components had incurred an other-than-temporary reduction in value. As a result, we recorded a charge of $1.4 million to write down the investment to its estimated fair value.

In 2002, two fiber optic component manufacturers in which we had made minority interest investments in prior years experienced severe financial difficulties. Each manufacturer has shut down its operations and liquidated its assets. As a result, we recorded a charge of $6.5 million to write down these investments to their estimated fair value.

Income Taxes

Our effective tax rates from continuing operations were 1.6%, 7.1% and (24.6%) for 2004, 2003 and 2002, respectively. During 2004, the Internal Revenue Service and the California Franchise Tax Board completed certain examinations of MRSI. Based on the favorable conclusions of these examinations, we recorded a reduction in MRSI s tax contingency reserve of approximately $3.0 million. The net income tax benefit of $1.3 million recorded

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in 2004 was attributable to this reduction in tax contingency reserve, offset in part by certain required state income taxes and taxes in certain foreign jurisdictions.

In 2003, we recorded an income tax benefit of $0.8 million, compared with a $14.0 million income tax expense in 2002. The income tax benefit in 2003 was attributable to Federal income tax refunds and refundable foreign income tax incentives related to research and development, and to the favorable settlement of various IRS examinations. The income tax expense in 2002 resulted from a valuation allowance that was recorded against a portion of our deferred tax assets pursuant to SFAS No. 109, due to the uncertainty as to the timing and ultimate realization of those assets. As such, we did not recognize any tax benefit on the losses recorded in these periods.

We have recorded a valuation reserve against our deferred tax assets pursuant to SFAS No. 109, due to the uncertainty as to the timing and ultimate realization of those assets. As such, for the foreseeable future, the Federal tax provision related to future earnings will be substantially offset by a reduction in the valuation reserve, and any future pretax losses will not be offset by a tax benefit due to the uncertainty of the recoverability of the deferred tax assets. Accordingly, we expect that current and future tax expense will consist primarily of certain required state income taxes and taxes in certain foreign jurisdictions.

Selected Quarterly Financial Data

The following table presents selected quarterly financial data for each full quarter within the two most recent fiscal years. The information for each of these periods is unaudited and has been prepared on the same basis as our audited consolidated financial statements included elsewhere in this prospectus. In the opinion of management, all necessary adjustments, which consist only of normal and recurring adjustments, have been included to present fairly the unaudited quarterly results. This data should be read in conjunction with the consolidated financial statements and the notes thereto included elsewhere in this prospectus. These operating results are not indicative of the expected results of any future period.

	Unaudited			
(In thousands)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Year Ended January 1, 2005 (1):				
Net sales	**$ 42,399**	**$ 47,500**	**$ 93,635**	**$ 102,247**
Gross profit	**14,248**	**16,797**	**23,836**	**30,233**
Net income (loss) (3)	**1,141**	**2,707**	**(18,531)**	**(66,753)**
Basic and diluted net income (loss) per share (2) (3)	**0.03**	**0.07**	**(0.44)**	**(1.56)**
Year Ended December 31, 2003:				
Net sales	$ 33,304	$ 33,781	$ 31,479	$ 36,225
Gross profit	11,050	11,544	10,260	11,189
Net loss (3)	(5,869)	(2,352)	(2,925)	(2,014)
Basic and diluted net income (loss) per share (2) (3)	(0.15)	(0.06)	(0.08)	(0.05)

(1) Our results of operations for 2004 include the results of operations of Spectra-Physics from the date of acquisition on July 16, 2004.
(2) Net income (loss) per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly per share information may not equal the annual loss per share.

(3) Amounts include restructuring, impairment and other charges. See further discussion in Note 4 of the Notes to the Consolidated Financial Statements.

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Liquidity and Capital Resources

Net cash provided by our operating activities of $17.8 million for 2004 was attributable primarily to the cash provided by our results of operations, a decrease in inventories and an increase in accounts payable and accrued expenses due to the timing of payments, offset in part by an increase in accounts and notes receivable as a result of higher sales at the end of the fourth quarter and cash paid for accrued restructuring costs.

Net cash provided by investing activities of $5.1 million for 2004 consisted primarily of net proceeds from the sale of marketable securities of $190.4 million, offset by net cash used in the acquisition of Spectra-Physics of $179.0 million and net purchases of property, plant and equipment of $6.0 million.

Net cash provided by financing activities of $4.8 million for 2004 consisted of proceeds of $4.5 million received from the issuance of common stock in connection with stock option and employee stock purchase plans and net proceeds from short-term borrowings of $0.6 million, offset in part by payments of capital lease obligations of $0.3 million.

At January 1, 2005, we had cash and cash equivalents of $41.4 million and marketable securities of $66.7 million. The majority of these securities are invested in one portfolio managed by a professional investment management firm, under the oversight of our senior financial management team. This portfolio manager invests the funds allocated in accordance with our Investment Policy, which is reviewed regularly by our senior financial management and the Audit Committee of our Board of Directors. In 2004, we used approximately $179 million of cash to acquire Spectra-Physics, and we used additional cash for acquisition, integration and related items. We expect that our cash balances will fluctuate in the future based on factors such as cash used in or provided by ongoing operations, acquisitions or divestitures, investments in other companies, share repurchases, capital expenditures and contractual obligations, and changes in interest rates.

At January 1, 2005, we had in place a $5.0 million revolving line of credit expiring December 1, 2005. Certain of the marketable securities that are being managed by the lending institution collateralize the line of credit. The line bears interest at either the prevailing prime rate, or the prevailing London Interbank Offered Rate (2.39% at January 1, 2005) plus 1.5%, at our option, and an unused line fee of 0.25% per year. At January 1, 2005, there were no balances outstanding under the line of credit, with $2.3 million available under the line, after considering outstanding letters of credit totaling approximately $2.7 million.

At January 1, 2005, we had in place two revolving lines of credit totaling 1.5 billion yen ($14.4 million at January 1, 2005) at two Japanese banks expiring as follows: $10.6 million on November 30, 2005 and $3.8 million on March 31, 2005. The lines are not secured and bear interest at the prevailing bank rate. At January 1, 2005, we had $12.9 million outstanding under these lines of credit, with $1.5 million available for borrowing. In addition, we had in place four lines of credit totaling 800 million yen ($7.7 million at January 1, 2005) to be used to sell notes receivable with recourse at four Japanese banks. These lines have no expiration date and bear interest at the bank s prevailing rate. At January 1, 2005, we had $4.3 million outstanding under these lines, with $3.4 million available for the sale of notes receivable. The weighted average interest rate on all borrowings on these lines under these lines was 1.6%.

In July 2004, as part of the purchase price for Spectra-Physics, we issued an unsecured promissory note to Thermo Electron Corporation in the principal amount of $50 million, which bears interest at 5% per annum, payable quarterly, and is due and payable in full on July 16, 2009.

In 2003, we announced that our Board of Directors had approved a share repurchase program. The Board authorized us to purchase up to 3.9 million shares, or 10% of our then outstanding stock. The purchases may be made from time to time in the open market or in privately negotiated transactions, and the timing and amount of the purchases will be based on factors including our share price, cash balances, expected cash requirements and general business and market conditions. During 2003, we repurchased 285,529 shares under this program at a cost of $4.5 million. We did not make any purchases under this program in 2004, and any future purchases will depend on the aforementioned factors.

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We lease certain of our manufacturing and office facilities and equipment under non-cancelable operating leases, certain of which contain renewal options. In addition to the base rent, we are generally required to pay insurance, real estate taxes and other operating expenses and, in some cases, additional rentals based on increases in the Consumer Price Index.

As of January 1, 2005, we had no material purchase obligations. Our long-term debt, and capital and operating lease obligations at January 1, 2005 are summarized as follows:

(In thousands)	Capital Leases	Operating Leases	Long-Term Debt	Total Obligations
Payments Due By Period:				
2005	$ 259	$ 9,755	$ -	$ 10,014
2006	177	8,045	-	8,222
2007	177	6,219	-	6,396
2008	177	4,480	-	4,657
2009	177	2,949	50,000	53,126
Thereafter	1,592	7,793	-	9,385
Total minimum lease payments	2,559	$ 39,241	$ 50,000	$ 91,800
Less amount representing interest	(822)			
Present value of net minimum capital lease payments	$ 1,737			

We believe our current working capital position, together with our expected future cash flows from operations will be adequate to fund our operations in the ordinary course of business, anticipated capital expenditures, debt payment requirements and other contractual obligations for the foreseeable future. However, this belief is based upon many assumptions and is subject to numerous risks (see Risk Factors on pages 2-11), and there can be no assurance that we will not require additional funding in the future.

We have no present agreements or commitments with respect to any material acquisitions of other businesses, products, product rights or technologies or any material capital expenditures. However, we will continue to evaluate acquisitions of and/or investments in products, technologies, capital equipment or improvements or companies that complement our business and may make such acquisitions and/or investments in the future. Accordingly, there can be no assurance that we will not need to obtain additional sources of capital in the future to finance any such acquisitions and/or investments. We cannot assure you that any such financing would be available, or that, if available, such financing would be obtainable on terms favorable to us and would not be dilutive.

New Accounting Standards

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 123R, *Share-Based Payment*. SFAS No. 123R requires employee stock options and rights to purchase shares under stock participation plans to be accounted for under the fair value method, and eliminates the ability to account for these instruments under the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, and allowed under the original provisions of SFAS No. 123. SFAS No. 123R requires the use of an option pricing model for estimating fair value, which is amortized to expense over the option vesting periods. The requirements of SFAS No. 123R are effective for fiscal periods beginning after June 15, 2005. We are currently assessing the impact that the adoption of SFAS No. 123R will have on our consolidated results of operations. Although the assessment is ongoing, management believes the impact will be material to our consolidated results of operations. If we had applied the provisions of SFAS No. 123R to the financial statements for the period ended January 1, 2005, our net loss would have been increased by approximately $16.6 million. However, due to the alternative option pricing models and assumptions, the lower

numbers of options granted in recent years, and the lower valuations of such options compared with options granted previously, this figure will likely not be representative of the impact to future results of operations. SFAS No. 123R allows for either prospective recognition of compensation expense or retrospective recognition. The retrospective method may be applied either to all prior years in which SFAS No. 123

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was effective or only to prior interim periods in 2005 before adoption of SFAS No. 123R. We are currently evaluating these transition methods.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs An Amendment of ARB No. 43, Chapter 4*. SFAS No. 151 clarifies that abnormal amounts of idle facility expense, freight, handling costs and spoilage should be expensed as incurred and not included in overhead. Further, SFAS No. 151 requires that allocation of fixed and production facilities overhead to conversion costs should be based on the normal capacity of the production facilities. The provisions in SFAS No. 151 are effective for inventory costs incurred during fiscal years beginning after June 15, 2005. We are currently evaluating the impact of the adoption of this standard, but we do not believe that the adoption of SFAS No. 151 will have a significant effect on our results of operations or financial position.

In March 2004, the FASB approved the consensus reached on the Emerging Issues Task Force (EITF) Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*. It provides guidance for identifying other-than-temporarily impaired investments. EITF 03-1 also provides new disclosure requirements for investments that are deemed to be temporarily impaired. In September 2004, the FASB issued a FASB Staff Position (FSP) EITF 03-1-1 that delays the effective date of the measurement and recognition guidance in EITF 03-1 until further notice. The disclosure requirements of EITF 03-1 were effective for annual financial statements with fiscal years ending after December 15, 2003 and are reflected in our consolidated financial statements and related notes included in this prospectus. After the FASB reaches a final decision on the measurement and recognition provisions, we will evaluate the impact of the adoption of the accounting provisions of EITF 03-1.

In December 2003, the FASB issued SFAS No. 132R, *Employers Disclosures about Pensions and Other Postretirement Benefits*. The statement provides disclosure requirements for defined benefit pension plans and other post-retirement benefit plans. The statement was effective for annual financial statements with fiscal years ending after December 15, 2003, and for interim periods beginning after December 15, 2003. We adopted SFAS No. 132R during 2004. The adoption of SFAS No. 132R did not have any impact on our results of operations or financial position.

Quantitative and Qualitative Disclosures About Market Risk

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

Foreign Currency Risk

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

From time to time we use forward exchange contracts to mitigate the risks associated with certain foreign currency transactions entered into in the ordinary course of business, primarily foreign currency denominated receivables and payables. We do not engage in currency speculation. The forward exchange contracts generally require us to exchange U.S. dollars for foreign currencies at maturity, at rates agreed to at inception of the contracts. If the counterparties to the exchange contracts (AA or A+ rated banks) do not fulfill their obligations to deliver the contracted

currencies, we could be at risk for any currency related fluctuations. Transaction gains and losses are included in our current net loss in our statement of operations. Net foreign exchange gains and losses were not material to our reported results of operations for the last three years.

Our operating income from international operations totaled $5.1 million in 2004, and our operating loss from international operations was $0.6 million and $0.1 million for 2003 and 2002, respectively. As currency exchange

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

Changes in currency exchange rates that would have the largest impact on translating our future international operating profit include the euro, British pound, Japanese yen, Canadian dollar and Taiwan dollar. We estimate that a 10% change in foreign exchange rates would not have had a material effect on our reported net loss for the year ended January 1, 2005. We believe that this quantitative measure has inherent limitations because, as discussed in the first paragraph of this section, it does not take into account any governmental actions or changes in either customer purchasing patterns or financing and operating strategies.

Interest Rate Risk

The interest rates we pay on certain of our debt instruments are subject to interest rate risk. Our collateralized line of credit bears interest at either the prevailing prime rate, or the prevailing London Interbank Offered Rate plus 1.5%, at our option. Our investments in marketable securities, which totaled $66.7 million at January 1, 2005, are sensitive to changes in the general level of U.S. interest rates. We estimate that a 10% change in the interest rate earned on our investment portfolio or a 10% change in interest rates on our line of credit would not have had a material effect on our net loss for 2004.

The sensitivity analyses described in the interest rate and foreign exchange discussions above disregard the possibility that rates can move in opposite directions and that gains from one category may or may not be offset by losses from another category and vice versa.

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BUSINESS

General Description of Business

We are a global supplier of advanced technology products and systems to a wide range of industries, including microelectronics manufacturing, scientific research, aerospace and defense/security, life and health sciences and communications.

In July 2004, we acquired all of the issued and outstanding capital stock of Spectra-Physics, Inc. and certain related entities (collectively, Spectra-Physics). Spectra-Physics manufactures high-power solid-state, gas and dye lasers, high-power laser diodes, and ultrafast laser systems, as well as photonics instruments and components, including light sources, monochromators, spectroscopy instrumentation, optical filters, ruled and holographic diffraction gratings and crystals. We have incorporated Spectra-Physics laser and laser-related technology business into our new Lasers Division, and we have combined Spectra-Physics photonics businesses with our former Industrial and Scientific Technologies Division to create our new Photonics and Precision Technologies Division.

As a result of the Spectra-Physics acquisition, we now provide a significantly expanded product portfolio to our newly-aligned target customer end markets: scientific research, aerospace and defense/security; microelectronics (which is comprised primarily of semiconductor capital equipment customers); life and health sciences; and all other end markets (which includes general industrial and fiber optic communications customers). This extensive portfolio enables us to offer our customers an end-to-end resource for products that make, manage and measure light. We provide:

- high-power solid-state, gas and dye lasers and laser technology used in a wide array of applications, including scientific research, industrial and microelectronics manufacturing and life and health sciences;
- components and integrated subsystems to manufacturers of semiconductor processing equipment, biomedical instrumentation and medical devices;
- advanced automated assembly and test systems for manufacturers of communications and electronics devices; and
- a broad array of high-precision systems, components and instruments to commercial, academic and government customers worldwide.

Our products leverage our expertise in laser technology, photonics instrumentation, precision robotics and automation, sub-micron positioning systems, vibration isolation, and optical subsystems and are designed to enhance the capabilities and productivity of our customers manufacturing, engineering and research applications.

For over three decades we have serviced the needs of research laboratories for precision equipment. Since 1991, we have acquired a series of companies to expand our product offerings, technology base and geographic presence. Through these acquisitions and our internal development efforts, we have evolved from a provider of discrete components and instruments for research applications to a company that manufactures both components and integrated systems for research and commercial applications. In particular, during 2001, we acquired Kensington Laboratories, Inc. (KLI), a manufacturer of high-precision robotic and motion control equipment primarily for the semiconductor equipment industry, and

during 2002 we acquired Micro Robotics Systems, Inc. (MRSI), a manufacturer of high-precision, fully-automated assembly and dispensing systems for back-end packaging applications in the semiconductor, microwave communications and fiber optic communications markets. The acquisition of Spectra-Physics significantly increased the scope of our expertise and product offerings in our target customer end markets, and approximately doubled our size with respect to revenue, number of employees and facilities. We will continue to pursue acquisitions of companies, technologies and complementary product lines that we believe will provide us with key technologies, give us access to new markets or otherwise further our strategic objectives. Conversely, from time to time we review our different businesses, including our acquired companies, to ensure that they are key to our strategic plans, and close or divest businesses that we determine are no longer of

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strategic importance. See Management s Discussion and Analysis of Financial Condition and Results of Operations Overview above, and Note 2 of the Notes to Consolidated Financial Statements beginning on page F-13 of this prospectus.

Products and Services

We develop and sell a broad range of lasers, components, instruments, subsystems and systems to markets where high-precision, efficient manufacturing, test, measurement and assembly are critical. Our products are used in mission-critical applications in industries including microelectronics manufacturing, aerospace and defense/security, life and health sciences and fiber optic device manufacturing. We also provide high-performance lasers, components, instruments and subsystems to commercial, academic and governmental research institutions worldwide. We develop, manufacture and market our products within three distinct business segments: Lasers, Photonics and Precision Technologies and Advanced Packaging and Automation Systems.

Lasers Division

Our Lasers Division offers a broad array of laser technology products and services with diverse applications to OEM and end-user customers in the scientific research, microelectronics, life and health sciences and industrial manufacturing markets. Our lasers and laser-based systems include ultrafast lasers and amplifiers, diode-pumped solid-state lasers, diode lasers, high-energy pulsed lasers, tunable lasers, air-cooled ion lasers, water-cooled ion lasers and nitrogen lasers. We have established close relationships with OEM customers involved in microelectronics, life and health sciences, analytical instrumentation and industrial manufacturing. In addition to supplying our existing lasers and laser systems to these customers, we also work closely with our OEM and industrial customers to develop laser and laser system designs optimized for their product and technology roadmaps. In addition to our OEM services, we offer a full a range of laser technology solutions and accessories to our end-user customers, from complex laser systems to gas and diode lasers.

Markets and Applications

The breadth of our laser technology addresses a wide range of applications. These include scientific research, microelectronics, life and health sciences, image recording and graphics, aerospace and defense/security, industrial manufacturing, marking and engraving.

Scientific Research. We are one of the world s leading suppliers of scientific lasers, with a forty-year history of working closely with the research community to pioneer new applications and technologies. Today, as a leader in ultrafast laser technology, we continue to break new ground in a variety of scientific research areas, including spectroscopy, ultrafast phenomena, multiphoton microscopy, terahertz imaging, optical coherence tomography, laser induced fluorescence, light detection and ranging, nonlinear optics, particle imaging velocimetry and laser cooling.

Microelectronics. Laser technology addresses a wide range of vital applications in the semiconductor and microelectronics market, from front-end yield management to back-end advanced packaging. Laser technology is also a key enabler of achievement of the industry roadmap of smaller feature sizes with increased functionalities. Our air-cooled ion, solid-state and ultrafast lasers are used in data storage, wafer inspection, semiconductor metrology, dynamic random access memory (DRAM) and static random access memory (SRAM) repair, lithography, wafer and component marking, resistor trimming, printed circuit board and flat panel display manufacturing applications.

Life and Health Sciences. Laser technology is widely used in the life and health sciences market, and we provide products for use in both biomedical diagnostic and analytical instrumentation and medical cosmetic and therapeutic applications. Our solid-state, ultrafast, gas and high-energy pulsed lasers are used in applications such as multiphoton and confocal microscopy, flow cytometry, matrix-assisted laser desorption/ionization time-of-flight (MALDI-TOF), laser microdissection, DNA microarrays and blood analysis to enable advancements in the fields of molecular biology, proteomics and drug discovery.

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Cosmetic and therapeutic applications are typically addressed with our diode lasers and include hair removal and a variety of dermatological and dental procedures.

Image Recording and Graphics. Our laser technology offers cost-effective light sources for image recording and graphics. Our product applications include pre-press, on-press, ultra-high speed printing, photo finishing, film subtitling and holography.

Aerospace and Defense/Security. Our Lasers Division has been providing rugged, reliable and precise products to the United States military and other government branches for more than forty years. Our laser products are used in target recognition and acquisition, light detection and ranging (LIDAR), range-finding, missile guidance and advanced weapons development. In addition, our forensic green continuous wave laser offers crime scene investigators and security experts an essential tool to uncover evidence in the laboratory or in the field, by illuminating fingerprints and other biomaterial.

Industrial Manufacturing, Marking and Engraving. Lasers are widely used in a number of industrial manufacturing applications. Our products are used in the areas of rapid prototyping, micromachining, heat-treating, welding and soldering, cutting, illumination, drilling and printing. We also offer laser solutions for high-precision marking and engraving.

Products

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

Category	Products	Representative Applications
Ultrafast Lasers & Systems	Mai Tai® one box femtosecond Ti:sapphire lasers	Femtosecond spectroscopy
	Tsunami® ultrafast Ti:sapphire lasers	Materials processing
	Opal® femtosecond optical parametric oscillator (OPO)	Multiphoton microscopy
	Spitfire® Pro ultrafast Ti:sapphire amplifier	Optical coherence tomography
	Eclipse ultrafast amplifier	Semiconductor metrology

Terahertz imaging

Optical parametric amplifier systems

Time-resolved photoluminescence

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Category	Products	Representative Applications
Diode Pumped Solid State Q-Switched Lasers	BL series low power Q-switched lasers	Diamond processing
	V-Xtreme Q-switched neodymium yttrium aluminum garnet (Nd:YAG) lasers	Laser zone texturing
		Memory repair
	Navigator I and II Q-switched lasers	
		Microelectronics material processing
	HIPPO diode pumped solid state Q-switched lasers	
		Rapid prototyping
	DisQ-Mark thin-disk lasers	
		Resistor trimming
	Empower series pulsed green lasers	
		Sapphire scribing
		Silicon micromachining
		Solar cell scribing and cutting
		Wafer marking
		Pump source for Ti:sapphire lasers
Diode Pumped Solid State Continuous Wave (CW) and Quasi-CW Lasers	MG series CW solid state green lasers	Film subtitling

	ZLM modulated CW lasers	Flow cytometry
	3900S CW tunable Ti:sapphire lasers	Image recording
	Millennia® Pro i/s CW lasers	Materials processing
	Vanguard quasi-CW solid state lasers	Raman imaging
		Semiconductor wafer inspection and metrology
		Spectroscopy
Diode Lasers (Semiconductor)	Open heatsink diode laser bars	Graphics and printing
	Multi-bar modules	Hair removal
	Fiber-coupled diode laser bars	Material heat treatment and processing
	Fiber-coupled single emitter diodes	Medical therapeutic and cosmetic procedures
	Open heatsink single emitter diodes	Pump source for solid state lasers
	Integra industrial diode laser systems	Soldering and welding

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Category	Products	Representative Applications
High Energy Pulsed Nd:YAG & Tunable Lasers	Pro series pulsed Nd:YAG lasers	Flat-panel display manufacturing
	PIV series Nd:YAG lasers	Laser ablation
	INDI series compact Nd:YAG lasers	Laser cleaning
	LAB Series Nd:YAG lasers	LIDAR
	MOPO® Series High Energy optical parametric oscillator (OPO)	Mass spectrometry
	Sirah dye lasers	Particle imaging velocimetry combustion diagnostics
		Plastic and ceramic components marking
		Remote sensing
		Spectroscopy
Air-Cooled Ion Lasers	117 frequency-stabilized helium neon lasers	Confocal microscopy
	161 air-cooled ion lasers	DNA sequencing
	163 Advantage lasers	Flow cytometry

	163-FBR coupled Advantage lasers	Graphic arts and photo-processing
	177 air-cooled ion lasers	Laser doppler anemometry
	Solano air-cooled ion systems	Particle analysis
		Raman spectroscopy
		Semiconductor wafer inspection
		Spectroscopy
Water-Cooled Ion Lasers	BeamLok® argon ion, krypton and mixed gas laser systems	Confocal microscopy
	Stabilite® mixed gas ion lasers	Flow cytometry
		Laser-doppler velocimetry
		Laser light entertainment
		Light scattering
		Lithography
		Holography
		Spectroscopy
Nitrogen Lasers	337-Si OEM nitrogen lasers	Fluorescence immunoassay

Dye lasers	Fluorescence microscopy
VSL-337 series nitrogen lasers	Laser microdissection
	Matrix-assisted laser desorption/ionization
	Spectroscopy

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Photonics and Precision Technologies Division

Our Photonics and Precision Technologies Division s products and systems are used across a wide range of markets in applications that range from basic research and development activities to high-precision manufacturing. In addition, we sell subsystems to third parties that integrate our products into larger systems, particularly for semiconductor manufacturing and life and health sciences applications. With the acquisition of Spectra-Physics, we added the Oriel line of photonics instruments and components, including light sources, monochromators and spectroscopy instrumentation, as well as thin-film optical filters, ruled and holographic diffraction gratings and crystals. The division also offers automated and manually operated equipment used to assemble and test fiber optic telecommunications and data communications devices, addressing applications from pre-test to assembly and packaging to final device testing.

Our photonics and precision products address markets including semiconductor capital equipment, scientific research, aerospace and defense/security, life and health sciences and communications. We believe that purchasers of our Photonics and Precision Technologies Division s products develop an appreciation for the quality of our products which makes them more likely to buy integrated, automated systems from us as their needs for production and test systems grow. In addition to the products that are developed and manufactured by this division, we also distribute certain products that are developed and manufactured by third parties on a private label basis. This allows us to select best-in-breed products in these product lines, and to maximize the efficiency of our research and development efforts.

The following table summarizes some of our Photonics and Precision Technologies Division s product offerings by product category, and includes representative applications for each category:

Category	Products	Representative Applications
Photonics Instruments and Systems	Power meters	Measurement of optical power for free space and fiber-directed laser light
	Laser diode instruments	Current drivers and temperature controllers for maintaining stability of laser diodes
	Light sources	
	Optical spectrum analyzers	Characterization of light emitted by lasers, light emitting diodes and broadband light sources
	Photonics test systems	Testing and characterization of optical fibers and passive fiber optic components
	Optical detectors	

	Chemical composition analysis
Spectrometers and spectrographs	
	Colorimetry
Monochromators	
Ultrafast laser pulse measurement systems	Manual to fully automated assembly and packaging of fiber optic components, using welding, soldering and epoxy attachment techniques
Fiber alignment and attachment systems	

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Category	Products	Representative Applications
Precision Micro-Positioning Devices, Systems and Subsystems	Precision air bearing stages	Precision positioning of semiconductor wafers for metrology and fabrication
	Motion systems	Sample sorting and sequencing for DNA research
	Linear and rotational stages	High-precision positioning and motion control apparatus for manufacturing and test applications
	Vertical translation stages	Tracking and targeting test systems for aerospace and defense/security applications
	Multi-axis positioning systems	Precision alignment in fiber optic, telecommunication and laser device assembly
	Actuators	Laser system alignment and beam steering for inspection, laser processing and communications
	Simple and programmable motion controllers for linear stepping and direct current (DC) motors and piezo devices	
	Manual fiber optic positioners	
Vibration Isolation Systems and Subsystems	Optical benches and support systems	Isolated platform for semiconductor lithography equipment
	Workstations	Foundation platforms for laser systems
	Active and passive isolation systems	Reduction of impact of external forces on high-precision research, manufacturing test and assembly systems
	Honeycomb, granite and rigid structures	

Elastomeric mounts	Scanning electron microscope/atomic force microscope base isolation
	Workstation platforms for fiber optic device fabrication

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Category	Products	Representative Applications
Optics and Optical Hardware	Lenses	Components for research and product development activities
	Mirrors	Analytical instrumentation for life and health sciences
	Prisms and windows	Laser systems
	Thin-film filters and coatings	Deep ultraviolet illumination optics for semiconductor lithography
	Filters and attenuators	Semiconductor wafer and mask inspection
	Collimators	Manual, high-precision alignment of optical instruments
	Ultrafast laser optics	Electro-optical research
	Beamsplitters and polarization optics	Electro-optic sensors and imaging systems for defense/security applications
	Ruled and holographic diffraction gratings	Optical measurement and communications systems
	- Echelles	Spectroscopy
	- Reflection	Ultrafast laser, terahertz imaging and laser fusion research
	- Transmission	

	- Plano	
	- Concave	
	Optical mounts	
	Bases and brackets	
	Posts and rod systems	
	Laser-to-fiber couplers	
	Educational kits	
Opto-Mechanical Subassemblies and Subsystems	Laser beam delivery and imaging assemblies	Semiconductor wafer defect inspection
	Integrated electro-optic-mechanical subsystems	Semiconductor mask patterning
	Objective lens systems	Optical coherence tomography for non-invasive diagnostics
	Refractive beam shaper assemblies	Thin film measurement of semiconductor wafers
	Fast steering mirrors	Laser beam stabilization for industrial metrology applications
	Laser beam attenuators	High-speed cell sorting for genomic research
		Analytical instrumentation for life and health sciences

Light detection and ranging

Optical data storage

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Category	Products	Representative Applications
Crystals	Optical crystals	X-ray imaging for security, industrial and medical applications
	Scintillation crystals	Infrared spectroscopy (FTIR) for quality assurance
	Crystal imaging arrays	X-ray detection such as steel thickness gauging
	Electro optics	Optical and acoustic applications including frequency doubling, optical modulators and Q switches

Subassemblies

We offer subassemblies that are a value-added combination of standard and custom products drawn from our lasers, precision components, optics, motion control and vibration isolation product lines. We combine these items with additional engineering to create more highly integrated products to meet customer needs. These products are often subsystems of our OEM customers products. We believe that this subassembly capability gives us a significant competitive advantage by differentiating us from competitors that offer a more limited product selection. We have used our capabilities in this area to develop and supply subassemblies to customers in a number of industries, most notably semiconductor equipment and life and health sciences. These products range from low level subassemblies to complete finished products.

Fiber Optic Device Engineering Services

Our experience in fiber optic device assembly, packaging and testing technology provides us with the expertise in the processes and technologies necessary to build high-precision fiber optic components. We apply this expertise to assist our customers in designing device packaging, developing manufacturing processes, developing and producing tooling and programming customized process automation software. These services help customers significantly reduce the development cycle for their products and improve the productivity, yields and quality of their manufacturing processes. In addition to helping customers become more productive, these services assist us in establishing a long-term relationship with our customers and allow us to identify additional opportunities for new products. We also offer device manufacturing and packaging services to enable customers to design and test new products. We believe that the extent of our capabilities and services in this area provides us with a key competitive advantage over other capital equipment suppliers to this market.

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Advanced Packaging and Automation Systems Division

Within the semiconductor industry, the manufacturing of integrated circuits is often divided into two areas front-end wafer processing and back-end packaging. Our Advanced Packaging and Automation Systems Division offers a broad array of automation subsystem products for semiconductor front-end wafer processing applications, and also supplies complete turnkey systems for advanced back-end packaging applications. These high-performance products provide our customers with the speed, accuracy, repeatability and dependability required for high-throughput production environments.

Semiconductor Front-End Technologies

Our Advanced Packaging and Automation Systems Division offers a variety of products for front-end semiconductor process applications, including automated wafer handling subsystems such as atmospheric robots, load ports and wafer alignment stations, as well as a family of equipment front end modules (EFEMs), which are an integrated combination of our subsystem products.

Atmospheric Wafer Handling Robots. We sell a full range of atmospheric robots that automate the handling of semiconductor wafers in the ultra-clean environment of a process or inspection tool. We hold a number of issued and pending patents on state-of-the-art edge-gripping robotic end effectors that are critical to enabling semiconductor equipment manufacturers to efficiently and reliably handle 300-millimeter wafers without contacting the backside of the wafer, an important technique in reducing particle contamination and the resultant yield losses. Our wafer handling robots also feature our patented automated teaching technology, which allows the robot to be programmed more accurately and more consistently, reducing setup time. All of our 300-millimeter wafer handling robots incorporate our patented optical sensing technology in the end effector to maximize the accuracy of the robot while simplifying the setup and calibration process.

Load Ports. Our automatic door opener system (ADO) is a load port for 300-millimeter wafers that serves as the physical interface between a process or inspection tool and the fabrication environment, allowing wafers to be efficiently and reliably loaded into the tool while maintaining an ultra-clean environment. The ADO is easy to install, conforms to industry standards, and is compatible with popular wafer transport pods, known in the industry as front-opening universal pods, or FOUPs. We hold a number of issued and pending patents on various features of this technology, including our latchkey opening mechanism, our wafer scanning mechanism and our alignment technique. The ADO provides throughput performance that is among the highest in the industry under Class 1 clean room conditions.

Wafer Alignment Stations. Our edge-gripping wafer prealigner is a patented design based on our innovative edge-grip wafer handling technology. This product enables our customers to rapidly and precisely align 300-millimeter wafers prior to insertion into the process or inspection module of the capital equipment, without contacting the backside of the wafer. This reduces losses due to particle contamination of the wafer, helping to improve process yields.

EFEMs. Our EFEM products combine our wafer handling robots, tracks, load ports and wafer prealigners with additional software and hardware engineering to produce an integrated front-end to our customers equipment. The EFEMs incorporate the patented automated teaching, wafer scanning and alignment features of our robot and load port products, require no factory adjustment and can be installed on our customers equipment in the field.

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Advanced Packaging Systems

We offer a line of automated chip assembly equipment, including die bonding and flip chip bonding systems, as well as epoxy-dispensing and flip chip underfill systems, that are used to manufacture microwave, optical, radio frequency (RF) and multi-chip modules.

Automated Assembly Systems. Our MRSI-605 AP Ultra-Precise Assembly Work Cell provides users with a high-speed, high-precision solution for the automated assembly of a variety of microelectronic and optoelectronic devices, such as microwave modules, optical modules, hybrid circuits and multichip modules. We also offer the MRSI-5005 OPTO Optical Assembly Work Cell, which is specially designed to produce extremely precise placements required for certain photonics applications.

Automated Dispensing Systems. Our MRSI-175 family of products provides users with high-speed, high-performance solutions for a range of automated dispensing applications. The MRSI-175Ag Conductive Epoxy Dispensing System is designed to provide the process control and dispensing capability required for demanding applications such as microwave modules, optical modules, hybrid circuits, multichip modules and semiconductor packaging. The MRSI-175UF Underfill Dispensing System is a high-speed, high-accuracy, automated dispenser designed for flip chip underfill applications.

Flip Chip Bonding Systems. Our MACH FC Plus Flip Chip Bonder is a high-speed, high-accuracy system for the automated assembly of flip chip devices. The system performs the various process steps of picking, flipping, fluxing, vision alignment and controlled die placement with asynchronous parallel motion, maximizing the system s throughput. Some of its many advanced features include eight-micron placement accuracy, closed-loop placement force control, a patent-pending flux well and advanced vision and lighting.

Financial information regarding our business segments, and our operations by geographic area, is included in Note 15 of the Notes to Consolidated Financial Statements included in this prospectus beginning on page F-38. A discussion of our net sales by end market and geographic area is included in Management s Discussion and Analysis of Financial Condition and Results of Operations below.

Sales and Marketing

We market and sell our products and services through our domestic and international sales organizations, an international network of independent distributors and sales representatives, product catalogs and our web site. Our domestic and international sales organizations are comprised of teams of field sales persons, which work closely with strategic account managers and internal sales support personnel based primarily in Irvine, California, Mountain View, California, Germany, France and Japan. We have aligned our domestic and international sales organizations along our two key categories of customers: end-users and OEM customers. These two categories of customers require very different selling approaches and support requirements. Our OEM subsystem and capital equipment customers often have unique technical specifications and manufacturing processes, and may require specific system, subsystem or component designs. This requires close cooperation between our sales personnel and distributors and our engineering staff, and can result in long sales cycles for our subsystem and capital equipment products.

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

generally paid commissions for sales of products. No single independent representative or distributor accounted for more than 5% of our net sales in 2004.

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We also market our standard products through our product catalogs and our web site. Our principal marketing tools for the scientific research market are our comprehensive product catalogs, The Newport Resource® and The Newport Oriel Light Resource. These catalogs provide detailed product information as well as extensive technical and applications data. We mail these catalogs to approximately 40,000 existing and potential customers. The Newport Resource is published in English, French, German and Japanese. New product supplements for each catalog are also distributed between publications. We also publish and distribute a variety of sales literature and product brochures relating to our other products and end markets. Our web site features an online catalog, providing customers with access to the latest information regarding our products, technical/tutorial and application related materials, sales information, a literature and information request form, and the ability to purchase a majority of our standard products.

Research and Product Development

We continually seek to improve our technological leadership position through internal research, product development and licensing, and acquisitions of complementary technologies. As of February 28, 2005, we had approximately 230 employees engaged in research and development. We continually work to enhance our existing products and to develop and introduce innovative new products to satisfy the needs of our customers. In addition, we regularly investigate new ways to combine components manufactured by our various divisions to produce innovative technological solutions for the markets we serve. Total research and development expenses were $26.1 million, or 9.1% of net sales, in 2004, including the expenses of Spectra-Physics for the period after July 16, 2004, the date of acquisition, $18.1 million, or 13.5% of net sales, in 2003, and $24.4 million, or 14.9% of net sales, in 2002. Research and development expenses attributable to our Lasers Division, which consisted entirely of the expenses of Spectra-Physics after July 16, 2004, the date of acquisition, were $7.8 million, or 9.2% of net sales to that segment, in 2004. Research and development expenses attributable to our Photonics and Precision Technologies Division were $12.6 million, or 7.4% of net sales to that segment, in 2004, including the expenses of Spectra-Physics for the period after July 16, 2004, the date of acquisition, $9.8 million, or 8.9% of net sales to that segment, in 2003, and $10.5 million, or 9.0% of net sales to that segment, in 2002. Research and development expenses attributable to our Advanced Packaging and Automation Systems Division were $5.7 million, or 18.7% of net sales to that segment, in 2004, $8.3 million, or 33.0% of net sales to that segment, in 2003, and $13.9 million, or 29.8% of net sales to that segment, in 2002.

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

Customers

We sell our products to a significant number of customers worldwide, in a wide range of diverse end markets, including semiconductor manufacturing and advanced packaging equipment, scientific research, aerospace and defense/security, life and health sciences and fiber optic communications. We believe that our diversification in this area minimizes our dependence on any single industry or group of customers. In 2004, no single customer represented 10% or more of our consolidated net sales for the year. In our Lasers Division, no single customer accounted for 10% or more of our net sales to that segment after July 16, 2004, the date of our acquisition of Spectra-Physics. Sales during 2004 to one customer of our Photonics and Precision Technologies Division totaled $20.0 million, which represented 11.7% of our net sales to that segment for the year. Sales during 2004 to two customers of our Advanced Packaging and Automation Systems Division totaled $11.9 million and $3.4 million, which represented 39.2% and 11.2%, respectively, of our net sales to that segment for the year. We believe that our relationships with these key customers are good. However, if any of these key customers or any other key customer discontinues or reduces its relationship with us, or suffers downturns in its business, it could have a significant negative impact on our financial results on a short-term basis, and our business and results of operations could be harmed going forward if we are unable to sufficiently expand our customer base to replace the lost business.

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Competition

The primary end markets that we serve include: scientific research, aerospace and defense/security; microelectronics (which is comprised primarily of semiconductor capital equipment customers); life and health sciences; and other end markets (which includes general industrial and fiber optic communications customers). These markets are intensely competitive and characterized by rapidly changing technology. A small number of competitors are dominant in certain of these markets. The products and systems developed and manufactured by our Photonics and Precision Technologies Division and our Lasers Division serve all of our target end markets. Our Advanced Packaging and Automation Systems Division serves primarily the microelectronics market. The following table summarizes our primary competitors for our principal product categories:

Product Category	Primary Competitors	
Lasers	Coherent, Inc.	Lightwave Electronics Corp.
	Excel Technology, Inc.	Rofin-Sinar Technologies, Inc.
	JDS Uniphase Corporation	Trumpf Group
	Jenoptik Laser Optik Systeme GmbH	
Photonics Instruments	Agilent Technologies, Inc.	Melles Griot, Inc.
	Coherent, Inc.	Ocean Optics, Inc.
	EXFO Electro-Optical, Inc.	Ophir Optronics Ltd.
	ILX Lightwave Corporation	Thorlabs, Inc.
Light Sources and Spectroscopy Instrumentation	Andor Technology	Photon Technology International
	Acton Research Corporation	Spectral Products
	Ocean Optics, Inc.	
Precision Micro-Positioning Devices, Systems and Subsystems Motion Systems	Aerotech Inc.	Danaher Corporation
	Anorad Corporation	Physik Instrumente
	Bookham, Inc.	

Vibration Isolation Systems and Subsystems	Kinetic Systems, Inc.	Thorlabs, Inc.
	Technical Manufacturing Corp.	
Optics, Optical Hardware and Opto-Mechanical Subassemblies and Subsystems	Bookham, Inc.	LINOS Photonics
	CVI Laser Corporation	Melles Griot, Inc.
	Corning NetOptix	OptoSigma Corporation
	Corning Tropel Corporation	Thorlabs, Inc.
	Holographix LLC	
Optical Filters	Barr Associates, Inc.	Optical Coating Laboratories, Inc.
	Chroma Technology Corp.	Omega Optical, Inc.
	Ferroperm EMC Filters ApS	Semrock, Inc.
Diffraction Gratings	Headwall Photonics, Inc.	Optometrics LLC
	Horiba Jobin Yvon Ltd.	Spectrogon
Crystals	NKK	St. Gobain
	Shanghai Institute of Ceramics	
Fiber Optic Device Alignment and Assembly Systems	AOI Sansho	Suruga-Seiki Co., Ltd.
	Palomar Technologies	
Wafer Handling Robots and Load Ports	Asyst Technologies, Inc.	Kawasaki Heavy Industries, Ltd.
	Brooks Automation, Inc.	TDK Corporation
	Genmark Automation, Inc.	Yaskawa Electric Corp.
Automated Assembly and Dispensing Systems	Asymtek	Palomar Technologies
	Datacon Technology AG	Speedline Technologies, Inc.
	ESEC	

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In our semiconductor automation and fiber optic device assembly product lines, we also face competition from certain of our existing and potential customers who have developed or may develop their own systems, subsystems and components.

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

- product features and performance;
- quality, reliability and service support;
- customer relationships;
- ability to manufacture and deliver products on a timely basis;
- pricing; and
- ability to customize products to customer specifications.

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

We compete in various markets against a number of companies, some of which have longer operating histories, greater name recognition and significantly greater technical, financial, manufacturing and marketing resources than we do. In addition, some of these companies have long established relationships with our customers and potential customers in our markets. In addition to current competitors, we believe that new competitors, some of whom may have substantially greater financial, technical and marketing resources than us, will seek to provide products to one or more of our markets in the future. Such future competition could harm our business.

Intellectual Property and Proprietary Rights

Our success and competitiveness depends to an extent on our technology and other intellectual property such as trade secrets, patents and trademarks. We protect our technology by controlling access to our proprietary information and by maintaining confidentiality agreements with our employees, consultants, customers and suppliers, and, in some cases, through the use of patents, trademark registrations and licenses. We have been granted approximately 340 patents in the U.S. and foreign jurisdictions, and we have approximately 95 additional patent applications pending. These issued patents cover various aspects of products in many of our key product categories, particularly our laser products. We also have trademarks registered in the U.S. and foreign jurisdictions. We will continue to actively pursue applications for new patents and trademarks as we deem appropriate.

It is possible that, despite our efforts, other parties may use, obtain or try to copy our products and technology. Policing unauthorized use of our products and technology is difficult and time consuming. We cannot guarantee that the steps we take to protect our rights will prevent any misappropriation of our products or technology. This is particularly the case in foreign jurisdictions, where the intellectual property laws may not afford our intellectual property rights the same protection as the laws of the United States. We may in the future initiate claims or litigation against third parties for infringement of our proprietary rights in order to determine the scope and validity of our proprietary rights or the proprietary rights of our competitors, which claims could result in costly litigation and the diversion of our technical and management personnel.

In addition, infringement, invalidity, right to use or ownership claims by third parties may be asserted against us in the future. We expect that the number and significance of these matters will increase as our business expands. In particular, the laser industry is characterized by a very large number of patents, many of which are of questionable validity and some of which appear to overlap with other issued patents. As a result, there is a significant amount of uncertainty in the industry regarding patent protection and infringement. Any claims of infringement brought by

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third parties could result in protracted and costly litigation, and we could become subject to damages for infringement, or to an injunction preventing us from selling one or more of our products or using one or more of our trademarks. Such claims could also result in the necessity of obtaining a license relating to one or more of our products or current or future technologies, which may not be available on commercially reasonable terms or at all. Any intellectual property litigation and the failure to obtain necessary licenses or other rights or develop substitute technology could have a material adverse effect on our business, financial condition and results of operations.

Manufacturing

We manufacture lasers and laser systems at our facilities located in Mountain View, California, and we manufacture laser diodes in Tucson, Arizona. We manufacture instruments, components, subassemblies and systems at domestic facilities located in Irvine, California; Oroville, California; Richmond, California; Stratford, Connecticut; Franklin, Massachusetts; North Billerica, Massachusetts; and Rochester, New York, and at international facilities in Beaune-la Rolande, France; Brigueuil, France; and Margate, United Kingdom. In addition, we subcontract the manufacture of various products and components to a number of third-party subcontractors.

Our manufacturing processes are diverse and consist of: purchasing raw materials, principally stainless steel, aluminum and glass; processing the raw materials into components, subassemblies and finished products; purchasing components, assembling and testing components and subassemblies; and, for our larger products, assembling the subassemblies and components into integrated systems. We primarily design and manufacture our products internally, although on a limited basis, we purchase completed products from certain third-party suppliers and resell those products through our distribution system. Most of these completed products are produced to our specifications and carry our name and logo.

We currently procure various components and materials, such as the sheet steel used in some of our vibration isolation tables, and the laser crystals used in certain of our laser products, from single sources due to unique component designs as well as certain quality and performance requirements needed to manufacture our products. In addition, we manufacture certain components internally, and there are no readily available third-party suppliers of these components. If single-sourced components were to become unavailable in adequate amounts at acceptable quality levels or were to become unavailable on terms satisfactory to us, we would be required to purchase comparable components from other sources. While we believe that we would be able to obtain comparable replacement components from other sources in a timely manner, if we are unable to do so our business, results of operations or financial condition could be adversely affected.

Backlog

Our consolidated backlog of orders totaled $110.2 million at January 1, 2005, and $36.3 million at December 31, 2003. As of January 1, 2005, $104.1 million of our consolidated backlog was scheduled to be shipped on or before December 31, 2005. Orders for many of the products we sell to the semiconductor equipment market, which comprise a significant portion of our sales, are often subject to cancellation or rescheduling by the customer without penalty, and we have from time to time experienced significant cancellations and pushouts of orders from these markets, which negatively affected our operating results in those periods. In addition, because we manufacture a significant portion of our standard catalog products for inventory, we often make shipments of these products upon or within a short time period following receipt of an order. As a result, our backlog of orders at any particular date may not be an accurate indicator of our sales for succeeding periods.

Investments

From time to time we make investments in companies having operations or technologies in areas which are within or adjacent to our strategic focus when acquired. We currently hold minority ownership interests in a number of small, privately-held companies. These investments are designed to further our strategic objectives and to support our key business initiatives. We want to support growth in new technologies, particularly those related to our strategic markets, in order to create and expand markets for our products. While financial returns are not our primary goal, our strategic investment program seeks to invest in companies that can succeed and have a positive

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impact on their markets. At January 1, 2005, the total carrying value of all of our minority interest investments was $4.4 million.

Investments in technology companies involve significant risks, including the risks that such companies may be unable to raise additional required operating capital on acceptable terms or at all, or may not achieve or maintain market acceptance of their technology or products. In the event that any of such risks occurs, the value of our investment could decline significantly. In addition, because there is no public market for the securities we acquire, our ability to liquidate our investments is limited, and such markets may not develop in the future. In 2002, two fiber optic component manufacturers in which we had made minority interest investments in prior years experienced severe financial difficulties, and each has shut down its operations and liquidated its assets. As a result, we recorded a charge of $6.5 million to write down these investments to their estimated fair value. In 2004, we determined that a minority interest investment made in prior years in a manufacturer of precision mechanical components had incurred an other-than-temporary reduction in value. As a result, we recorded a charge of $1.4 million to write down the investment to its estimated fair value. In the event that we are required to write down the carrying value of one or more of our investments in the future, our earnings could be materially and adversely affected.

Employees

As of February 28, 2005, we had approximately 2,000 employees worldwide. None of our employees are represented by a union. We believe that our relationships with our employees are good.

Government Regulation

Regulatory Compliance

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

Environmental Regulation

Our operations are subject to various federal, state and local environmental protection regulations relating to the protection of the environment, including those governing discharges of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. In the United States, we are subject to the federal regulation and control of the Environmental Protection Agency. Comparable authorities exist in other countries. Some of our operations require environmental permits and controls to prevent and reduce air and water pollution, and these permits are subject to modification, renewal and revocation by issuing authorities. Future developments, administrative actions or liabilities relating to environmental matters could have a material adverse effect on our business, results

of operations or financial condition.

Although we believe that our safety procedures for using, handling, storing and disposing of such materials comply with the standards required by state and federal laws and regulations, we cannot completely eliminate the risk of accidental contamination or injury from these materials. In the event of such an accident involving such materials, we could be liable for damages and such liability could exceed the amount of our liability insurance coverage and the resources of our business.

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Spectra-Physics Mountain View, California facility is an EPA-designated Superfund site and is subject to a cleanup and abatement order from the California Regional Water Quality Control Board. Spectra-Physics, along with several other entities with facilities located near the Mountain View, California facility, have been identified as Responsible Parties with respect to this Superfund site, due to releases of hazardous substances during the 1960s and 1970s. The site is mature, and investigations and remediation efforts have been ongoing for approximately 20 years. Spectra-Physics and the other Responsible Parties have entered into a cost-sharing agreement covering the costs of remediating the off-site groundwater impact. We have established reserves relating to the estimated cost of these remediation efforts, however our ultimate costs of remediation are difficult to predict. In addition, while we are not aware of any unresolved property damage or personal injury claims relating to this site, such claims could be made against us in the future. While Thermo Electron Corporation has agreed in connection with our purchase of Spectra-Physics to indemnify us, subject to certain conditions, for environmental liabilities relating to this site in excess of our reserves, this indemnity may not cover all liabilities relating to this site. In such event, our business, financial condition and results of operations could be adversely affected.

Properties

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

Division	Primary Facility Locations	Approximate Facility Size	
Lasers	Mountain View, California	159,000	square feet
	Tucson, Arizona	81,000	square feet
Photonics and Precision	Irvine, California	273,000	square feet
Technologies	Stratford, Connecticut	32,000	square feet
	Franklin, Massachusetts	47,000	square feet
	Rochester, New York	55,000	square feet
	Beaune-la Rolande, France	86,000	square feet
	Brigueuil, France	44,000	square feet
	Margate, United Kingdom	16,500	square feet
Advanced Packaging and	Richmond, California	139,000	square feet
Automation Systems	North Billerica, Massachusetts	48,000	square feet

We own portions of our Mountain View, California, Rochester, New York and Beaune-la Rolande, France facilities, and we own our Margate, United Kingdom facility. We lease all other facilities under leases with expiration dates ranging from 2006 to 2030. In addition to these primary facilities, we lease a number of other facilities worldwide for administration, research and development, light assembly, sales and/or service. We believe that our facilities are adequate for our current needs and that suitable additional or substitute space will be available in the future on commercially reasonable terms to accommodate expansion of our operations.

Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our operations in the normal course of business. We currently are not a party to any legal proceedings, the adverse outcome of which, in management s opinion, individually or in the aggregate, would have a material adverse effect on our results of operations, financial position or cash flows.

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MANAGEMENT

Executive Officers and Directors

Name	Age	Position
Robert G. Deuster	54	Chairman of the Board and Chief Executive Officer
Robert J. Phillippy	44	President and Chief Operating Officer
Charles F. Cargile	40	Senior Vice President and Chief Financial Officer
Jeffrey B. Coyne	38	Senior Vice President, General Counsel and Corporate Secretary
Leif Alexandersson	51	Vice President, Strategic Marketing and Business Development
Bruce B. Craig	51	Vice President, Lasers Division
Alain Danielo	58	Vice President and General Manager, Photonics and Precision Technologies Division
Donald Mills	54	Vice President, Operational Excellence
Gary J. Spiegel	54	Vice President, Worldwide Sales and Service
R. Jack Aplin	73	Director
Robert L. Guyett	68	Director
Michael T. O Neill	64	Director
C. Kumar N. Patel	66	Director
Kenneth F. Potashner	47	Director
Richard E. Schmidt	73	Director
Peter J. Simone	57	Director

Robert G. Deuster has served as our Chief Executive Officer and as a member of our Board of Directors since May 1996. In June 1997, he became Chairman of the Board. Mr. Deuster also served as our President from May 1996 until July 2004. His current term as a director extends until May 2005. From 1985 to 1996, Mr. Deuster served in various senior management positions at Applied Power, Inc., an international manufacturer of electrical and hydraulic products, serving as Senior Vice President of the Distributed Products Group from 1994 to 1996, President of the Barry Controls Division from 1989 to 1994, President of the APITECH Division from 1986 to 1989 and Vice President of Sales and Marketing of the Enerpac Division from 1985 to 1986. From 1975 to 1985, he held engineering and marketing management positions at General Electric Company s Medical Systems Group.

Robert J. Phillippy joined us in April 1996 as Vice President and General Manager of our Science and Laboratory Products Division. In August 1999, he was appointed to the position of Vice President and General Manager, Industrial and Scientific Technologies Division, U.S. Operations. In July 2004, he was appointed President and Chief Operating Officer. 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.

Charles F. Cargile joined us in October 2000 as Vice President and Chief Financial Officer. In July 2004, he was appointed Senior Vice President. Prior to joining us, Mr. Cargile was Vice President, Finance and Corporate Development for York International Corporation, 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.

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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. 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, an international law firm. Mr. Coyne is a member of the State Bar of California and the Orange County Bar Association.

Leif A. Alexandersson joined us in July 2004 as Vice President Sales and Service, Lasers Division, in connection with our acquisition of Spectra-Physics. In December 2004, he was appointed Vice President, Strategic Marketing and Business Development. Prior to the acquisition, Mr. Alexandersson served as the Vice President, Global and Commercial Operations for the Spectra-Physics division of Thermo Electron Corporation since May 2003. Mr. Alexandersson joined Spectra-Physics in March 1992 as Vice President for European Distribution and has held a variety of management positions in operations, strategy and business development with Spectra-Physics and Thermo Electron Corporation.

Bruce B. Craig joined us in July 2004 as Vice President of Corporate Marketing, following our acquisition of Spectra-Physics. In December 2004, he was appointed Vice President of our Lasers Division. Prior to joining us, Mr. Craig was Vice President of Marketing for the Spectra-Physics division of Thermo Electron Corporation. He joined Spectra-Physics in 1988, where he has held a variety of positions in general management, sales and marketing, engineering, and product management.

Alain Danielo joined us in January 1995 as President and General Manager of our French subsidiary Micro-Controle S.A. In November 1995, he was elected Vice President of Newport with responsibility for our European Operations. In August 1999, he was appointed to the position of Vice President and General Manager of the European operations of our Industrial and Scientific Technologies Division (now our Photonics and Precision Technologies Division). In July 2004, Mr. Danielo was appointed Vice President and General Manager, Photonics and Precision Technologies Division, expanding his role to include responsibility for worldwide operations of the division. Prior to joining us, Mr. Danielo was Managing Director of the Electronics Division of Valeo S.A., an automobile parts company, from 1989 to 1995. From 1985 to 1989 he was General Manager of Molex France S.A.R.L., a manufacturer of electronic components.

Donald A. Mills joined us in July 2004 as Vice President, Operational Excellence, in connection with our acquisition of Spectra-Physics. Prior to the acquisition, Mr. Mills served as Director, Operational Excellence of the Spectra-Physics division of Thermo Electron Corporation since March 2003. Prior to joining Spectra-Physics, Mr. Mills was employed by Ingersoll-Rand Company, a manufacturer of industrial and commercial equipment and components, since December 1997, holding various positions including General Manager, Rock Drill Division from April 1999 to March 2000, and Vice President, Manufacturing and Engineering, Drilling Solutions Division from March 2000 until February 2003.

Gary J. Spiegel 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. In July 2004, Mr. Spiegel was appointed Vice President, Sales and Service, Photonics and Precision Technologies Division. In December 2004, he was appointed Vice President, Worldwide Sales and Service. Prior to joining us, Mr. Spiegel was Vice President of Sales and Marketing for Klinger Scientific, a subsidiary of Micro-Controle SA, which we acquired in 1991.

R. Jack Aplin was elected to the Board in 1989, and his current term as a director extends until May 2008. From 1989 to the present Mr. Aplin has been an independent investor. Mr. Aplin was Chairman of the Board, President and Chief Executive Officer of Spectramed, Inc., an international medical products company, from 1986 to 1989.

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Robert L. Guyett was elected to the Board in 1990, and his current term as a director extends until May 2006. 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. Since May 2003, he has also been Chairman of the Board of Directors of Maxwell Technologies, Inc., a manufacturer of ultracapacitors, microelectronics, power systems and high voltage capacitors. 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 Reeve Paralysis Foundation. Mr. Guyett serves on the board of directors of one other public company, Maxwell Technologies, Inc.

Michael T. O Neill was appointed to the Board in April 2003, and his current term as a director extends until May 2005. Since November 2000, Mr. O Neill has served as President and Chief Executive Officer 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.

C. Kumar N. Patel was elected to the Board in 1986, and his current term as a director extends until May 2007. 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.

Kenneth F. Potashner was elected to the Board in 1998, and his current term as a director extends until May 2006. From May 2003 to present, Mr. Potashner has been an independent investor. From 1996 to May 2003, Mr. Potashner was Chairman of the Board of Directors of Maxwell Technologies, Inc., a manufacturer of ultracapacitors, microelectronics, power systems and high voltage capacitors. 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. From 1996 to October 1998, he was also President and Chief Executive Officer of Maxwell Technologies. 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.

Richard E. Schmidt joined us in September 1991 as Chairman of the Board and Chief Executive Officer. From August 1993 until February 1995 and from November 1995 until May 1996, he held the additional position of President. Mr. Schmidt retired from the positions of President and Chief Executive Officer in May 1996 and from the position of Chairman in June 1997. He has continued to serve as a director following his retirement. Mr. Schmidt s current term as a director extends until May 2008. From December 1990 to September 1991, Mr. Schmidt served as a consultant to Sundstrand Corporation, an aerospace and power transmission company. From September 1984 to December 1990, Mr. Schmidt was President and Chief Executive Officer of Milton Roy Company, an international manufacturer of measuring instruments and systems, and was its Chairman from 1986 to December 1990.

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Peter J. Simone was appointed to the Board in March 2003, and his current term as a director extends until May 2007. Mr. Simone currently serves as an independent consultant to several venture capital firms and venture-funded private companies. From June 2001 to December 2002, Mr. Simone served as Executive Chairman of SpeedFam-IPEC, Inc., a semiconductor manufacturing equipment company, prior to its acquisition by Novellus Systems, Inc. From August 2000 to February 2001, Mr. Simone was President and a director of Active Control eXperts, Inc. (ACX), a vibration isolation technology company. He was a consultant to ACX from January 2000 to August 2000. From April 1997 to January 2000, Mr. Simone served as President and Chief Executive Officer and a director of Xionics Document Technologies, Inc., a provider of embedded software solutions for printer and copier manufacturers. From December 1992 to November 1996, he served as Group Vice President of the Time/Data Systems Division of Simplex Time Recorder Company, Inc., a manufacturer of time, attendance, building life safety and security systems. Mr. Simone serves on the boards of directors of three other public companies: Cymer, Inc., Sanmina-SCI Corporation and Veeco Instruments, Inc.

There are no family relationships among any of our directors or executive officers.

Board of Directors

Our Board currently consists of eight directors, divided into four classes. One class of directors is elected each year for a term of four years. With the exception of Mr. Deuster, our Chief Executive Officer, all of the current members of our Board of Directors are independent as defined by Rule 4200(a)(15) of the Nasdaq Marketplace 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.

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 by the Board. Copies of the charters of all standing committees are available on our Internet web site at www.newport.com. We will also provide electronic or paper copies of the standing committee charters free of charge, upon request made to our Corporate Secretary.

Audit Committee

The Audit Committee is comprised of three directors. The current members are Messrs. Guyett (Chairman), Patel and Simone. None of the members of the Audit Committee are or have been our officers or employees, and each member qualifies as an independent director as defined by Rule 4200(a)(15) of the Nasdaq Marketplace 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 has the sole authority to appoint (subject to ratification by our stockholders) and, when deemed appropriate, replace our independent auditors, and has established a policy of pre-approving all audit and permissible non-audit services provided by our independent auditors. The Audit Committee has, among other things, the responsibility to evaluate the qualifications and independence of our independent auditors; to review and approve the scope and results of the annual audit; to evaluate with the independent auditors our financial staff and the

adequacy and effectiveness of our systems and internal financial controls; to 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; to review the content and clarity of our proposed communications with investors regarding our operating results and other financial matters; to review significant changes in our accounting policies; to 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; to establish procedures for the confidential, anonymous submission by our employees of concerns or complaints regarding questionable accounting or auditing

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matters; and to provide sufficient opportunity for the independent auditors to meet with the committee without management present. The Audit Committee also has the responsibility to adopt and continually review and assess our investment policy; to oversee the management of our investment portfolio and evaluate the performance of our portfolio manager; and to review and make recommendations to the Board with respect to certain significant capital spending proposals.

Compensation Committee

The Compensation Committee is comprised of three directors. The current members are Messrs. Aplin (Chairman), Potashner and Schmidt. Each member of the Compensation Committee qualifies as an independent director as defined by Rule 4200(a)(15) of the Nasdaq Marketplace Rules. The Compensation Committee has 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; to administer our stock incentive plans, stock purchase plans and similar incentive plans; and to develop guidelines for and approve grants of stock options to key personnel under such incentive plans.

Corporate Governance and Nominating Committee

The Corporate Governance and Nominating Committee is comprised of four directors. The current members are Messrs. Potashner (Chairman), Guyett, O Neill and Schmidt. Each member of the Corporate Governance and Nominating Committee qualifies as an independent director as defined by Rule 4200(a)(15) of the Nasdaq Marketplace Rules. The Corporate Governance and Nominating Committee has the responsibility to ensure 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 the responsibility to develop, continually assess and monitor compliance with appropriate corporate governance guidelines; to evaluate the size and composition of our Board, the criteria for Board membership, and the independence of Board members; to oversee the evaluation of the performance of our Board and its committees and our management; and to assist our Board in establishing appropriate committees and to recommend members for such committees. The Corporate Governance and Nominating Committee also has the responsibility to identify, evaluate and recommend to our Board candidates for nomination and election as members of our Board.

Director Compensation

Each outside director receives an annual fee of $25,000 and is reimbursed for expenses incurred in connection with attending Board and committee meetings. In addition, each outside 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. The Board s lead independent director, who is currently Mr. Potashner, is appointed from among the independent directors to serve for a three-year term and receives an additional annual fee of $6,000, prorated for any portion of a year during which he serves.

Each outside director receives annually, in January, an option to purchase 7,500 shares of our common stock, which vests in full on the first anniversary of the grant date. Each new outside director receives an option to purchase 16,000 shares of our common stock upon commencement of service as a director, which vests in 25% increments on each of the first four anniversaries of the grant date.

Compensation Committee Interlocks and Insider Participation in Compensation Decisions

The Compensation Committee is comprised of three non-employee directors: Messrs. Aplin, Potashner and Schmidt. Each member of the Compensation Committee qualifies as an independent director as defined by Rule 4200(a)(15) of the Nasdaq Marketplace Rules. Mr. Schmidt served as one of our officers from 1991 to 1996. No executive officer serves as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our Board or our Compensation Committee.

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Executive Compensation

The following table and narrative text discusses compensation earned during the fiscal years ended January 1, 2005, December 31, 2003 and December 31, 2002 by our Chief Executive Officer and our four other most highly compensated executive officers who were serving as executive officers at January 1, 2005 and whose salary and bonus exceeded $100,000 for the fiscal year ended January 1, 2005. These officers are referred to in this prospectus as the named executive officers.

Summary Compensation Table

		Annual Compensation		Long-Term Compensation Awards[1]	
Name and Principal Position	Year	Salary ($)	Bonus ($)	Securities Underlying Options (#)	All Other Compen-sation[2] ($)
Robert G. Deuster Chairman and Chief Executive Officer	2004	415,385	408,739	110,000	42,207
	2003	360,000		200,000	41,727
	2002	360,000			13,109
Robert J. Phillippy President and Chief Operating Officer	2004	244,149	227,364	125,000	19,840
	2003	192,942		100,000	17,718
	2002	187,692			12,245
Charles F. Cargile Senior Vice President and Chief Financial Officer	2004	305,954	225,794	56,250	21,949
	2003	275,577		125,000	21,518
	2002	250,607		40,000	34,515
Alain Danielo[3] Vice President and General Manager, Photonics and Precision Technologies Division	2004	223,416	189,904	45,000	
	2003	193,998		75,000	
	2002	158,825			
Gary J. Spiegel Vice President, Worldwide Sales and Service	2004	237,385	201,778	45,000	42,102
	2003	200,000		75,000	40,688
	2002	197,231			12,588

(1) No restricted stock awards were granted to any named executive officer during the last three fiscal years. As of January 1, 2005, Mr. Cargile held 1,000 shares of restricted stock, which were valued at $14,100 based on the market value of our common stock as of that date of $14.10 per share. No other named executive officer held shares of restricted stock as of January 1, 2005.

(2) All other compensation consists of (i) company contributions to the 401(k) plan for each named executive officer, and (ii) company-paid premiums for term life insurance for the benefit of each named executive officer.

(3) All compensation of Mr. Danielo is paid in Euro. The dollar amounts set forth in the table for Mr. Danielo s salary and bonus have been converted utilizing the average annual currency exchange rates of 1:US$1.24, 1:US$1.13, and 1:US$0.95, for 2004, 2003 and 2002, respectively.

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Option Grants in Last Fiscal Year

The following table sets forth certain information concerning grants of options to our named executive officers during our fiscal year ended January 1, 2005.

Option Grants in Last Fiscal Year

(Individual Grants)

Name	Number of Securities Underlying Options Granted	Percentage of Total Options Granted to Employees in Fiscal Year	Exercise Price per Share	Expiration Date	Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
					5%	10%
Robert G. Deuster	50,000	5.33%	$16.91	01/01/14	$ 531,730	$ 1,347,509
	60,000	6.40%	$13.03	08/03/14	491,670	1,245,988
Robert J. Phillippy	25,000	2.67%	$16.91	01/01/14	265,865	673,755
	100,000	10.67%	$13.03	08/03/14	819,450	2,076,646
Charles F. Cargile	31,250	3.33%	$16.91	01/01/14	332,332	842,193
	25,000	2.67%	$13.03	08/03/14	204,862	519,162
Alain Danielo	20,000	2.13%	$16.91	01/01/14	212,692	539,004
	25,000	2.67%	$13.03	08/03/14	204,862	519,162
Gary J. Spiegel	20,000	2.13%	$16.91	01/01/14	212,692	539,004
	25,000	2.67%	$13.03	08/03/14	204,862	519,162

The figures above represent options to purchase an aggregate of 381,250 shares of our common stock, granted pursuant to our 2001 Stock Incentive Plan. All of these options vest in 25% increments on each of the first four anniversaries of the grant date. During 2004, we granted options to purchase a total of 937,591 shares of common stock to our employees. All of the options granted to our employees in 2004, including those granted to our named executive officers, were granted at an exercise price equal to the fair market value of the common stock on the date of grant.

The potential realizable value represents amounts, net of exercise price and before taxes, that may be realized upon exercise of the options immediately prior to the expiration of their terms assuming appreciation of 5% and 10% over the option term. The amounts are calculated by first taking the market price of our common stock on the grant date and calculating an assumed value at the end of the ten-year option term based

on compound annual appreciation rates of 5% and 10%, respectively, then subtracting the exercise price per share and multiplying the resulting amount by the number of shares subject to the option. The 5% and 10% appreciation rates are prescribed by rules promulgated by the Securities and Exchange Commission and do not reflect our estimate of future stock price growth. The actual value realized may be greater or less than the potential realizable value set forth in the table.

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Options Exercised and Fiscal Year-End Values

The following table sets forth certain information concerning the exercise of options by our named executive officers during the year ended January 1, 2005, including the aggregate value of gains on the date of exercise. In addition, the table includes the number of shares underlying both exercisable and unexercisable stock options held by the named executive officers as of January 1, 2005, and the values for in-the-money options that represent the total positive spread, if any, between the exercise prices of existing stock options and the market value of our common stock as of January 1, 2005, which was $14.10 per share.

Aggregated Options Exercised in Last Fiscal Year

and Fiscal Year End Option Values

Name	Number of Shares Acquired on Exercise	Dollar Value Realized	Number of Securities Underlying Unexercised Options at Fiscal Year End		Value of Unexercised In-the-Money Options at Fiscal Year End	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Robert G. Deuster	42,500	$ 768,296	789,000	282,500	$ 4,529,704	$ 509,850
Robert J. Phillippy			202,500	207,500	820,806	326,300
Charles F. Cargile			196,250	165,000	204,738	306,163
Alain Danielo			211,250	108,750	941,963	192,988
Gary J. Spiegel			172,000	108,750	563,527	192,988

Severance and Other Agreements

We have entered into a severance compensation agreement with each of our named executive officers and certain of our other 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. Deuster, 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, assuming 100% satisfaction of all performance goals; (iii) continuation of benefits under our medical, dental and vision plans, and long-term disability insurance for a specified period of time, (iv) automatic vesting of all unvested restricted stock held by the officer, (v) 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 (vi) 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 of 1986, as amended, and/or any comparable provision of state or foreign law.

In addition, our agreement with Mr. Phillippy provides 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 the same salary and bonus severance payments described above. Our agreement with Mr. Deuster provides 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 one-half of the salary severance payment, and all of the bonus severance payment described above.

In connection with our acquisition of Spectra-Physics, we entered into an agreement with each of Messrs. Alexandersson, Craig and Mills, which provides that if, during the first two years of each individual s employment with us, his employment is terminated by us for reasons other than for cause (as defined in the

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agreement), death or disability, or if he resigns for good reason (as defined in the agreement), he will receive (i) a lump sum severance payment equal to twelve months of his base salary in effect immediately prior to termination; (ii) a bonus payment equal to his incentive compensation bonus payable under our annual incentive plan or other bonus plans then in effect, assuming 100% satisfaction of all performance goals; (iii) continuation of benefits under our medical, dental and vision plans, and long-term disability insurance for a specified period of time, and (iv) automatic vesting of all unvested restricted stock then held by him. In addition, if such termination follows a change in control (as defined in the agreement), all unvested stock options held by such individual will automatically vest and become immediately exercisable upon termination.

Employee Benefit Plans

Amended and Restated Employee Stock Purchase Plan

Our Board adopted our Amended and Restated Employee Stock Purchase Plan effective April 1, 2003, and our stockholders approved this plan on May 21, 2003. A total of 2,178,205 shares of our common stock were authorized for issuance under the Amended and Restated Employee Stock Purchase Plan, of which 305,975 shares have already been issued and 1,872,230 remain available for future issuance as of January 31, 2005. The Amended and Restated Employee Stock Purchase Plan is intended to qualify as an employee stock purchase plan under Section 423 of the Internal Revenue Code of 1986, as amended.

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 the Amended and Restated Employee Stock Purchase Plan as of the first day of the calendar quarter coincident with or next following the date of commencement of such employee s employment with us or our subsidiaries. Each offering period under the Amended and Restated Employee Stock Purchase Plan commences on the first day of each calendar quarter, which is the grant date, and continues for a period of three months ending on the last day of such calendar quarter, which is the purchase date.

Eligible employees who elect to participate in an offering period will designate prior to the commencement of the 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 Amended and Restated Employee Stock Purchase Plan, which amount may not exceed 15% of the participating employee s compensation. For this purpose, compensation means the amount indicated on the Form W-2 issued to the employee by us, including any elective deferrals with respect to any plan qualified under either Section 125 or Section 401(a) of the Internal Revenue Code of 1986, as amended. On the purchase date, shares of our stock will be purchased automatically for each participant with the amounts held from his or her payroll deductions at a price equal to 85% of the fair market value of the shares on the grant date or 85% of the fair market value of the shares as of the purchase date, whichever is lower. 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. No employee may purchase stock under the Amended and Restated Employee Stock Purchase Plan (and any similar purchase plans offered by us) having a fair market value, determined as of each applicable grant date, which exceeds $25,000 in any calendar year.

Our Board may at any time amend, suspend or terminate the Amended and Restated Employee Stock Purchase Plan; provided, that any amendment that would (1) increase the aggregate number of shares authorized for sale under the plan (except pursuant to adjustments provided for in the plan), (2) materially modify the standards of eligibility for participation, or (3) materially increase the benefits which accrue to participants under the plan, will not be effective unless approved by our stockholders within 12 months of the adoption of the amendment by the Board. Unless earlier terminated by our Board, the Amended and Restated Employee Stock Purchase Plan will terminate on March 31, 2013 or when all shares authorized for sale thereunder have been sold, whichever is earlier.

2001 Stock Incentive Plan

Our Board of Directors adopted our 2001 Stock Incentive Plan in February 2001, and our stockholders approved this plan in May 2001. The 2001 Stock Incentive Plan authorizes us to grant options and rights to purchase shares of our common stock. A total of 6,000,000 shares of our common stock, including the shares that were formerly available for grant under our 1992 Stock Incentive Plan and 1999 Stock Incentive Plan, are

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authorized for issuance under the 2001 Stock Incentive Plan. As of January 31, 2005, a total of 2,970,415 shares were subject to outstanding options, and 2,745,397 shares remained available for future grant, under the 2001 Stock Incentive Plan. As of January 31, 2005, a total of 2,747,153 shares are subject to outstanding options under our former stock plans, which plans have been terminated for the purposes of future grants.

Our officers and our other key employees who qualify (including officers or key employees of any parent or subsidiary approved by the Compensation Committee) are eligible to receive incentive options under the 2001 Stock Incentive Plan. Such individuals, as well as any member of our Board of Directors, and any consultants, business associates or others with important business relationships with us, are eligible to receive nonqualified options or restricted shares under the 2001 Stock Incentive Plan. In no event may any individual be granted options under the 2001 Stock Incentive Plan pursuant to which the aggregate number of shares that may be acquired thereunder during any calendar year exceeds 300,000 shares.

The exercise price of incentive stock options granted under the 2001 Stock Incentive Plan may not be less than the fair market value of a share of common stock on the date the option is granted. Nonqualified options must have an exercise price of not less than 85% of the fair market value of a share of common stock on the date such option is granted. The exercise price of any option granted to a person who owns at least 10% of our outstanding common stock may not be less than 110% of the fair market value of a share of our common stock on the date of the grant. There is no minimum purchase price for restricted shares to be issued under the 2001 Stock Incentive Plan (provided that the price may not be less than fair market value for shares issued to our Chief Executive Officer or a named executive officer).

Payment of the exercise price may be made, in the discretion of the Compensation Committee, in cash, by check, by delivery of shares of our common stock, through the delivery of a promissory note, or any combination of the foregoing methods of payment or any other consideration or method of payment as are permitted by applicable corporate law. The Compensation Committee has the authority to determine the time or times at which options granted under the 2001 Stock Incentive Plan become exercisable, provided that options must expire no later than ten years from the date of grant (five years with respect incentive stock options granted to optionholders who own at least 10% of our outstanding common stock). Options are nontransferable, other than by will and the laws of descent and distribution or in any manner permitted by the Compensation Committee that is not prohibited by the Internal Revenue Code, and generally may be exercised only by an employee while employed by us or within three months after termination of employment (one year for termination resulting from death or disability).

Our Board of Directors may from time to time alter, amend, suspend or terminate the 2001 Stock Incentive Plan as the Board may deem advisable. However, no such alteration, amendment, suspension or termination shall be made that would substantially affect or impair the rights of any person under any incentive option, nonqualified option or restricted share already granted to such person without his or her consent. Unless previously terminated by our Board of Directors, the 2001 Stock Incentive Plan will terminate on February 13, 2011. The vesting of all options granted under the 2001 Stock Incentive Plan will accelerate automatically upon a change in control (as defined in the 2001 Stock Incentive Plan) effective immediately prior to the consummation of the change in control unless the options are to be assumed by the acquiring or successor entity (or parent thereof) or new options of comparable value are to be issued in exchange therefore or the options granted under the 2001 Stock Incentive Plan are to be replaced by the acquiring or successor entity (or parent thereof) with other incentives under a new incentive program containing such terms and provisions as the Compensation Committee in its discretion may consider equitable.

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. Eligible employees are able to participate in the 401(k) plan as of the first day of the quarter on or following the date they begin employment and participants are able to defer up to 50% of their eligible compensation subject to applicable annual Internal Revenue Code limits. Pre-tax contributions are allocated to each participant s individual account and are then invested in selected investment alternatives

according to the participants 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 six percent of eligible compensation. These matching contributions

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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.

Deferred Compensation Plan

We also maintain a deferred compensation plan under which our directors, named executive officers and certain of our other officers and highly compensated employees who choose to participate in the plan may defer a portion of their income on a pre-tax basis and receive a tax-deferred return on such deferrals. Each participant may defer up to 100% of his or her annual base salary and/or annual bonus (or annual retainer and meeting fees, in the case of directors). Each participant may also defer up to 100% of his or her restricted stock prior to the vesting thereof. Such deferrals are subject to certain minimum amounts, tax withholding and deduction amounts as described in the plan. Participants (or their survivors) may receive distributions of deferred amounts in the form of short-term payouts as soon as three years following the end of the plan year in which a deferral is made, or in the form of retirement benefits or pre-retirement survivor benefits over five, ten or fifteen years following retirement, death or disability. In the event of termination of employment prior to retirement, disability or death, a participant will receive a termination benefit equal to his or her account balance, such termination benefit to be paid in a lump sum if less than $25,000 or in a lump sum or in annual installments over five years, at the discretion of the Committee, if equal to or greater than $25,000.

Limitation of Liability and Indemnification Matters

We have entered into indemnification agreements with each of our executive officers and directors, and certain other officers, which provide contractual protection of certain rights of indemnification by us. The indemnification agreements provide for indemnification of our officers and directors to the fullest extent permitted by our articles of incorporation, bylaws and applicable law. Under the agreements, we indemnify our officers and directors against all fees, expenses, liabilities and losses (including attorney s fees, judgments, fines, and amounts paid in any settlement we approved) actually and reasonably incurred in connection with any investigation, claim, action, suit or proceeding to which any such officer or director is a party by reason of any action or inaction in his capacity as our officer or director or by reason of the fact that the officer or director is or was serving as our director, officer, employee, agent or fiduciary, or of any of our subsidiaries or divisions, or is or was serving at our request as our representative with respect to another entity, subject to limitations imposed by applicable law. We will not indemnify such officer or director, however, for expenses and the payment of profits arising from the purchase and sale by the officer or director of securities in violation of Section 16(b) of the Securities Exchange Act of 1934, as amended.

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RELATED PARTY TRANSACTIONS

We have entered into an agreement with Pranalytica, Inc. to perform certain laser diode packaging services on their behalf. The value of such agreement is $198,000, and we believe that it represents the fair market value of the services. C. Kumar N. Patel, one of our directors, is an officer and shareholder of Pranalytica, Inc.

In connection with our acquisition of Spectra-Physics, we issued 3,220,300 shares of our common stock to Thermo. All of such shares are currently held by Thermo and represent approximately 7.5% of our outstanding common stock as of January 31, 2005. As part of the purchase price for Spectra-Physics, we issued a promissory note to Thermo in the principal amount of $50 million, which bears interest at 5% per annum, payable quarterly, and is due and payable in full on July 16, 2009.

In addition, we have entered into real property leases with Thermo for the facilities operated by Spectra-Physics located in Tucson, Arizona, Franklin, Massachusetts, and Rochester, New York. The lease for the Tucson, Arizona facility has a term of ten years expiring on July 31, 2014, and provides for annual rental payments to Thermo in the amount of $562,000, subject to periodic adjustments. The lease for the Franklin, Massachusetts facility has a term expiring on January 31, 2006, and provides for annual rental payments to Thermo in the amount of $321,112. The lease for the Rochester, New York facility has a term of five years expiring July 31, 2009, and provides for annual rental payments to Thermo in the amount of $200,000, subject to periodic adjustments.

We have entered into a supply agreement with Thermo pursuant to which each of Spectra-Physics and Thermo will supply certain products to the other party. Such supply agreement has a term of three years expiring July 16, 2007. It contains customary business terms and does not contain any fixed or minimum purchase commitments. From July 16, 2004 through February 28, 2005, we purchased approximately $747,000 in products from Thermo, and supplied approximately $1.1 million in products to Thermo, under the supply agreement. We have also entered into a transition services agreement with Thermo pursuant to which Thermo will, for a period of three years following the date of acquisition, continue to provide certain administrative support services, assistance and cooperation as needed by Spectra-Physics at standard hourly rates agreed to by the parties. From July 16, 2004 through February 28, 2005, we paid Thermo approximately $191,000 for services provided under the transition services agreement.

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PRINCIPAL AND SELLING STOCKHOLDERS

The following table sets forth specified information with respect to the beneficial ownership of our common stock as of February 28, 2005 by: (i) each person (or group of affiliated persons) who we know beneficially owns more than 5% of our outstanding common stock (which includes the selling stockholder); (ii) each of our named executive officers; (iii) each of our directors; and (iv) all of our directors and executive officers as a group. All of the shares of common stock covered by this prospectus are being offered and sold by the selling stockholder, or its pledges, donees, transferees or other successors-in-interest. We entered into a Stock Purchase Agreement on May 28, 2004 with the selling stockholder pursuant to which we purchased all of the outstanding capital stock of Spectra-Physics, Inc. and certain related entities. As part of the consideration for the acquisition, we issued 3,220,300 shares of our common stock to the selling stockholder. Under a Stockholder Agreement we entered into with the selling stockholder in connection with the consummation of the Spectra-Physics acquisition, we agreed to file the registration statement of which this prospectus is a part with the Securities and Exchange Commission to register the 3,220,300 shares of common stock received by the selling stockholder for resale, and to keep the registration statement effective until the earliest of (1) July 16, 2007, (2) such time as all shares have been sold under this prospectus, or (3) such time as the shares may be sold without restriction. Upon completion of the offering, assuming all of the shares held by the selling stockholder being registered hereby are sold and that the selling stockholder acquires no additional shares of common stock prior to the completion of this offering, the selling stockholder will beneficially own no shares of our common stock.

	Number of Shares Beneficially Owned Before the Offering [2]		Number of Shares Being Offered Under this Prospectus
Name and Address of Beneficial Owners[1]	Number	Percentage	
Private Capital Management, L.P. Bruce S. Sherman Gregg J. Powers 8889 Pelican Bay Blvd. Naples, FL 34108[3]	5,287,780	12.3%	
Thermo Electron Corporation 81 Wyman Street Waltham, MA 02451[4]	3,220,300	7.5%	3,220,300
Dimensional Fund Advisors Inc. 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90401[5]	2,678,904	6.2%	
R. Jack Aplin[6]	86,000	*	
Charles F. Cargile[7]	245,764	*	
Alain Danielo[8]	308,500	*	
Robert G. Deuster[9]	971,350	2.2%	
Robert L. Guyett[10]	149,000	*	
Michael T. O Neill[11]	15,500	*	
C. Kumar N. Patel[12]	161,349	*	

Robert J. Phillippy[13]	270,458	*
Kenneth F. Potashner[14]	74,426	*
Richard E. Schmidt[15]	238,639	*
Peter J. Simone[16]	17,500	*
Gary J. Spiegel[17]	218,755	*
All executive officers and directors as a group (16 persons)[18]	2,920,872	6.4%

* Less than 1%

(1) Unless otherwise indicated, the business address of each holder is c/o Newport Corporation, 1791 Deere Avenue, Irvine, California 92606.

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(2) The beneficial ownership is calculated based on 43,113,384 shares of our common stock outstanding as of February 28, 2005. Beneficial ownership is determined in accordance with Securities and Exchange Commission rules. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of common stock subject to options held by that person that are currently exercisable within 60 days of January 31, 2005 are deemed outstanding. Such shares, however, are not deemed outstanding for the purpose of computing the percentage of each other person. To our knowledge, except pursuant to applicable community property laws or as otherwise indicated, each person named in the table has sole voting and investment power with respect to the shares set forth opposite such person s name.

(3) Consists of 5,272,680 shares of common stock with respect to which the holders have shared voting and shared dispositive power, and 15,100 shares of common stock with respect to which Bruce S. Sherman has sole voting and sole dispositive power. Mr. Sherman is CEO, and Gregg J. Powers is President, of Private Capital Management, L.P. (PCM). In these capacities, Messrs. Sherman and Powers exercise shared dispositive and shared voting power with respect to shares held by PCM s clients and managed by PCM. Messrs. Sherman and Powers disclaim beneficial ownership for the shares held by PCM s clients and disclaim the existence of a group. The beneficial ownership information reflected in the table is included in the Schedule 13G, Amendment No. 3 filed jointly by PCM and Messrs. Sherman and Powers with the Securities and Exchange Commission on February 14, 2005.