

NEWPORT CORP  
Form DEF 14A  
April 07, 2008

**United States  
Securities and Exchange Commission  
Washington, D.C. 20549  
SCHEDULE 14A  
(Rule 14a-101)  
INFORMATION REQUIRED IN PROXY STATEMENT  
SCHEDULE 14A INFORMATION  
Proxy statement pursuant to section 14(a) of the Securities Exchange Act of 1934**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under sec. 240.14a-12

**NEWPORT CORPORATION**

**(Name of Registrant as specified in its charter)**

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**NEWPORT CORPORATION**  
**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**  
**May 20, 2008**

To the Stockholders of Newport Corporation:

NOTICE IS HEREBY GIVEN that the Annual Meeting of Stockholders of Newport Corporation will be held at our corporate headquarters, located at 1791 Deere Avenue, Irvine, California 92606, on Tuesday, May 20, 2008, at 9:00 a.m. Pacific Time, for the purpose of considering and acting upon the following:

1. To elect two Class IV directors to serve for four years;
2. To ratify the appointment of Ernst & Young LLP as Newport's independent auditors for the fiscal year ending January 3, 2009;
3. To consider a stockholder proposal to declassify Newport's Board of Directors; and
4. To transact such other business as may properly be brought before the meeting or any adjournment thereof.

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

Only stockholders of record at the close of business on March 31, 2008 are entitled to notice of and to vote at the meeting.

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

By order of the Board of Directors

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

April 7, 2008  
Irvine, California

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

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**NEWPORT CORPORATION  
PROXY STATEMENT  
General Information**

**Proxy Statement and Solicitation of Proxies**

***Solicitation by Board***

**This proxy statement is being furnished in connection with the solicitation of proxies by our Board of Directors for use at our Annual Meeting of Stockholders to be held on May 20, 2008.**

***Solicitation of Proxies and Related Expenses***

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

***Record Date and Voting Securities***

Our Board of Directors has fixed the close of business on March 31, 2008 as the record date for the determination of stockholders entitled to receive notice of and to vote at the meeting. As of the record date, there were 35,958,226 shares of our common stock outstanding and entitled to vote. Each stockholder is entitled to one vote for each share of common stock held as of the record date.

***Availability of Materials***

We are making this proxy statement and our Annual Report on Form 10-K for our fiscal year ended December 29, 2007 available to all stockholders of record on the record date for the meeting for the first time on or about April 7, 2008. On or about April 7, 2008, we are mailing to each stockholder of record on the record date for the meeting either a Notice Regarding the Availability of Proxy Materials informing the stockholder of how to electronically access a copy of this proxy statement and our Annual Report on Form 10-K and how to vote online (the Notice ), or printed copies of such materials, if printed copies have been previously requested by the stockholder. If any stockholder who receives a Notice would like to receive printed copies of such materials, such printed copies may be requested, free of charge, by following the instructions contained in the Notice.

We are also making available on our Internet site at [www.newport.com/2007annualreport](http://www.newport.com/2007annualreport) a web-based Annual Report to Stockholders containing information regarding our business which supplements the business and financial information contained in our Annual Report on Form 10-K. Except as may be required by Securities and Exchange Commission rules and regulations, our Annual Report on Form 10-K and our web-based Annual Report to Stockholders are not to be regarded as proxy soliciting material or as communications by means of which any solicitation is to be made.

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***Voting Rights***

A majority of shares entitled to vote, represented in person or by proxy, will constitute a quorum at the annual meeting. Abstentions and broker non-votes are each included in the determination of the number of shares present and voting for the purpose of determining whether a quorum is present, and each is tabulated separately. In tabulating the voting result for any proposal requiring the affirmative vote of a majority or other proportion of the shares present and entitled to vote, abstentions will be considered shares present and entitled to vote, and broker non-votes will not be considered shares present and entitled to vote. Abstentions or broker non-votes or other failures to vote will have no effect in the election of directors. In determining whether any other proposal has been approved, abstentions are counted as votes against a proposal and broker non-votes are not counted.

***Vote Required***

A quorum is required for the approval of any of the proposals set forth herein. Directors will be elected by a plurality of the votes cast. The approval of any other proposal to be considered at the annual meeting requires the affirmative vote of the holders of a majority of the shares present and entitled to vote at the annual meeting in person or by proxy.

***Voting of Proxies***

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

If you are the beneficial owner of shares held in street name by a broker, bank or other nominee (each, a Nominee), then your Nominee, as the record owner of the shares, must vote those shares in accordance with your instructions.

Please refer to the voting instruction form that your Nominee makes available to you for voting your shares.

Two of our officers, Charles F. Cargile and Jeffrey B. Coyne, have been designated by our Board as proxies for voting on matters brought before the 2008 annual meeting. Each proxy properly received by us prior to the meeting, and not revoked, will be voted in accordance with the instructions given in the proxy. If a choice is not specified in the proxy, the proxy will be voted (i) FOR election of the director nominees listed therein, (ii) FOR ratification of our appointment of Ernst & Young LLP as our independent auditors for the fiscal year ending January 3, 2009, and (iii) AGAINST the stockholder proposal to declassify our Board of Directors.

***Revoking a Proxy***

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

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

**Stockholder Proposals**

Any stockholder desiring to submit a proposal for action at our 2009 annual meeting of stockholders and presentation in our proxy statement for such meeting should deliver the proposal to us at our corporate offices no later than December 8, 2008 in order to be considered for inclusion in our proxy statement relating to that meeting. Matters pertaining to proposals, including the number and length thereof, eligibility of persons entitled to have such proposals included and other aspects are regulated by the Securities Exchange Act of 1934, as amended, rules and regulations of the Securities and Exchange Commission and other laws and regulations to which interested persons should refer. In addition, our bylaws contain procedures for stockholders to submit nominations of director candidates, which are discussed under the heading "Stockholder Nominations" on page 9 of this proxy statement.

Rule 14a-4 under the Securities Exchange Act of 1934, as amended, governs our use of our discretionary proxy voting authority with respect to a stockholder proposal which is not addressed in our proxy statement. Such rule provides that if a proponent of a proposal fails to notify us at least 45 days prior to the current year's anniversary of the date of mailing of the prior year's proxy statement, then we will be allowed to use our discretionary voting authority when the proposal is raised at the meeting, without any discussion of the matter in the proxy statement. We anticipate that our next annual meeting will be held in May 2009. If we do not receive any stockholder proposals for our 2009 annual meeting before February 21, 2009, we will be able to use our discretionary voting authority as outlined above.

**Other Matters**

Management is not aware of any other matters that will be presented for consideration at our 2008 annual meeting. If any other matter not mentioned in this proxy statement is brought before the meeting, the proxies named above will have discretionary authority to vote all proxies with respect thereto in accordance with their judgment.

**Newport Corporate Office**

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

**Proposal One**  
**Election of Directors**

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. At our 2008 annual meeting, two directors will be elected to serve as Class IV directors until our annual meeting in 2012. Our two directors who are currently serving as Class IV directors, R. Jack Aplin and Richard E. Schmidt, will be retiring from our Board concurrently with our 2008 annual meeting. Accordingly, two of our directors who are currently serving in other classes have been nominated by the Board for election as Class IV directors. Upon their election as Class IV directors, there will be one vacancy in Class I and one vacancy in Class II. Our Board is seeking candidates to fill such vacancies. Such vacancies are not eligible to be filled at the 2008 annual meeting. Our remaining Class I director will continue to serve until our annual meeting in 2009, our remaining Class II director will continue to serve until our annual meeting in 2010, and our Class III directors will continue to serve until our annual meeting in 2011.

**Class IV Director Nominees**

Based upon the recommendation of our Corporate Governance and Nominating Committee, our Board has nominated the individuals set forth below to serve as Class IV directors until our annual meeting of stockholders in 2012:

| Name                | Principal Occupation   | Age | Director Since |
|---------------------|--|-----|----------------|
| Robert L. Guyett    | President and Chief Executive Officer,<br>Crescent Management Enterprises, LLC | 71  | 1990           |
| Robert J. Phillippy | President and Chief Executive Officer,<br>Newport Corporation                  | 47  | 2007           |

**Robert L. Guyett** was elected to the Board in 1990. Since April 1996, Mr. Guyett has been President and Chief Executive Officer of Crescent Management Enterprises, LLC, a financial management and investment advisory services firm. From May 2003 until May 2007, he served as Chairman of the Board of Directors of Maxwell Technologies, Inc., a manufacturer of ultracapacitors, microelectronics, 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 and Dana Reeve Foundation. Mr. Guyett serves on the board of directors of one other public company, Maxwell Technologies, Inc.

**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 of the U.S. operations of our Industrial and Scientific Technologies Division (now a part of our Photonics and Precision Technologies Division), and in July 2004, he was appointed as President and Chief Operating Officer. In September 2007, Mr. Phillippy was appointed as President and Chief Executive Officer and as a member of the Board. Prior to joining us, Mr. Phillippy was Vice President of Channel Marketing at Square D Company, an electrical equipment manufacturer, from 1994 to 1996. He joined Square D Company in 1984 as a sales engineer and held various sales and marketing management positions with that company prior to his election as Vice President in 1994. Unless otherwise instructed, each proxy received by us will be voted in favor of the election of Messrs. Guyett and Phillippy as Class IV directors. The nominees have indicated that they are willing and able to serve as directors if elected. If the nominees should become unable or unwilling to serve, it is the intention of the persons designated as proxies to vote instead, in their discretion, for such other persons as may be designated as nominees by our Board.

**The Board of Directors recommends a vote FOR the election of Messrs. Guyett and Phillippy as Class IV directors.**



**Continuing Directors**

The following directors will continue to serve on our Board:

| <b>Name</b>                       | <b>Principal Occupation</b>   | <b>Age</b> | <b>Class</b> | <b>Term Expires</b> | <b>Director Since</b> |
|-----------------------------------|---|------------|--------------|---------------------|-----------------------|
| Kenneth F. Potashner,<br>Chairman | Independent Investor  | 50         | II           | 2010                | 1998                  |
| Michael T. O'Neill                | President and Chief Executive Officer,<br>Miragene, Inc.  | 67         | I            | 2009                | 2003                  |
| C. Kumar N. Patel                 | Professor of Physics and Astronomy,<br>University of California, Los Angeles;<br>Chairman and Chief Executive Officer,<br>Pranalytica, Inc. | 69         | III          | 2011                | 1986                  |
| Peter J. Simone                   | Independent Consultant  | 60         | III          | 2011                | 2003                  |

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

**Michael T. O'Neill** was appointed to the Board in April 2003. Since November 2000, Mr. O'Neill has served as President and Chief Executive Officer 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. 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.

**Peter J. Simone** was appointed to the Board in March 2003. Mr. Simone currently serves as an independent consultant to several venture capital firms and venture-funded private companies. Mr. Simone was Executive Chairman of SpeedFam-IPEC, Inc., a semiconductor equipment company, from June 2001 to December 2002 when it was acquired by Novellus Systems, Inc. He served as a director of and a consultant to Active Controls eXperts, Inc. ( ACX ), a

leading supplier of precision motion control and smart structures technology, from January 2000 to August 2000, and was President and a director of ACX from August 2000 to February 2001 when it was acquired by Cymer, Inc. He served as President, Chief Executive Officer and director of Xionics Document Technologies, Inc., a provider of embedded software solutions for printer and copier manufacturers, from April 1997 until Xionics

merger with Oak Technology, Inc. in January 2000. Mr. Simone's previous experience includes seventeen years with GCA Corporation, a manufacturer of semiconductor photolithography capital equipment, holding various management positions including President and director. Mr. Simone serves on the boards of directors of several non-public companies and serves on the boards of directors of three other public companies: Cymer, Inc., Monotype Imaging, Inc. and Veeco Instruments, Inc.

### **Corporate Governance**

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

#### ***Board of Directors***

##### *Independence*

With the exception of Mr. Phillippy, our President and Chief Executive Officer, all of the 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.

##### *Board Leadership*

At such times as an independent director is serving as Chairman of the Board, the leadership of the Board is the responsibility of the Chairman. In accordance with our Corporate Governance Guidelines, in the event that a non-independent director is serving as Chairman of the Board, the leadership of the Board would be shared by the Chairman and a lead independent director who would be appointed by the independent directors from among themselves on the recommendation of the Corporate Governance and Nominating Committee of the Board. Mr. Aplin served as lead independent director from September 2006 until September 2007. In September 2007, in connection with the resignation of Robert G. Deuster as Chairman of the Board and Chief Executive Officer, the Board appointed Mr. Potashner, who is an independent director, as Chairman of the Board, and Mr. Aplin ceased to serve as lead independent director.

##### *Meetings*

It is the policy of our Board to hold at least four regular meetings each year, typically in February, May, August and November. The regular meeting held in May of each year coincides with our annual meeting of stockholders. Generally, all directors attend our annual meetings of stockholders and, in any event, at least a majority of the directors attend each annual meeting. All directors, with the exception of Mr. Schmidt, attended our 2007 annual meeting of stockholders, and it is anticipated that all directors will attend our 2008 annual meeting. Our Board held six meetings (including telephonic meetings) during the fiscal year ended December 29, 2007. With the exception of Mr. Schmidt, each director attended at least seventy-five percent of the aggregate of the number of meetings of the Board and the number of meetings held by all committees of the Board on which he served (during the periods that he served).

##### *Private Sessions*

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

***Committees of the Board***

Our Board has three separate standing committees: the Audit Committee, the Compensation Committee and the Corporate Governance and Nominating Committee. Each committee operates under a written charter adopted and reviewed annually by the Board. Copies of the charters of all standing committees are available on our Internet site at [www.newport.com](http://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. The Board may establish other committees from time to time as deemed appropriate by the Board based on the needs of the Board and the company.

***Audit Committee***

The Audit Committee is comprised of three directors. The current members are Messrs. Guyett (Chairman), 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 held ten meetings (including telephonic meetings) during the fiscal year ended December 29, 2007.

The Audit Committee has the sole authority to appoint 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 and the fees associated therewith. The Audit Committee has, among other things, the responsibility to:

- evaluate the qualifications and independence of our independent auditors;

- review and approve the scope and results of the annual audit;

- evaluate independently and with our independent auditors our financial and internal audit staff and the adequacy and effectiveness of our systems and internal control over financial reporting;

- review and discuss with management and the independent auditors the content of our financial statements prior to the filing of our quarterly reports on Form 10-Q and annual reports on Form 10-K;

- review the content and clarity of our proposed communications with investors regarding our operating results and other financial matters;

- review significant changes in our accounting policies;

- review and approve transactions with related persons for which approval is required under applicable law, including Securities and Exchange Commission and Nasdaq rules;

- establish procedures for receiving, retaining and investigating reports of illegal acts involving us or complaints or concerns regarding questionable accounting or auditing matters, and supervise the investigation of any such reports, complaints or concerns;

- establish procedures for the confidential, anonymous submission by our employees of concerns or complaints regarding questionable accounting or auditing matters;

- provide sufficient opportunity for the independent auditors to meet with the committee without management present;

- adopt and continually review and assess our investment policy;

oversee the management of our investment portfolio and evaluate the performance of our portfolio managers;  
and

review and approve or make recommendations to the Board with respect to certain significant capital spending proposals.

*Compensation Committee*

The Compensation Committee is comprised of three directors. The current members are Messrs. O Neill (Chairman), Aplin and Potashner. None of the current members of the Compensation 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. The Compensation Committee held four meetings (including telephonic meetings) during the fiscal year ended December 29, 2007. The Compensation Committee has, among other things, the responsibility to:

- develop guidelines for, evaluate and approve cash and equity compensation and benefit plans, programs and agreements for our Chief Executive Officer and other executive officers;

- oversee the development of and to administer our long-term incentive plans, including equity-based incentive plans;

- develop guidelines for and approve grants of awards to key personnel under our equity-based incentive plans; and

- evaluate the form and amount of director compensation and make recommendations to the Board related thereto.

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

*Corporate Governance and Nominating Committee*

The Corporate Governance and Nominating Committee is comprised of three directors. The current members are Messrs. Potashner (Chairman), Guyett and O Neill. None of the members of the Corporate Governance and Nominating Committee are or have been our officers or employees, and each member qualifies as an independent director as defined by Rule 4200(a)(15) of the Nasdaq Marketplace Rules. The Corporate Governance and Nominating Committee held five meetings (including telephonic meetings) during the fiscal year ended December 29, 2007. The Corporate Governance and Nominating Committee ensures that the Board is properly constituted to meet its fiduciary obligations to Newport and our stockholders and that we have and follow appropriate governance standards. To carry out this purpose, the Corporate Governance and Nominating Committee has, among other things, the responsibility to:

- develop, continually assess and monitor compliance with our corporate governance guidelines;

- evaluate the size and composition of our Board, the criteria for Board membership and the independence of Board members;

- oversee the evaluation of the performance of our Board and its committees and our management;

- assist our Board in establishing appropriate committees and recommend members for such committees; and

- identify, evaluate and recommend to our Board candidates for nomination and election as members of our Board.

***Identifying and Evaluating Director Candidates***

The Corporate Governance and Nominating Committee identifies potential director candidates through a variety of sources, including recommendations made by current or former directors, members of our executive management, stockholders and business, academic and industry contacts. When appropriate, a search firm may be retained by the committee to identify director candidates. In 2007, the Corporate Governance and Nominating Committee engaged Spencer Stuart, a firm specializing in the recruitment of directors and executives, to assist the committee in identifying and recruiting director candidates to fill the vacancies on the Board that will result from the upcoming retirement of Messrs. Aplin and Schmidt in May 2008.

The Corporate Governance and Nominating Committee reviews and assesses at least annually the size and composition of our Board and the criteria for Board membership, including independence, character, judgment, diversity, age, business background, experience and other relevant matters. Candidates for director are evaluated based on such established criteria and certain provisions of our bylaws.

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

***Stockholder Nominations***

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

***Communications with our Board***

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

**Corporate Responsibility***Code of Ethics*

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

*Procedures for Submitting Complaints Regarding Accounting and Auditing Matters*

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

**Executive Officers**

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

| <b>Name</b>         | <b>Age</b> | <b>Title</b>   |
|---------------------|------------|--|
| Robert J. Phillippy | 47         | President and Chief Executive Officer                          |
| Charles F. Cargile  | 43         | Senior Vice President, Chief Financial Officer and Treasurer   |
| Jeffrey B. Coyne    | 41         | Senior Vice President, General Counsel and Corporate Secretary |
| Gary J. Spiegel     | 57         | Vice President, Worldwide Sales and Service                    |
| David J. Allen      | 53         | Vice President and General Manager, Lasers Division            |

Mr. Phillippy's biography is presented on page 4. The biographies of our other executive officers are set forth below. **Charles F. Cargile** joined us in October 2000 as Vice President and Chief Financial Officer. In July 2004, he was appointed Senior Vice President, and in February 2005, he was appointed Treasurer. Prior to joining us, Mr. Cargile was Vice President, Finance and Corporate Development for York International Corporation (now a division of Johnson Controls, Inc.), a manufacturer of air conditioning and refrigeration products. He joined York in November 1998, and served in a number of executive positions, including Corporate Controller and Chief Accounting Officer, until his promotion to Vice President, Finance and Corporate Development in February 2000. Prior to joining York, Mr. Cargile was employed by Flowserve Corporation, a manufacturer of highly-engineered pumps, seals and

valves primarily for the petroleum and chemical industries, in various positions, most recently as Corporate Controller and Chief Accounting Officer from February 1995 to November 1998.

**Jeffrey B. Coyne** joined us in June 2001 as Vice President, General Counsel and Corporate Secretary. In July 2004, he was appointed Senior Vice President. 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.

**Gary J. Spiegel** joined us in 1991 through our acquisition of Micro-Controle, SA and its subsidiary, Klinger Scientific. He was appointed to the position of Vice President with responsibility for domestic sales in June 1992. During 1997, Mr. Spiegel was assigned additional responsibility for export sales including our sales subsidiaries in Canada and Taiwan. In March 2002, Mr. Spiegel was appointed Vice President, Worldwide Sales and Marketing, expanding his role to include responsibility for all marketing communications and market management. 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.

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

***Family Relationships***

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

## **Compensation Discussion and Analysis**

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

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

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

paying compensation that is competitive with other technology companies in our markets and in our geographic locations that have comparable revenue levels;

tying a significant portion of our executives' total compensation to performance, by:

- providing annual cash incentives that are tied to the achievement of challenging annual financial and non-financial performance objectives; and
  - providing long-term incentives, in the form of equity-based awards that are tied to the achievement of challenging long-term financial performance objectives; and
- providing a significant long-term incentive to executives to encourage them to remain with Newport for long and productive careers and to build long-term stockholder value.

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

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

The Committee is guided by the above policies in determining the appropriate allocation among the various elements of our executive compensation program, as well as in the structuring and administration of those elements. In determining the particular elements of compensation that will be used to implement these compensation policies and the allocation of compensation among these elements, the Committee takes into consideration a number of factors related to our performance, such as our revenue and profit growth performance and goals and other financial goals, as well as competitive practices among our peer companies.

The Committee typically determines each executive's target total annual cash compensation (salary and cash incentive) and target total direct compensation (salary, cash incentive and long-term equity incentive) after reviewing similar compensation information from a group of peer companies in the high technology industry with whom we compete for executive talent. This review usually occurs in February of each year, and base salary increases typically are effective as of April 1 of each year. For its most recent review, the Committee considered 37 high technology companies of similar size and scope as Newport, as measured by annual revenue and market capitalization. Data on the compensation practices of these peer companies is generally gathered by the Committee's compensation consultants through searches of publicly available information, as well as the Radford Executive Compensation survey. Peer group data is gathered with respect to base salary, target annual bonus and target annual equity award grants (including stock options, restricted stock and stock appreciation rights). It does not include pension or deferred compensation benefits or generally available benefits, such as 401(k) plan matching contributions or health care coverage.

The Committee's general practice is to target base salaries and total cash compensation at the 50<sup>th</sup> percentile of these peer companies, and to target performance-based equity compensation at the 75<sup>th</sup> percentile of these peer companies. This is consistent with our policy of tying a significant portion of total compensation to the achievement of performance objectives, which we believe helps to align the interests of executives with those of our stockholders. Targeting performance-based equity compensation at the 75<sup>th</sup> percentile, and therefore providing a higher incentive compensation potential, rewards executives for exceptional goal achievement and allows total compensation to be

more competitive as a whole, while helping us to control fixed costs. The Committee has the

discretion to deviate from the peer company data to take into account factors such as an executive's performance, the scope of the executive's position and responsibilities and internal equity of compensation among our executive officers.

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

The Committee has the authority to engage its own compensation consultants and other independent advisors to assist in creating and administering our executive compensation policies. In November 2006, Radford Surveys + Consulting, a unit of Aon Consulting ( Radford ), was engaged by management at the request of the Committee to perform a market survey of executive compensation levels, which was reviewed by the Committee in establishing base salaries for our executives for 2007. In 2007, the Committee, together with management, interviewed several consulting firms who submitted proposals to conduct a review and analysis of our executive compensation and benefit program and provide recommendations to the Committee. Following these interviews, Radford was selected again by the Committee to perform such review, and their recommendations were reviewed by the Committee in establishing base salaries for our executives for 2008. Separate units of Aon Consulting have performed advisory and brokerage services for us relating to certain lines of insurance and employee medical, dental and other benefits. Except for these services, Aon Consulting has not provided any other services to us and has received no compensation other than with respect to the services provided to the Committee.

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

The Committee periodically meets with our Chief Executive Officer and/or other executive officers to obtain recommendations with respect to compensation programs for executives and other employees. Our Chief Executive Officer makes recommendations to the Committee on the base salaries, incentive targets and measures and equity compensation for our executives and other key employees. The Committee considers, but is not bound to and does not always accept, management's recommendations with respect to executive compensation. The Committee has made modifications to several of management's proposals in recent years, including 2007. The Committee also typically seeks input from compensation consultants prior to making any final determinations. Our Chief Executive Officer and other executives attend most of the Committee's meetings, but the Committee also regularly holds executive sessions not attended by any members of management or non-independent directors. The Committee discusses our Chief Executive Officer's compensation package with him, but makes decisions with respect to his compensation without him present. The Committee has delegated to management the authority to make salary adjustments and annual incentive decisions and grant long-term incentive awards to employees other than certain officers under guidelines set by the Committee. The Committee has not delegated any of its authority with respect to the compensation of executive officers.

***Elements of Executive Compensation Program***

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

***Base Salary***

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

For 2007, after taking into consideration the compensation targets discussed above and the peer group data provided by the Committee's compensation consultants, the Committee increased the base salaries of the named executive officers (who are identified in the Summary Compensation Table on page 22 of this proxy statement), other than

Mr. Allen, by amounts ranging from 3.8% to 6.1%, with such increases to be effective at the beginning of April 2007. However, in April 2007, in light of challenges facing us in achieving our forecasted financial results for 2007, management made a decision not to implement such salary increases. While the approved base salary increases were not implemented in 2007, such amounts were used for purposes of calculating the target incentive amounts for the named executive officers under our annual cash incentive program, which is discussed below. The Committee approved the base salary of Mr. Allen at the time of his hire in March 2007. In September 2007, in connection with Mr. Phillippy's appointment as President and Chief Executive Officer, the Committee increased Mr. Phillippy's base salary to \$425,000.

In February 2008, the Committee again evaluated executive compensation and, after taking into consideration the compensation targets discussed above and the peer group data provided by the Committee's consultants, approved base salary increases for each named executive officer for 2008. Such increases will become effective in April 2008 and range from 3.7% to 14.3% over the base salaries currently in effect for the named executive officers (without regard to the previously approved increases that were not implemented for the named executive officers other than Mr. Phillippy).

#### *Annual Cash Incentives*

Each of our executives participates in an annual cash incentive plan developed by the Committee. This annual cash incentive program focuses on linking a significant portion of each executive's total compensation to the achievement of challenging performance targets established at the beginning of each year. Under certain circumstances, the Committee may award discretionary bonuses in cases where such performance targets are not met, but the Committee did not award any such discretionary bonuses for 2007.

Under the annual cash incentive plan, each executive is generally assigned a combination of financial performance measures and individual non-financial goals. For Robert G. Deuster, our former Chief Executive Officer, a portion of his 2007 annual target incentive was based on his overall performance rather than on specific non-financial goals. For Mr. Phillippy, a portion of his 2007 annual incentive was based on specific non-financial goals; however, in his new role as Chief Executive Officer, it is the intention of the Committee that a portion of his annual target incentive in future years will be based on his overall performance rather than on specific non-financial goals.

The target incentive for each executive is determined by the Committee based on the position and responsibility of the executive and the compensation targets discussed above and the peer group data provided by the Committee's compensation consultants. The Committee's general practice is to set target incentive levels at approximately the 50<sup>th</sup> percentile of the peer group. For 2007, the target incentives for the named executive officers were as follows:

| <b>Name</b>         | <b>Target<br/>Incentive<br/>(as % of<br/>Approved<br/>Base Salary)</b> | <b>Target<br/>Incentive<br/>(\$)</b> |
|---------------------|--|--------------------------------------|
| Robert J. Phillippy | 82%  | \$ 292,643                           |
| Charles F. Cargile  | 75%  | 243,750                              |
| Gary J. Spiegel     | 50%  | 137,500                              |
| Jeffrey B. Coyne    | 50%  | 130,000                              |
| David J. Allen      | 50%  | 106,443                              |
| Robert G. Deuster   | 100%   | 490,000                              |

In September 2007, in connection with Mr. Phillippy's appointment as President and Chief Executive Officer, the Committee increased Mr. Phillippy's target incentive percentage from 75% to 100% of his new annual base salary. The

target incentive amounts shown in the table above reflect the adjusted amounts that he was entitled to receive for 2007, which have been pro rated based on the periods during which his different target incentive percentage amounts and base salary amounts were in effect during the year.

Management provides recommendations to the Committee with respect to financial performance measures for each executive and the relative weighting of such measures. The Committee considers, but is not bound to accept such recommendations, and has made changes to the measures and relative weighting in recent years. The financial performance measures for each executive are selected by the Committee each year based on our corporate goals for

that year and the Board's priorities. The measures selected, and their relative weighting, vary among the executives based upon such executive's area of responsibility and potential impact on our operating and financial performance, to provide optimal correlation between performance and reward.

For 2007, the financial measures and relative weightings thereof, and the weighting of non-financial goals, for each named executive officer were as follows:

| <b>Name</b>         | <b>Consolidated<br/>Net Sales</b> | <b>Consolidated<br/>Operating<br/>Income</b> | <b>Earnings<br/>Per<br/>Share</b> | <b>Lasers<br/>Division<br/>Sales</b> | <b>Lasers<br/>Division<br/>Operating<br/>Income</b> | <b>Non-Financial<br/>Goals</b> |
|---------------------|-----------------------------------|--|-----------------------------------|--------------------------------------|---|--------------------------------|
| Robert J. Phillippy | 30%                               | 40%  | 10%                               |                                      |   | 20%                            |
| Charles F. Cargile  | 20%                               | 40%  | 20%                               |                                      |   | 20%                            |
| Gary J. Spiegel     | 50%                               | 20%  |                                   |                                      |   | 30%                            |
| Jeffrey B. Coyne    | 20%                               | 40%  | 20%                               |                                      |   | 20%                            |
| David J. Allen      |                                   | 10%  |                                   | 20%                                  | 40%   | 30%                            |
| Robert G. Deuster   | 20%                               | 40%  | 20%                               |                                      |   | 20%                            |

For each financial measure, minimum, target and maximum performance levels are set, corresponding to payout levels of 50%, 100% and 200% of the target incentive, respectively. The Committee believes that this structure rewards the executives for overachievement of our financial goals and provides limited downside protection in the event of performance that is close to, but below, the target level. The target levels for each measure are generally set at approximately the levels set forth in the annual operating plan established by management and approved by the Board in advance of each year, which are levels that the Board feels are challenging but achievable with significant effort.

The maximum levels for each measure are generally set at levels the Committee feels represent both extremely challenging performance goals and outstanding achievement. Payouts are prorated on a straight-line basis for achievement between the minimum and target levels or the target and maximum levels. If we do not achieve at least the minimum performance level for a measure, no payout is made for that measure. For 2007, we did not achieve our financial goals with respect to any of the financial measures that had been assigned to the named executive officers.

As such, no payouts were made for the portion of the target incentives allocated to those financial components.

The non-financial goals for each named executive officer other than our Chief Executive Officer are selected by the Committee each year based on the executive's potential contributions to the achievement of certain of our key business objectives for that year. Our Chief Executive Officer provides recommendations to the Committee regarding these goals, which are reviewed and modified or approved by the Committee in its discretion. Such non-financial goals typically have specific, objective measurement criteria or deliverables, and are intended by the Committee to be challenging but achievable with significant effort. Following completion of the year, our Chief Executive Officer presents an assessment of each executive's achievement of his or her assigned goals, which assessment is reviewed and modified or approved by the Committee.

For 2007, each named executive officer (other than Mr. Deuster) received payouts ranging from 0% to 100% of the target incentives allocated to individual non-financial incentive components based on achievement of such components. Mr. Phillippy received a 100% payout of the target incentive allocated to one of his individual non-financial goals, and no payout of the target incentive allocated to his other individual non-financial goal, based on achievement of such goals as determined by the Committee.

In future years, the Committee expects that the remainder of Mr. Phillippy's target incentive will be discretionary based on his overall performance (in particular, our performance against our annual operating plan and the

achievement of our corporate goals for the year). The Committee will determine the payment of the discretionary portion of Mr. Phillippy's target incentive in consultation with the members of the Corporate Governance and Nominating Committee of our Board, who evaluate Mr. Phillippy's performance during each year.

As part of the Separation Agreement that we entered into with Mr. Deuster, Mr. Deuster received a cash payout of \$490,000, which was equal to the amount that would have been payable to him under our annual cash incentive plan

based on 100% achievement of the financial goals assigned to him and 100% payout of the portion of his target incentive based on his overall individual performance.

*Long-Term Equity Incentives*

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

In March 2006, our Board adopted the 2006 Performance-Based Stock Incentive Plan ( 2006 Plan ) subject to stockholder approval, which was received in May 2006. Upon the approval of the 2006 Plan, our previous equity incentive plan, the 2001 Stock Incentive Plan, was terminated for purposes of future grants, and all future grants of equity-based compensation are expected to be made under the 2006 Plan. The 2006 Plan allows us to grant a variety of equity award types, including stock options, stock appreciation rights, restricted stock and restricted stock units, and provides that the vesting of substantially all awards to executives and other employees will be conditioned on the achievement of performance goals established by the Committee.

The Committee considers the appropriate award size and the appropriate equity-based vehicles or combination of vehicles when making award decisions. The target long-term equity incentive value for each executive is determined by the Committee based on the position and responsibility of the executive and the peer group data provided by the Committee's compensation consultants. The Committee's general practice is to set target long-term equity incentive levels at approximately the 75<sup>th</sup> percentile of the peer group. However, the Committee also considers other factors, including the compensation expense associated with the awards, and individual factors such as the executive's performance and scope of responsibility and internal equity of compensation among our executives, in making award decisions. The Committee does not consider existing equity ownership, as it does not want to discourage executives from holding significant amounts of our stock. In selecting the equity vehicles to be used each year, the Committee seeks to achieve an appropriate balance between awards that provide higher incentive value, such as options or stock appreciation rights, and awards that provide higher retention value, such as restricted stock or restricted stock units. The Committee also takes into account the relative efficiencies of each type of equity vehicle in terms of the number of shares required to provide the targeted value opportunity to the executive, in order to minimize stockholder dilution.

In 2006 and 2007, the Committee awarded restricted stock units to each named executive officer under our 2006 Plan. The awards granted in 2007 are reflected in the table entitled Grants of Plan-Based Awards in Fiscal Year 2007 on page 24 of this proxy statement. In determining the sizes of these awards, the Committee reviewed peer group data and recommendations provided by Radford, as well as the other factors discussed above. The Committee selected restricted stock units for these awards to provide the executives with a vehicle that provides stronger retention value than stock options, as well as to minimize the stockholder dilution resulting from the awards. Each award vests in equal annual installments over three years, provided that we achieve certain specified annual financial performance goals for the year in which the award is granted and each of the succeeding two years. For the 2006 and 2007 awards, 50% of each award is tied to the achievement of a net sales performance goal, and 50% is tied to the achievement of either an operating income performance goal or an earnings per share performance goal, depending upon the executive's position. The Committee has selected these goals because they believe that sales and earnings growth are key drivers of increased stockholder value.

At the time of award, the Committee establishes target and minimum achievement levels for each performance measure for each of the three years. The target levels for each measure are generally set at approximately the levels set forth in our then-current strategic plan developed by management and approved by the Board each year, which are levels that the Board feels are challenging but achievable with significant effort. 100% of the restricted stock

units that are subject to a performance measure will vest if at least the target level for that measure is achieved. 70% of the restricted stock units subject to a performance measure will vest if the minimum level for that measure is achieved. Vesting will be prorated between 70% and 100% on a straight-line basis for achievement of the applicable performance measure in an amount greater than the minimum level but less than the target level. The Committee believes that this structure is appropriate in order to take into account the challenges in setting precise financial goals over a three-year period, and to avoid losing all of the incentive and retention value of the awards in the event that our performance is close to, but lower than, the target levels. In addition, because the grants are intended to reward achievement of a long-term performance trend, rather than just performance in a single year, if less than 100% of the restricted stock units that are subject to a performance measure vest for a particular performance period, then 50% of the restricted stock units that did not vest for such performance period will remain outstanding and will be eligible for vesting in the next performance period. Such restricted stock units will vest if at least the target level for the applicable performance measure is achieved for the next performance period.

Following the completion of the independent, external audit of our financial statements for each year, the Committee determines and certifies as to whether, and to what extent, the performance goals were achieved for a particular year and the corresponding number of restricted stock units that have vested. All vested restricted stock units are settled by the delivery of shares of our common stock effective as of the date of such determination.

In March 2007, 100% of the restricted stock units that were tied to the achievement of 2006 financial performance goals vested based on the achievement of such goals and were settled by delivery of shares of our common stock, subject to the satisfaction of payment of all applicable withholding taxes. With respect to the restricted stock units awarded in both 2006 and 2007 that were tied to the achievement of 2007 financial performance goals, in March 2008, the Committee determined that none of the 2007 financial performance goals were achieved. As a result, 50% of such restricted stock units were forfeited and 50% of such restricted stock units will remain outstanding and will be eligible for vesting if at least the target level for the applicable performance measure is achieved for 2008. All restricted stock units that were outstanding as of December 29, 2007 are reflected in the table entitled "Outstanding Equity Awards at 2007 Fiscal Year End" beginning on page 25 of this proxy statement as shares which had not been earned and had not vested as of December 29, 2007.

The Committee's current expectation is that future awards made under the 2006 Plan, other than to new hires and for special retention purposes, will be approved at a meeting of the Committee to be held in March or April of each year.

#### *Executive Perquisites and Benefits*

We provide our executives with other benefits that we believe are reasonable, competitive and consistent with our overall executive compensation program. The costs of these benefits are reflected in the "All Other Compensation" column in the Summary Compensation Table on page 22 of this proxy statement, and consist of term life insurance for the benefit of the executives, auto allowances and annual physical examinations that are more extensive than that provided under our standard plans. The costs of these benefits constitute only a small percentage of each executive's total compensation.

#### ***Generally Available Benefit Programs***

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

#### *Section 401(k) Plan*

We maintain a tax-qualified retirement plan that provides eligible employees with an opportunity to save for retirement on a tax advantaged basis. Each of our executives is eligible to participate in this plan. Participants are able to defer up to 50% of their eligible compensation, subject to applicable annual limits under the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"). Pre-tax contributions are allocated to each participant's individual account and are then invested in selected investment alternatives according to the participant's directions. Employee elective deferrals are 100% vested at all times. The 401(k) plan allows for matching contributions to be made by us starting immediately upon participation in the 401(k) plan. We match



employee elective deferrals up to a maximum of 6% of eligible compensation, subject to applicable annual Internal Revenue Code limits. These matching contributions are immediately vested. The 401(k) plan is intended to qualify under Sections 401(a) and 501(a) of the Internal Revenue Code. As a tax-qualified retirement plan, contributions to the 401(k) plan and earnings on those contributions are not taxable to the employees until distributed from the 401(k) plan, and all contributions are deductible by us when made.

*Employee Stock Purchase Plan*

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

*Deferred Compensation Plan*

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

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

Several named executive officers have elected to defer salary, bonus and/or restricted stock under the Deferred Compensation Plan, and have accumulated the deferred compensation amounts shown in the table entitled

Nonqualified Deferred Compensation in Fiscal Year 2007 on page 28 of this proxy statement. The amounts deferred are unsecured obligations of the company, receive no preferential standing, and are subject to the same risks as any of our other general obligations.

***Stock Ownership Guidelines***

Our Board of Directors has established stock ownership guidelines for executives that are designed to increase the executive's equity stake in Newport and more closely align his or her interests with those of our stockholders. In February 2007, the Board reevaluated and adopted changes to these guidelines to increase the minimum stock ownership guidelines for certain executives and to provide for additional guidelines and conditions relating to the sale of stock by the executives.

The current guidelines provide that each executive should own, at a minimum, shares of our common stock having a value equal to a specified percentage of his or her annual base salary within two years of becoming an officer or



following the Board's adoption of the guidelines, whichever is later. In accordance with these guidelines, our Chief Executive Officer should own shares of our stock having a value equal to at least 300% of his annual base salary, our Senior Vice President and Chief Financial Officer should own shares of our stock having a value equal to at least 200% of his annual base salary, and our other executive officers should own shares of our stock having a value ranging from 50% to 150% of their annual base salaries.

The guidelines also provide that our executives shall not sell shares of our stock if the executive is not in compliance, or if such sale would cause the executive officer to become out of compliance, with the minimum stock ownership guidelines, except under certain circumstances, including cases of financial hardship, if approved by the Chairman of the Compensation Committee of our Board. These restrictions do not apply to the sale, or the surrender to us, of shares in connection with the exercise or settlement of a stock option or stock appreciation right, or the vesting of restricted stock or restricted stock units, in payment of the exercise price and/or withholding taxes due in connection with such exercise, settlement or vesting. The guidelines also provide that any sales of our stock by our executives shall be made pursuant to a written sale plan that meets the requirements of Rule 10b5-1 under the Securities Exchange Act of 1934, as amended, and the requirements of our insider trading policy.

In addition to the guidelines described above, the terms of certain stock options previously granted to certain executives provide that the executive must hold at least 50% of all shares received upon the exercise of a stock option, for the longer of one year or until such time as the executive is in compliance with these stock ownership guidelines. Under our insider trading policy, covered employees are prohibited from trading in any interest or position relating to the future price of our securities, such as a put, call or short sale.

#### ***Accounting and Tax Considerations***

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

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

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

***Employment Agreements and Arrangements***

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

***Termination Following Change in Control***

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

***Other Termination***

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

The estimated payments and benefits that each named executive officer would have received under the severance compensation agreements described above in the event that his employment had been terminated by us under certain circumstances as of December 29, 2007 are discussed under the heading "Payments Upon Certain Termination Events" beginning on page 29 of this proxy statement.

***Non-Employee Director Compensation***

The Committee has the authority and responsibility to review and evaluate periodically the cash and equity compensation paid to non-employee directors. Based on such review and evaluation, the Committee makes recommendations to our Board, and the Board approves all non-employee director compensation in its sole discretion. The Committee has the authority to engage compensation consultants to assist the Committee in evaluating the amount and form of non-employee director compensation. In evaluating and making its recommendations regarding non-employee director compensation, the Committee reviews market data obtained through surveys conducted by such consultants or through other external resources. While the Committee may direct management to engage compensation consultants on behalf of the Committee, the Committee does not delegate any authority to management to determine or make recommendations regarding such compensation.

Each of our non-employee directors receives an annual fee for service as a director, which is currently \$26,250. In addition, each non-employee director is paid \$2,500 for each in-person Board meeting attended, \$1,500 for each telephonic Board meeting attended, \$2,000 for each in-person committee meeting attended, and \$1,000 for each telephonic committee meeting attended. Each committee chairperson receives an additional \$1,000 for each in person or telephonic committee meeting attended. Our non-employee directors are also reimbursed for expenses incurred in connection with attending Board and committee meetings.

Mr. Potashner receives an additional annual fee of \$12,000 for his service as Chairman of the Board. At such times as a lead independent director is serving, such director would receive an additional annual fee of \$6,000, prorated for any portion of a year during which he serves. In 2007, Mr. Aplin received additional fees for his service as lead independent director.

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

All cash compensation earned by each non-employee director, and share-based compensation expense recognized by us for each non-employee director, during the fiscal year ended December 29, 2007 is shown in the table entitled Director Compensation in Fiscal Year 2007 on page 30 of this proxy statement.

**Summary Compensation Table**

The following table sets forth compensation earned during the fiscal years ended December 29, 2007 and December 30, 2006 by our principal executive officer, Robert J. Phillippy; our principal financial officer, Charles F. Cargile; our three other most highly compensated executive officers who were serving as executive officers at December 29, 2007 and whose total compensation exceeded \$100,000 for the fiscal year ended December 29, 2007; and Robert G. Deuster, who served as our principal executive officer during a portion of 2007, as well as share-based compensation expense recognized by us for such officers during such fiscal years. These officers are referred to in this proxy statement as the named executive officers.

**Summary Compensation Table**

| Name and Principal Position   | Year | Salary<br>(\$) | Stock<br>Awards <sup>(1)</sup><br>(\$) | Option<br>Awards <sup>(2)</sup><br>(\$) | Non-<br>Equity<br>Incentive<br>Plan      | All Other<br>Compen-<br>sation <sup>(4)</sup><br>(\$) | Total<br>(\$) |
|---|------|----------------|--|---|--|---|---------------|
|   |      |                |  |   | Compen-<br>sation <sup>(3)</sup><br>(\$) |   |               |
| Robert J. Phillippy<br>President and Chief Executive Officer                            | 2007 | \$336,541      | \$ 57,975                              | \$215,320                               | \$ 28,091                                | \$ 31,585   | \$ 669,512    |
|   | 2006 | 308,988        | 173,925                                | 364,755                                 | 306,179                                  | 31,294  | 1,185,141     |
| Charles F. Cargile<br>Senior Vice President,<br>Chief Financial Officer and Treasurer   | 2007 | 312,000        | 45,105                                 | 83,717                                  | 19,500                                   | 33,214  | 493,536       |
|   | 2006 | 308,769        | 135,314                                | 270,511                                 | 303,009                                  | 34,681  | 1,052,284     |
| Gary J. Spiegel<br>Vice President,<br>Worldwide Sales and Service                       | 2007 | 264,996        | 25,780                                 | 68,773                                  | 24,063                                   | 54,848  | 438,460       |
|   | 2006 | 261,920        | 77,339                                 | 180,850                                 | 177,375                                  | 54,380  | 751,864       |
| Jeffrey B. Coyne<br>Senior Vice President,<br>General Counsel and Corporate Secretary   | 2007 | 245,011        | 32,234                                 | 68,773                                  | 24,050                                   | 31,402  | 401,470       |
|   | 2006 | 242,316        | 96,702                                 | 180,850                                 | 158,530                                  | 33,005  | 711,403       |
| David J. Allen <sup>(5)</sup><br>Vice President and General Manager,<br>Lasers Division | 2007 | 212,885        |  |   | 54,555                                   | 1,095   | 268,535       |
|   | 2006 |                |  |   |  |   |               |
| Robert G. Deuster <sup>(6)</sup><br>Former Chairman and Chief Executive<br>Officer      | 2007 | 367,226        | 96,625                                 | 124,676                                 |  | 1,037,137   | 1,625,664     |
|   | 2006 | 461,510        | 289,875                                | 469,905                                 | 603,866                                  | 55,953  | 1,881,109     |

(1) Reflects the total amount of share-based compensation expense that we recognized in each year for financial statement reporting purposes in accordance with Statement of Financial Accounting

Standards No. 123 (Revised 2004) (SFAS 123R) with respect to unvested restricted stock units held by each named executive officer. The fair value of restricted stock unit awards is determined based on the closing market price of our common stock on the award date and is amortized using the graded vesting method over the requisite service period of the award. For both 2007 and 2006, the expense recognized related to restricted stock units awarded in 2006 that had vesting conditioned on the achievement of 2006 financial performance goals. During 2007, we determined that we would not meet the applicable financial performance goals for 2007 and, therefore, we did not recognize in 2007 any compensation expense relating to restricted stock units that had vesting conditioned on the achievement of such 2007 performance goals.

- (2) Reflects the total amount of compensation expense that we recognized in each year for financial statement reporting purposes in accordance with SFAS 123R with respect to unvested

stock options held by each named executive officer. The fair value of stock options is estimated at the time of grant using the Black-Scholes-Merton option pricing model and is amortized on a straight-line basis over the requisite service period of the award. The assumptions used in such valuation are discussed in detail in Note 8 to our consolidated financial statements included in our Annual Report on Form 10-K for our fiscal year ended December 29, 2007. Upon Mr. Deuster's retirement in October 2007, he forfeited all stock options that had not yet vested as of his retirement date. As such, we did not recognize any compensation expense in 2007 relating to such forfeited stock options.

- (3) Reflects the amounts earned by each named executive officer under our annual cash incentive plan based upon the achievement of financial and/or non-financial performance goals for our 2007 and 2006 fiscal years, which amounts were paid in March 2008 and March 2007, respectively, in accordance with the terms of such plan.
- (4) All other compensation for 2007 consists of (i) company contributions to our 401(k) plan totaling \$13,200 for each named executive officer (other than Mr. Allen); (ii) company-paid premiums for term life insurance for the benefit of each named executive officer; (iii) auto allowances paid to each named executive officer (other than Mr. Allen); and (iv) company-paid costs for annual executive physicals for Messrs. Deuster

and Spiegel. The company-paid premiums for term life insurance for Mr. Spiegel totaled \$31,371 for 2007.

All other compensation earned by Mr. Deuster in 2007 also includes amounts relating to his separation, which are discussed in footnote 6 below.

- (5) Mr. Allen joined us in March 2007. The amount reflected in the table above for non-equity incentive plan compensation represents the amount earned by Mr. Allen under our annual cash incentive plan based in part on achievement of applicable financial and non-financial goals and in part on a minimum incentive amount equal to 50% of his target incentive, which was guaranteed at the time of his hire, subject to his satisfactory performance of individual objectives.

- (6) Mr. Deuster served as our Chairman

and Chief Executive Officer through September 17, 2007 and retired from Newport on October 5, 2007. All other compensation for Mr. Deuster for 2007 includes the following amounts paid to or earned by him in connection with his separation from employment: (i) a cash severance payment equal to \$490,000, representing 100% of his approved annual base salary at the time of separation; (ii) a payout of \$490,000, which was equal to the target incentive that would have been payable to Mr. Deuster under our annual cash incentive plan for 2007 based on 100% achievement of all applicable company financial goals and 100% payout of the portion of his target incentive based on overall individual performance; (iii) a payment for accrued but unused vacation benefits equal to \$26,870; and (iv) company-paid

premiums for the  
continuation of  
health insurance  
coverage under  
COBRA.

**Grants of Plan-Based Awards**

The following table sets forth information regarding grants of awards to each named executive officer during our fiscal year ended December 29, 2007 under our equity and non-equity incentive plans.

**Grants of Plan-Based Awards in Fiscal Year 2007**

| Name                               | Grant Date | Estimated Possible Payouts under Non-Equity Incentive Plan Awards <sup>(1)</sup> |             |              | Estimated Future Payouts under Equity Incentive Plan Awards <sup>(2)</sup> |                    | Grant Date Fair Value of Stock and Option Awards <sup>(3)</sup> |
|------------------------------------|------------|--|-------------|--------------|--|--------------------|---|
|                                    |            | Threshold (\$)   | Target (\$) | Maximum (\$) | Threshold (#)  | Target/Maximum (#) |   |
| Robert J. Phillippy <sup>(4)</sup> | N/A        | \$ 117,057   | \$ 292,643  | \$ 526,758   |  |                    | \$  |
|                                    | 06/25/07   |  |             |              | 26,523   | 37,890             | 585,401   |
|                                    | 09/20/07   |  |             |              | 10,500   | 15,000             | 221,250   |
| Charles F. Cargile                 | N/A        | 97,500   | 243,750     | 438,750      |  |                    |   |
|                                    | 06/25/07   |  |             |              | 20,643   | 29,490             | 455,621   |
| Gary J. Spiegel                    | N/A        | 48,125   | 137,500     | 233,750      |  |                    |   |
|                                    | 06/25/07   |  |             |              | 11,802   | 16,860             | 260,487   |
| Jeffrey B. Coyne                   | N/A        | 52,000   | 130,000     | 234,000      |  |                    |   |
|                                    | 06/25/07   |  |             |              | 14,742   | 21,060             | 325,377   |
| David J. Allen                     | N/A        | 37,255   | 106,443     | 180,952      |  |                    |   |
|                                    | 06/25/07   |  |             |              | 14,007   | 20,010             | 309,155   |
| Robert G. Deuster                  | N/A        | 196,000  | 490,000     | 882,000      |  |                    |   |
|                                    | 06/25/07   |  |             |              | 44,226   | 63,180             | 976,131   |

(1) Reflects the potential payouts to the named executive officers under our annual cash incentive plan, which is described in more detail under the heading Compensation Discussion and Analysis above. The amounts shown as threshold, target and

maximum payouts represent (i) 50%, 100% and 200% payouts, respectively, based on minimum, target and maximum performance levels for certain annual financial measures established under such plan, plus (ii) 0%, 100% and 100% payouts, respectively, on certain individual non-financial performance goals established under the plan for each named executive officer. If we do not achieve at least the minimum performance level for a particular financial measure, no payout would be made for such measure. The actual amounts earned under these non-equity incentive plan awards by the named executive officers are included in the Summary Compensation Table above under the column heading Non-Equity Incentive Plan Compensation for the year 2007.

- (2) The equity incentive plan awards set forth in the table above consist of restricted stock

units (each unit representing the right to receive one share of our common stock) awarded to each named executive officer under our 2006 Performance-Based Stock Incentive Plan, which is described in more detail under the heading

Compensation Discussion and Analysis above. No consideration was paid by any named executive officer for any equity incentive plan award. The numbers of shares shown as threshold and target/maximum payouts represent 70% and 100% vesting of such awards, respectively, based on minimum and target performance levels for certain financial measures established under the plan. If we do not achieve at least the minimum performance level for a particular measure, no shares would vest for that measure for the applicable year; provided, however, that 50% of such unvested shares would be eligible for vesting in the

next succeeding year, as explained in more detail under Compensation Discussion and Analysis above.

- (3) Reflects the grant date fair values of the target/maximum number of restricted stock units awarded to each named executive officer, determined based on the closing market price of our common stock on the grant date, which was \$15.45 per share on June 25, 2007 and \$14.75 per share on September 20, 2007.
- (4) In September 2007, in connection with Mr. Phillippy's appointment as President and Chief Executive Officer, the Compensation Committee of our Board of Directors increased Mr. Phillippy's target incentive percentage from 75% to 100% of his new annual base salary. The estimated threshold, target and maximum payout

amounts shown in the table above for non-equity incentive plan awards represent the adjusted amounts that Mr. Phillippy would potentially receive for 2007, which have been pro rated based on the periods during which his different target incentive percentage amounts and base salary amounts were in effect during the year.

### Outstanding Equity Awards

The table below sets forth information regarding outstanding equity awards held by each named executive officer as of December 29, 2007 including: (i) the number of shares of our common stock underlying both exercisable and unexercisable stock options held by each named executive officer and the exercise prices and expiration dates thereof, and (ii) the total number of restricted stock units held by each named executive officer and the market value thereof, all of which were unearned and unvested as of December 29, 2007.

### Outstanding Equity Awards at 2007 Fiscal Year End

| Name                | Option Awards         |                         |                   | Stock Awards           |  |  |
|---------------------|-----------------------|-------------------------|-------------------|------------------------|--|--|
|                     | Number of Securities  |                         | Option Price (\$) | Option Expiration Date | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested <sup>(1)</sup> | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested <sup>(2)</sup> |
|                     | Underlying            | Unexercised Options (#) |                   |                        |  |  |
| Robert J. Phillippy | Exercisable           | Unexercisable           |                   |                        |  |  |
|                     | 60,000                |                         | \$14.31           | 01/02/10               |  |  |
|                     | 20,000                |                         | 68.25             | 01/01/11               |  |  |
|                     | 30,000                |                         | 13.16             | 09/17/11               |  |  |
|                     | 30,000                |                         | 11.27             | 02/23/13               |  |  |
|                     | 70,000                |                         | 11.27             | 02/23/13               |  |  |
|                     | 25,000                |                         | 16.91             | 01/01/14               |  |  |
| 75,000              | 25,000 <sup>(3)</sup> | 13.03                   | 08/03/14          | 58,023                 | \$ 747,916   |  |
| Charles F. Cargile  | 60,000                |                         | \$75.75           | 11/15/10               |  |  |
|                     | 20,000                |                         | 68.25             | 01/01/11               |  |  |
|                     | 30,000                |                         | 13.16             | 09/17/11               |  |  |
|                     | 30,000                |                         | 11.27             | 02/23/13               |  |  |
|                     | 95,000                |                         | 11.27             | 02/23/13               |  |  |
|                     | 31,250                |                         | 16.91             | 01/01/14               |  |  |
|                     | 18,750                | 6,250 <sup>(3)</sup>    | 13.03             | 08/03/14               | 36,981   | \$ 476,685   |
| Gary J. Spiegel     | 60,000                |                         | \$14.31           | 01/02/10               |  |  |
|                     | 20,000                |                         | 68.25             | 01/01/11               |  |  |
|                     | 30,000                |                         | 13.16             | 09/17/11               |  |  |

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|        |                      |       |          |        |            |
|--------|----------------------|-------|----------|--------|------------|
| 20,000 |                      | 11.27 | 02/23/13 |        |            |
| 55,000 |                      | 11.27 | 02/23/13 |        |            |
| 20,000 |                      | 16.91 | 01/01/14 |        |            |
| 18,750 | 6,250 <sup>(3)</sup> | 13.03 | 08/03/14 | 21,140 | \$ 272,495 |

*(table continued on next page)*

| Name                             | Option Awards                   |                         |                     |                 | Stock Awards   |  |
|----------------------------------|---------------------------------|-------------------------|---------------------|-----------------|--|--|
|                                  |                                 |                         |                     |                 | Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested <sup>(1)</sup> | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested <sup>(2)</sup> |
|                                  | Number of Securities Underlying |                         | Option              | Option          |  |  |
|                                  | Unexercised Options (#)         | Unexercised Options (#) | Exercise Price (\$) | Expiration Date |  |  |
| Jeffrey B. Coyne                 | Exercisable                     | Unexercisable           |                     |                 |  |  |
|                                  | 50,000                          |                         | \$30.80             | 05/29/11        |  |  |
|                                  | 30,000                          |                         | 13.16               | 09/17/11        |  |  |
|                                  | 20,000                          |                         | 11.27               | 02/23/13        |  |  |
|                                  | 55,000                          |                         | 11.27               | 02/23/13        |  |  |
|                                  | 20,000                          |                         | 16.91               | 01/01/14        |  |  |
|                                  | 18,750                          | 6,250 <sup>(3)</sup>    | 13.03               | 08/03/14        | 26,418   | \$ 340,528   |
| David J. Allen                   |                                 |                         |                     |                 | 14,007   | \$ 180,550   |
| Robert G. Deuster <sup>(4)</sup> | 180,000                         |                         | \$14.31             | 01/05/08        |  |  |
|                                  | 60,000                          |                         | 68.25               | 01/05/08        |  |  |
|                                  | 90,000                          |                         | 13.16               | 01/05/08        |  |  |
|                                  | 47,299                          |                         | 11.27               | 01/05/08        |  |  |
|                                  | 50,000                          |                         | 16.91               | 01/05/08        |  |  |
|                                  | 45,000                          |                         | 13.03               | 01/05/08        |  |  |

(1) Consists of outstanding restricted stock units awarded to each named executive officer in 2006 and 2007, all of which were unearned and unvested as of December 29, 2007. All equity incentive plan awards granted to the named

executive officers vest in three equal annual installments, provided that we achieve certain specified annual financial performance goals. The restricted stock units awarded in 2006, which were outstanding as of December 29, 2007, have vesting conditioned upon the achievement of performance goals for our fiscal years 2007 and 2008. The restricted stock units awarded in 2007, which were outstanding as of December 29, 2007, have vesting conditioned upon the achievement of performance goals for our fiscal years 2007, 2008 and 2009. In approximately March of each year, the Compensation Committee of our Board determines the extent to which the applicable performance goals have been achieved for the preceding year and the number of restricted stock units, if any, that will vest and be settled based on such achievement level. The numbers of shares and market values reflected in the table

assume the  
achievement of our  
threshold  
performance goals  
for all performance  
periods. We have  
determined that we  
did not achieve our  
performance goals  
for 2007. As such,  
in accordance with  
the terms of our  
2006  
Performance-Based  
Stock Incentive  
Plan and t