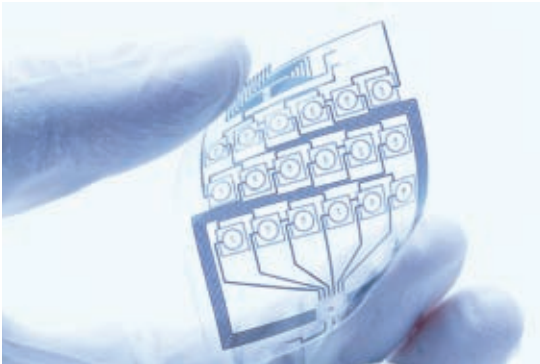


2013 Annual Report



TO OUR SHAREHOLDERS:

The past year was a defining one for ESI as we furthered our corporate transformation, focused on growth opportunities in laser microfabrication for smart consumer electronics. Today, applications for advanced microfabrication used in the manufacturing of components for smart consumer electronics represent our largest and fastest growing markets. We have teamed with the leaders in these markets and their supply chains to enable them to deliver the next generation of smart mobile devices to their customers. This focus allowed us to deliver respectable results this year despite continued overcapacity in many of our markets. In addition, DRAM memory repair, historically our flagship application, has become saturated as a result of slower bit growth and lack of technology investment by our customers in laser repair. We are pleased that over the last five years our investment in diversifying our portfolio into a broader set of laser-based applications has enabled us to fundamentally replace this revenue and position the company for growth going forward.

Despite the difficult end market environment during FY 2013, ESI delivered positive profits on a non-GAAP basis and generated operating cash flow of more than \$17 million. As ESI's revenues declined compared to the previous year we took aggressive actions to reduce our cost structure and lower our breakeven point. At year end our balance sheet was as strong as ever, which will serve as a foundation for growth in the coming years.

GROWING INTO NEW MARKETS

Several significant actions reflected our strategy to grow the business by entering new laser microfabrication markets, enabled by proprietary laser technology. In June 2012 we acquired Eolite Systems out of Pessac, France. Eolite is a leading innovator in pulsed fiber laser technology, and the addition of Eolite will allow ESI to develop compelling and differentiated laser microfabrication solutions for our customers. In January 2013 we announced the new DiamondBlaze™ series of systems designed to cut the latest generation of strengthened glass. This introduction marks our foray into a new growth market, that of cutting touchscreen glass panels used in smart phones, tablets, and the latest generation of notebook computers. In addition, we introduced next generation versions of our industry leading Flex Via Drilling system and MLCC Capacitance Tester. Each of these systems provides superior cost of ownership and enables the latest generation components used in smart electronic devices. Lastly, after the year ended we announced the acquisition of the Semiconductor Systems business from GSI Group, Inc. This acquisition, which closed May 3rd, broadens our laser microfabrication portfolio and expertise.

RETURNING VALUE TO SHAREHOLDERS

We were pleased that our strong cash position allowed us to declare and pay a special dividend of \$2.00 per share in December 2012. This one-time event, combined with our normal \$0.08 per share quarterly dividend, returned over \$68 million in cash to our shareholders during the year. We still maintain a very strong balance sheet, and our cash strategy reflects our plan to both grow the business and return value to shareholders.

Looking forward, the long-term growth potential of our markets has never been greater. With the decline in the DRAM memory repair market behind us, our investments in laser microfabrication for consumer electronics, 3D semiconductor and LED packaging, and proprietary laser technology position us well for the future. In addition, our strong balance sheet, and leaner, more flexible cost structure should enable us to improve profitability and respond quickly to the dynamics of our markets. We would like to thank our employees for their dedication and efforts as we continue the transformation of the company toward an exciting future in laser based microfabrication.



Nicholas Konidaris



Jon D. Tompkins

Sincerely,

A handwritten signature in black ink that reads "Nicholas Konidaris".

Nicholas Konidaris
President and CEO

A handwritten signature in black ink that reads "Jon D. Tompkins".

Jon D. Tompkins
Chairman of the Board

Electro Scientific Industries, Inc.

2013 Annual Report

Stock Listing: NASDAQ: ESIO (Common)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-K

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

For the fiscal year ended March 30, 2013

OR

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

Commission File Number: 0-12853

ELECTRO SCIENTIFIC INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Oregon
(State or other jurisdiction of incorporation
or organization)

93-0370304
(I.R.S. Employer Identification No.)

13900 N.W. Science Park Drive, Portland, Oregon
(Address of principal executive offices)

97229
(Zip Code)

Registrant's telephone number, including area code: 503-641-4141
Securities registered pursuant to Section 12(b) of the Act:

None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, without par value
Series A No Par Preferred Stock Purchase Rights

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant Section 13 or Section 15(d) of the Act. Yes No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K.

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates, computed by reference to the last sales price (\$12.22) as reported by the NASDAQ Stock Market, as of the last business day of the Registrant's most recently completed second fiscal quarter (September 29, 2012) was \$313,920,997.

The number of shares outstanding of the Registrant's Common Stock as of June 5, 2013 was 29,732,681 shares.

Documents Incorporated by Reference

The Registrant has incorporated into Part III of this Form 10-K, by reference, portions of its Proxy Statement for its 2013 Annual Meeting of Shareholders.

ELECTRO SCIENTIFIC INDUSTRIES, INC.
2013 FORM 10-K ANNUAL REPORT
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PART I

Item 1. Business

This annual report on Form 10-K contains forward-looking statements that are subject to risks and uncertainties. Actual results may differ materially from the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed below in Item 1A Risk Factors.

Where You Can Find More Information

We file annual, quarterly and current reports, proxy statements and other information with the Securities and Exchange Commission (SEC) under the Securities Exchange Act of 1934 as amended (Exchange Act). You can inspect and copy our reports, proxy statements and other information filed with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, D.C 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room. The SEC maintains an Internet site at www.sec.gov where you can obtain most of our SEC filings. We also make available, free of charge on our website at www.esi.com, our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after they are filed electronically with the SEC. The information found on our website is not part of this Form 10-K. You can also obtain copies of these reports by contacting Investor Relations at (503) 641-4141.

Fiscal Year

Our fiscal year consists of 52 or 53 weeks ending on the Saturday nearest March 31. Accordingly, our fiscal 2013 reporting period consisted of a 52-week period ending on March 30, 2013, our fiscal 2012 consisted of a 52-week period ending on March 31, 2012 and our fiscal 2011 reporting period consisted of a 52-week period ending on April 2, 2011. All references to years or quarters relate to fiscal years or fiscal quarters unless otherwise noted.

Business Overview

Electro Scientific Industries, Inc. and its subsidiaries (ESI) is a leading supplier of innovative laser-based manufacturing solutions for the microtechnology industry. Our advanced laser systems enable precise structuring of micron to submicron features in components and devices which are used in a wide variety of end products in the consumer electronics, computer, semiconductor, communications and other markets. These features enable our customers to achieve functionality, or improve yield and productivity in their manufacturing processes that can be critical to their profitability. Founded in 1944, ESI is headquartered in Portland, Oregon, with global operations and subsidiaries in Asia, Canada, Europe and the United States.

Our advanced laser microfabrication systems allow microelectronics, semiconductor, and other microtechnology manufacturers to physically alter select device features during high-volume production in order to increase performance and improve production yields. Laser microfabrication comprises a set of precise micron-level processes, including drilling, scribing, dicing, singulation, cutting, ablating, trimming, and precision marking on multiple types of materials. These processes require application-specific laser systems that are able to meet our customers' exacting performance and productivity requirements. Our laser-based systems improve production yields or enable improved performance for flexible and rigid high density interconnect printed circuit boards, semiconductor devices, light emitting diodes (LEDs), advanced semiconductor packaging, touch-panel glass, flat panel liquid crystal displays (LCDs) and other high value components.

Additionally, we produce high-capacity test and inspection equipment that is critical to the quality control process during the production of multilayer ceramic capacitors (MLCCs). Our equipment ensures that each component meets the electrical and physical tolerances required to perform properly. Lastly, we produce systems that use photonic technology to perform precision inspection for quality control and defect identification.

Industry Overview

The microelectronics and semiconductor industries continue to be driven by demand for advanced features and improved functionality in increasingly smaller and smarter consumer devices. The technologies for consumer electronic devices such as smart phones, tablets, personal computers, mobile computing devices, video game systems and high-definition televisions have developed rapidly as increasingly affordable products have been introduced that offer more functionality in smaller packages. In addition, semiconductor and other advanced technologies are being used in a broadening set of markets and applications, including general lighting, energy, automotive, medical and security.

These dynamics in turn are driving the need for faster, smaller, more complex, less expensive and higher-quality electronic devices and components. To achieve these improvements, component and other device manufacturers are increasing the circuit densities in these devices and investing in new technologies.

For example, smaller and lighter semiconductor devices are driving the need to shrink the physical dimensions of the semiconductor packaging and the high density interconnect (HDI) circuit board on which they are mounted. Higher operating speeds of computers and communication products require more input and output channels within packages and between the packages and the HDI circuit board. These trends require smaller, more accurate, and precisely tapered or shaped holes, known as vias, to create connections between layers and interconnecting devices. The continual trend toward smaller and smarter devices requires the use of an increasing amount of flexible interconnect material between PCBs and other components. These flexible circuits require the smallest and most accurate vias to create the connections between these devices.

In addition, the ability to shrink the actual dimensions of a device is becoming increasingly more difficult, and producers are investing in new technologies, such as stacking thin silicon wafers to create advanced three dimensional (3D) chip packages. We believe this trend will drive additional applications for laser processing, including scribing and dicing of ultra-thin wafers, drilling of through silicon vias (TSV) and scribing of next generation thin films.

Smaller and more complex devices also require more capacitance to be designed into the circuit. This has resulted in a significant increase in the use of smaller, higher-capacitance passive components such as MLCCs. In calendar year 2012, estimated production of MLCCs was nearly 3 trillion units. These MLCCs must be tested electrically and optically to characterize performance and ensure reliability. Automated equipment to test these MLCCs in the manufacturing environment, like our high capacitance tester, can test and sort up to one million parts per hour on parts with dimensions as small as 0.4 by 0.2 millimeters.

Variations of advanced semiconductor technologies and manufacturing processes are increasingly being employed in the production of other types of devices and components, including LEDs. Automated laser-based systems, like our AccuScribe 2210 series, are used to scribe the sapphire wafer to separate individual devices in the production of LEDs. LEDs are increasingly utilized in electronics, display, automotive and general lighting applications.

A significant portion of our business is derived from specialized microfabrication applications. Any material that can be cut, drilled, etched, or otherwise surface treated using a mechanical process can be microfabricated with greater precision and accuracy using a laser-based solution. As consumer electronics and other products or devices become more compact, mechanical processes will not be able to meet the stringent specifications demanded by producers. We believe the capabilities of laser-based solutions for microfabrication will enable our customers to continue to move beyond the limitations of mechanical processes and generate significant growth for us in the future.

Our Solutions

We believe our products address the needs of microelectronics and semiconductor manufacturers by providing them with a high return on their investment due to measurable production benefits such as improved yield, lower cost, higher performance, continued miniaturization and greater reliability.

Our core competencies enable us to design, manufacture, and market a variety of integrated laser-based solutions for microfabrication applications in high-volume manufacturing environments. These core competencies include a deep understanding of laser/material interaction, laser beam positioning, optics and illumination including image processing and optical character recognition, high-speed motion control, small parts handling, proprietary laser technology and systems engineering. We combine this technology expertise with a thorough understanding of our customers' processes, proprietary laser capabilities, and manufacturing agility to respond rapidly to customer demand to develop and deliver integrated solutions and products that address multiple markets and applications.

Our customers manufacture components, semiconductors, interconnect/packaging devices, displays, LEDs or other parts that serve a wide range of electronic applications. Our systems enable the manufacturing of these components and devices. The primary end-market applications for our customers are consumer electronics, including smart mobile devices such as smart phones and tablets, computers, semiconductor, and LED.

Our Strategy

Our strategy is to leverage our core competencies to be a market leader in laser-based microfabrication for microtechnology industries, including microelectronics, semiconductor and LED. These core competencies, combined with an understanding of our customers' processes and the use of common platforms, enable us to address a broad range of laser-based applications and end markets within these industries. We intend to focus our efforts on businesses and applications where our differentiated capability enables us to be a market leader. The elements of our strategy are to (1) capture expanding opportunities driven by technology changes and growth in consumer electronics, (2) invest in emerging applications in 3D semiconductor and LED packaging, (3) leverage proprietary laser technology to create competitive advantage, (4) focus on large opportunities with strategic customers, and (5) leverage our flexible platforms into new applications.

Capture expanding opportunities in consumer electronics

Growth in consumer electronics, smart phones, tablets, notebook computers and other smart devices is driving increased miniaturization and complexity of the underlying components and materials, which in turn is creating additional opportunities for laser-based microfabrication. Our strategy is to expand the number of applications we address in the areas of components, enclosures and display technologies within these devices. For example, in 2013 we introduced new capabilities for de-paneling or cutting micro PCB's, low cost laser microfabrication on enclosures, and singulation of next generation strengthened cover glass. We believe growth from consumer electronics applications will be driven by overall growth in the market for these devices, new technologies, and expanding our addressable applications.

Invest in emerging applications in 3D semiconductor and LED packaging

Next generation 3D semiconductor and LED packaging technologies create new opportunities for laser-based processing. Our strategy is to leverage our core competencies and industry experience to invest in development of laser-based tools in the areas of ultra-thin wafers dicing, next generation thin films scribing, advanced packaging micromachining and LED wafer and package singulation. While these technologies are emerging in nature, we believe that they represent significant growth opportunities in the future.

Leverage proprietary laser technology

ESI has been a pioneer in laser/material interaction and has developed deep expertise in the use of multiple types of laser technology to develop customer solutions. Over the last two years we have invested in proprietary laser technology through the acquisitions of Pyrophotonics Lasers Inc. and Eolite Systems. These acquisitions, combined with internally developed capability, provide us with access to tailored pulse fiber technology, high power UV nanosecond, and low cost picosecond fiber lasers with a unique, scalable architecture. Our strategy is to utilize these technologies to enable differentiated capability with our systems, lower cost, and generate incremental revenue for the company.

Focus on large opportunities with key strategic customers

We work with our market-leading, global customers through high-level, multi-disciplinary management and employee teams to define and produce the next generation of manufacturing systems. This requires confidential interaction between the customer and ESI, sharing technology and product roadmaps. Our strategy is to focus on large opportunities within these customers and we believe that growth will be driven both by expanding applications within existing customers and penetrating new customers.

Leverage flexible platforms into new applications

Our key technological capabilities include laser/material interaction, laser beam positioning, optics and illumination, including image processing and optical character recognition, high-speed motion control systems, small parts handling systems and systems integration. These capabilities are incorporated into a series of flexible platforms that have multiple common elements but are tailored to specific applications. Our strategy is to leverage our investment in these platforms to address multiple new applications and market opportunities.

Our Products

We operate in one segment, high-technology manufacturing equipment, which is comprised of products that are organized in three groups: interconnect & microfabrication, semiconductor and components.

Interconnect & Microfabrication Group (IMG)

Our Interconnect & Microfabrication Group products address an expanding number of applications and materials on a broad set of substrates, including panels, continuous-feed reels, and discrete three dimensional components or devices.

Interconnect Via Drilling

For electrical interconnect applications, our laser via micro fabrication systems target applications that require the highest accuracy and smallest via (hole) dimensions to create electrical connections between layers in flexible circuits, high-density circuit boards and IC packages. Our microvia drilling technology addresses the rapidly changing applications in IC packages, multichip modules and HDI circuit boards. Our ultraviolet (UV) laser processing systems employ state-of-the-art technology in lasers, optics and motion control. These products include single-beam and multi-beam systems that produce high-quality vias with the best-in-class placement accuracy for improved yield of packages and substrates.

Advanced Microfabrication

As technologies enable consumer electronics and other devices to become more compact, mechanical processes are not able to meet the stringent specifications demanded by manufacturers. We offer several platforms that enable customers to perform precision drilling, scribing, cutting, etching, routing or marking on

many different types of materials and devices including glass, metal, plastic, paint and ceramics. We also offer laser ablation systems that ablate material for identification and analysis applications, including forensics, mineral analysis and research.

In June 2012, we acquired Eolite Systems, a designer and manufacturer of unique high-power fiber lasers in Pessac, France. The acquisition of Eolite provides us access to high power UV nanosecond and low cost picoseconds lasers with a unique, scalable architecture. We believe these lasers can be used internally in a variety of laser microfabrication applications as well as provide potential additional commercial revenue for the company with the ability to customize lasers to specific customer applications with differentiated capability and lower cost.

Semiconductor Group (SG)

Our Semiconductor Group products address multiple applications that utilize laser energy to process materials on wafer-based substrates. This includes traditional silicon wafers, LEDs wafers, and new ultrathin silicon wafers used in the three-dimensional (3D) packaging applications.

Semiconductor Memory Yield Improvement Systems

Our semiconductor memory yield improvement products are designed to cost-effectively enable significant post-repair yield improvements in the manufacturing of dynamic random access memory (DRAM) memory devices. However, slowing bit growth, industry consolidation, and adoption of alternative technologies have resulted in a near saturation of the market. As a result, during fiscal 2013 we announced that this product line would not be significant for us in the future and we took several restructuring actions to refocus our business which resulted in part in a charge against our inventory for these products.

3D Semiconductor Wafer Processing

The advent of 3D chip packaging technologies is driving the need for silicon wafers to become thinner in order to allow for stacking of wafers within the same packaging geometry. As wafers become thinner, they become more challenging to cut into discrete chips using traditional mechanical saws. Our model 9900 uses a laser to dice ultra-thin silicon wafers, those with a thickness of 50 microns or below, and to singulate interposers. In addition, this platform can be used to scribe next generation thin film materials that lend themselves to laser processing. As 3D technologies are developed, we believe the use of lasers will become increasingly important to productivity and performance.

LED Wafer Scribing

Our AccuScribe line of sapphire wafer scribing systems is a key component in the manufacture of LEDs. During production, LEDs are created on a thin wafer of synthetic sapphire crystal that must be broken into individual units at the end of the process. The brittle nature of the sapphire wafer requires that it be carefully cut in order to prevent unwanted fractures, yield losses, and lower light output when the wafer is broken apart into discrete LEDs. The AccuScribe systems use a laser to scribe the wafer with a precise groove between individual LEDs. When mechanical force is applied to the wafer, it fractures along these grooves and allows the wafer to be split apart into discrete LEDs. These systems are capable of scribing both standard and high brightness designs for general illumination applications. In addition, this platform can be used to address singulation of various LED packaging materials.

LCD Repair

Our laser LCD repair systems are critical to improving yields in the manufacture of flat panel displays. During production, individual pixels of a display may develop electrical defects that result in no light emission or

the emission of only a steady white light. To correct these defects, flat panel display producers employ a laser repair process to isolate the electrical defects during production by cutting the inputs to the pixel. Our laser systems are primarily sold to the manufacturers of LCD repair tools as a key component of their products.

Semiconductor Systems

Subsequent to the end of fiscal year, we acquired the assets of the semiconductor systems business from GSI Group Inc. These products include industry leading wafer marking equipment, wafer and circuit trim tools, and LCD repair tools. Wafer marking equipment is used for serialization and wafer identification by both manufacturers of semiconductor wafers and within semiconductor fabs. Wafer and circuit trim tools are laser systems that adjust the electrical performance of semiconductor devices or hybrid circuits by removing a precise amount of material from one or more circuit components.

Components Group (CG)

We design and manufacture products that combine high-speed small parts handling technology with real-time control systems to provide highly automated, cost-effective inspection solutions for manufacturers of MLCCs and other passive components such as capacitor arrays, inductors, resistors, varistors and hybrid circuits. These components, produced in quantities of trillions of units per year, process analog, digital and high-frequency signals and are used extensively in nearly all electronic products.

We provide several types of products and solutions in this market. Our MLCC test systems employ high-speed handling and positioning techniques to precisely load, test and sort MLCCs based on their electrical energy storage capacity, or capacitance, and their electrical energy leakage, or dissipation factor. Our 35XX series is the most productive tester in the market today. Our latest 3510 model enables high speed testing of the industry's smallest metric 0402 capacitors used primarily in advanced cell phone and tablet designs. We also produce consumable products such as carrier plates and termination belts, both of which are used to hold MLCCs during the manufacturing and testing process.

Customers

Our top ten customers for 2013, 2012 and 2011 accounted for approximately 61%, 56% and 62% of total net sales, respectively. One customer, Apple Inc. and its affiliates, accounted for approximately 31%, 29% and 24% of total net sales in 2013, 2012 and 2011, respectively. In 2011, Hynix Semiconductor Inc. and Taiyo Yuden Co., Ltd., each individually accounted for approximately 11% of total net sales. No other customer individually accounted for more than 10% of total net sales in 2013, 2012 or 2011.

Sales, Marketing and Service

We sell our products worldwide through direct sales and service offices, value-added resellers and independent representatives located around the world. ESI has direct sales and service personnel in Oregon, California and several other states; China, Japan, Korea, Singapore and Taiwan in Asia; and France, Germany and the United Kingdom in Europe. We serve selected customers in the Americas, Europe, Israel and additional countries through manufacturers' representatives.

We have a substantial base of installed products in use by leading microelectronics and semiconductor manufacturers. We emphasize strong working relationships with these customers to meet their needs for additional systems and to facilitate the successful development and sale of new products to these customers.

We generally employ service personnel wherever we have a significant installed base. We offer a variety of warranty, maintenance and parts replacement programs to service the requirements of our customers' high-volume manufacturing environments.

Backlog

Backlog consists of purchase orders for products and spare parts that we expect to ship within 12 months and service contracts for performance generally within 24 months. Backlog does not include deferred system revenue. Backlog was \$32.8 million at March 30, 2013 compared to \$69.1 million at March 31, 2012, representing a decrease of 52% primarily due to shipping of the significant flex via drilling orders received late in fiscal 2012. The stated backlog is not necessarily indicative of sales for any future period, because of possible order cancellations or deferrals, shipping or acceptance delays, nor does backlog represent any assurance that we will realize a profit from filling the orders.

Research, Development and Technology

We believe that our ability to compete effectively and deliver customer solutions depends, in part, on our ability to maintain and expand our expertise in core technologies and product applications. Our primary core competencies and capabilities include:

- laser/material interaction;
- proprietary laser technology;
- high-speed, micron-level motion control systems;
- precision optics;
- image processing and optical character recognition;
- high-speed, small parts handling;
- real-time production-line electronic measurement;
- real-time operating systems; and
- systems integration.

Our research and development expenditures for 2013, 2012 and 2011 were \$37.2 million (17% of net sales), \$42.6 million (17% of net sales) and \$41.1 million (16% of net sales), respectively.

Competition

Our markets are dynamic, cyclical and highly competitive. The principal competitive factors in our markets are product performance, cost of ownership, ease of use, reliability, service, technical support, product roadmap, price, proprietary technology, manufacturing responsiveness and relationships with customers. We believe that our products compete favorably with respect to these factors. Some of our competitors have greater financial, engineering and manufacturing resources and larger distribution networks than we do. Some of our customers develop, or have the ability to develop, manufacturing equipment similar to our products. Competition in our markets may intensify and our technological advantages may be reduced or lost as a result of technological advances by competitors or customers or changes in electronic device processing technology.

Our Interconnect & Microfabrication Group competes with laser systems provided by Hitachi Via Mechanics, Ltd., LPKF Laser & Electronics AG, Mitsubishi Electric Corporation, Orbotech Ltd., InnoLas Systems GmbH and several Chinese and Korean companies who compete within their local markets. The principal competitors for our Semiconductor Group are DISCO Corporation, and Laser Solutions, Inc. LCD repair competitors include Quantel USA, Inc. and HOYA Corporation. For the Components Group, our competitors include Humo Laboratory, Ltd. as well as component manufacturers that develop systems for internal use.

Manufacturing and Supply

Our primary production facilities are located in Singapore; Portland, Oregon; and Klamath Falls, Oregon. Our Singapore facility is our primary systems manufacturing facility and manufactures certain IMG, LED, CG and laser ablation products. The Portland facility primarily provides advanced manufacturing and prototype capability. The Klamath Falls facility manufactures CG consumable products. Our Singapore operation is located in a leased facility. As we continue our efforts to streamline the organization and improve efficiencies, we expect a growing percentage of final systems will be shipped from Singapore.

We use qualified manufacturers to supply many components and sub-system modules for our products. Our systems use high-performance computers, peripherals, lasers and other components from various suppliers. Some of the components we use are obtained from a single source or a limited group of suppliers. An interruption in the supply of a particular component would have a temporary adverse impact on us. We believe our relationships with our suppliers are good.

Patents and Other Intellectual Property

We have a policy of seeking patents, when appropriate, on inventions relating to new products and improvements that are discovered or developed as part of our ongoing research, development and manufacturing activities. We own 259 United States patents and 524 patents issued outside of the United States as of March 30, 2013. Additionally, as of March 30, 2013, we had 482 patent applications pending in the United States and 1,711 patent applications pending outside of the United States. Although our patents are important, we believe that the competitiveness of our products also depends on the technical competence and innovation of our employees.

We rely on copyright protection for our proprietary software. We also rely upon trade secret protection for our confidential and proprietary information. Others may independently develop substantially equivalent proprietary information and techniques, and we may be unable to meaningfully protect our trade secrets.

Employees

As of March 30, 2013, we employed 599 people of whom 579 were permanent and 20 were temporary. Many of our employees are highly skilled, and our success will depend in part upon our ability to attract and retain such employees, who are in great demand. We have never had a work stoppage or strike, and no employees are represented by a labor union or covered by a collective bargaining agreement. We consider our employee relations to be good.

Environmental Compliance

During fiscal 2013, we retained ISO 14001 certification via a recertification audit for our environmental management system for our Portland, Oregon operations. We do not expect compliance with international, federal, state and local provisions that have been enacted or adopted related to the discharge of materials into the environment or otherwise relating to protection of the environment to have a material effect on our capital expenditures, earnings or competitive position.

Item 1A. Risk Factors

The statements contained in this report that are not statements of historical fact, including without limitation statements containing the words “believes,” “expects” and similar words, constitute forward-looking statements that are subject to a number of risks and uncertainties. From time to time, we may make other forward-looking statements. Investors are cautioned that such forward-looking statements are subject to an inherent risk that actual results may differ materially. The following information highlights some of the factors that could cause actual results to differ materially from the results expressed or implied by our forward-looking

statements. Forward-looking statements should be considered in light of these factors. Factors that may result in such variances include, but are not limited to, the following:

Risks Related to Our Competition and Customers

Volatility of Our Customers' Industries

Our business is dependent upon the capital expenditures of manufacturers of microelectronics, semiconductors and light emitting diodes (LEDs) used in consumer electronics, computers, wireless communications and other electronic products. The capital equipment market for microelectronics, semiconductor and consumer electronics manufacturers has historically been characterized by sudden and severe cyclical variations in product supply and demand due to a number of factors including capacity utilization, timing of customers' new product introductions and demand for their products, inventory levels relative to demand and access to affordable capital. The timing, severity and duration of these market cycles are difficult or impossible to predict. As a result, business levels can vary significantly from quarter to quarter or year to year. Significant downturns in the market for microelectronics, semiconductors, and LEDs used in electronic devices or in the market for consumer electronics reduce demand for our products and may materially and adversely affect our business, financial condition and results of operations. For example, starting in the second half of fiscal 2012, we experienced the negative impact of an uncertain economic environment, slower market growth and overcapacity in several of our markets, which resulted in overall lower order and revenue levels. As a result of this uncertain economic environment, our total order volume declined in 2012 compared to 2011 and continued to decline in 2013. In addition, due to changes in the memory repair industry, we do not expect to experience materially increased sales of memory repair systems in future up cycles. The degree of the impact of any downturn on our business depends on a number of factors, including: the strength of the global and United States economies; the overall level of demand for consumer electronics products; the stability of global financial systems; and the overall health of the microelectronics, semiconductor, LEDs and consumer electronics industries.

Highly Competitive Markets

We face substantial competition from established competitors throughout the world, some of which have greater financial, engineering, manufacturing and marketing resources than we do. Those competitors with greater resources may, in addition to other things, be able to better withstand periodic downturns, compete more effectively on the basis of price and technology, or more quickly develop enhancements to, and new generations of, products that compete with the products we manufacture and market. New companies may enter the markets in which we compete, or industry consolidation may occur, further increasing competition in those markets. We believe that to be competitive we must continue to expend significant financial resources in order to, among other things, invest in new product development and enhancements. We may not be able to compete successfully in the future and increased competition may result in price reductions, reduced profit margins and loss of market share.

Increased Price Pressure

We have experienced and continue to experience pricing pressure in the sale of our products, from both competitors and customers. Pricing pressures typically have become more intense during cyclical downturns when competitors seek to maintain or increase market share, reduce inventory or introduce more technologically advanced products. In addition, we may agree to pricing concessions with our customers in connection with volume orders. Our business, financial condition, margins or results of operations may be materially and adversely affected by competitive pressure and intense price-based competition.

Revenues are Largely Dependent on Few Customers

We depend on a few significant customers for a large portion of our revenues. In 2013, our top ten customers accounted for approximately 61% of total net sales, with one customer, Apple Inc. and its affiliates

accounting for approximately 31% of total net sales. We anticipate that sales of our products to a relatively small number of customers will continue to account for a significant portion of our revenues. Consolidation between customers, changes in technologies or solutions used by customers, changes in products manufactured by customers or in end-user demand for those products, selection of suppliers other than us, customer bankruptcies or customer departures from their respective industries all may result in even fewer customers accounting for a high percentage of our revenue. Furthermore, none of our customers have any long-term obligation to continue to buy our products or services and may therefore delay, reduce or cease ordering our products or services at any time. The cancellation, reduction or deferral of purchases of our products by even a single customer could significantly reduce our revenues in any particular quarter. If we were to lose any of our significant customers or suffer a material reduction in their purchase orders, revenue could decline and our business, financial condition and results of operations could be materially and adversely affected.

Revenues are Largely Based on the Sale of a Small Number of Product Units

We derive a substantial portion of our revenue from the sale of a relatively small number of products. Accordingly, our revenues, margins and other operating results could fluctuate significantly from quarter to quarter depending upon a variety of factors in addition to those described above, including:

- changes in the timing of orders and terms or acceptance of product shipments by our customers;
- changes in the mix of products and services that we sell;
- timing and market acceptance of our new product introductions; and
- delays or problems in the planned introduction of new products, or in the performance of any such products following delivery to customers.

As a result of these risks, we believe that quarter-to-quarter comparisons of our revenue and operating results may not be meaningful, and that these comparisons may not be an accurate indicator of our future performance.

Risks Related to Our Supply Chain and Production

Variability of Production Capacity

To meet rapidly changing demand in the industries we serve, we must effectively manage our resources and production capacity. During periods of decreasing demand for our products, we must be able to appropriately align our cost structure with prevailing market conditions and effectively manage our supply chain. Our ability to rapidly and effectively reduce our cost structure in response to such downturns is limited by the fixed nature of many of our expenses in the near term and by our need to continue our investment in next-generation product technology and to support and service our products. Conversely, when upturns occur in the markets we serve, we may have difficulty rapidly and effectively increasing our manufacturing capacity or procuring sufficient materials to meet sudden increases in customer demand that could result in the loss of business to our competitors and harm to our relationships with our customers. If we are not able to timely and appropriately adapt to changes in our business environment, our business, financial condition or results of operations may be materially and adversely affected.

Reliance on Critical Suppliers

We use a wide range of components from numerous suppliers in the manufacture of our products, including custom electronic, laser, optical and mechanical components. We generally do not have guaranteed supply arrangements with our suppliers. We seek to reduce the risk of production and service interruptions and shortages of key parts by selecting and qualifying alternative suppliers for key parts, monitoring the financial stability of key suppliers and maintaining appropriate inventories of key parts. Although we make reasonable efforts to

ensure that parts are available from multiple suppliers, some key parts are available only from a single supplier or a limited group of suppliers in the short term. In addition, some of the lasers we use in our products are difficult to manufacture, and as a result we may not receive an adequate supply of lasers in a timely fashion to fill orders. Operations at our suppliers' facilities are subject to disruption or discontinuation for a variety of reasons, including changes in business relationships, competitive factors, financial difficulties, work stoppages, fire, natural disasters or other causes. Any such disruption or discontinuation to our suppliers' operations could interrupt or reduce our manufacturing activities and delay delivery of our products, any or all of which could materially and adversely affect our results of operations. In addition, when markets recover from economic downturns, there is a heightened risk that one or more of our suppliers may not be able to meet increased demand requirements, adversely impacting our ability to fulfill orders and win business with our customers.

Utilization of Contract Manufacturers

We have arrangements with contract manufacturers to complete the manufacturing of certain of our products or product subcomponents. Any significant interruption in our contract manufacturers' ability to provide manufacturing services to us as a result of contractual disputes with us or another party, labor disruptions, financial difficulties, natural disasters, delay or interruption in the receipt of inventory, customer prioritization or other causes could result in reduced manufacturing capabilities or delayed deliveries for certain of our products, any or all of which could materially and adversely affect our results of operations.

Charges for Excess or Obsolete Inventory

One factor on which we compete is the ability to ship products on schedules required by customers. In order to facilitate timely shipping, management forecasts demand, both in type and amount of products, and these forecasts are used to determine inventory to be purchased. We also order materials based on our technology roadmap, which represents management's assessment of technology that will be utilized in new products that we develop. Certain types of inventory, including lasers and optical equipment, are particularly expensive and may only be used in the production of a single type of product. If actual demand is lower than forecast with respect to the type or amount of products actually ordered, or both, our inventory levels may increase. As a result, there is a risk that we may have to incur material accounting charges for excess and obsolete inventory if inventory cannot be used, which would negatively affect our financial results. Also, if we alter our technology or product development strategy, we may have inventory that may not be usable under the new strategy, which may also result in material accounting charges. For example, during 2013, we recorded \$21.0 million of charges in cost of sales for an inventory write-off associated with discontinued products.

Uncertainties Resulting from Conflict Minerals Regulation

On August 22, 2012, the SEC adopted a new rule requiring disclosures of specified minerals, known as conflict minerals, that are necessary to the functionality or production of products manufactured or contracted to be manufactured by companies filing public reports. The new rule, which is effective for the 2013 calendar year and requires a disclosure report to be filed by May 31, 2014, will require companies to perform due diligence, disclose, and report whether such minerals originate from the Democratic Republic of Congo or an adjoining country. The new rule could affect sourcing at competitive prices and availability in sufficient quantities of certain minerals used in the manufacture of our products, including tantalum, tin, gold, and tungsten. The number of suppliers who provide conflict-free minerals may be limited. In addition, there may be material costs associated with complying with the disclosure requirements, such as costs related to determining the source of certain minerals used in our products, as well as costs of possible changes to products, processes, or sources of supply as a consequence of such verification activities. Since our supply chain is complex, we may not be able to sufficiently verify the origins of the relevant minerals used in our products through the due diligence procedures that we implement, which may harm our reputation. In addition, we may encounter challenges to satisfy those customers who require that all of the components of our products be certified as conflict-free, which could place us at a competitive disadvantage if we are unable to do so.

Risks Related to Our Organization

Operating a Global Business

International shipments accounted for 90% of net sales in 2013, with 85% of our net shipments to customers in Asia. We expect that international shipments will continue to represent a significant percentage of net sales in the future. We also have significant foreign operations, including manufacturing facilities in Singapore and China, research and development facilities in Canada, France and Taiwan, and sales and service offices in various countries. Under our globalization strategy, we intend to increase our foreign operations in the future. Our non-U.S. sales, purchases and operations are subject to risks inherent in conducting business abroad, many of which are outside our control, including the following:

- periodic local or geographic economic downturns and unstable political conditions;
- price and currency exchange controls;
- fluctuation in the relative values of currencies;
- difficulty in repatriating money, whether as a result of tax laws or otherwise;
- difficulties protecting intellectual property;
- compliance with labor laws and other laws governing employees;
- local labor disputes;
- shipping delays and disruptions;
- unexpected changes in trading policies, regulatory requirements, tariffs and other barriers; and
- difficulties in managing a global enterprise, including staffing, collecting accounts receivable, and managing suppliers, distributors and representatives.

Our business and operating results could also be impacted, directly or indirectly, by natural disasters, outbreaks of infectious disease, military action, international conflicts, terrorist activities, civil unrest and associated political instability. Many of our facilities, including our Portland, Oregon headquarters, are in areas with known earthquake risk. Some of these events or circumstances may also result in heightened security concerns with respect to domestic and international travel and commerce, which may further affect our business and operating results. In particular, due to these uncertainties, we are subject to the following additional risks:

- future tightening of immigration controls may adversely affect the residence status of non-U.S. engineers and other key technical employees in our U.S. facilities or our ability to hire new non-U.S. employees in such facilities;
- more frequent instances of shipping delays;
- demand for our products may not increase or may decrease; and
- our customers or suppliers may experience financial difficulties or cease operations.

We currently benefit from a tax incentive program in Singapore pursuant to which we pay no Singapore income tax with respect to our manufacturing income. The incentive commenced on July 1, 2006 and will continue through June 30, 2016 assuming we are able to satisfy applicable requirements. There is no assurance we will be able to satisfy these requirements. Failure to meet such requirements may lead to reduction in future benefits.

Implementation and Modification of Globalization Strategy

We are implementing our globalization strategy in which we are moving certain operational resources and capabilities to different countries in Asia to be closer to many of our significant customers and to reduce costs. We believe this strategy will enhance customer relationships, improve our responsiveness, and reduce our

manufacturing costs for certain products. We opened a manufacturing facility in Singapore in the fourth quarter of 2010, which manufactures certain IMG, LED, CG and laser ablation products and is now our primary system manufacturing facility. Additionally, we have a manufacturing facility in Beijing China, which manufactures certain laser products.

Our globalization strategy is subject to a variety of complexities and risks, many of which we have little experience managing, and which may divert a substantial amount of management's time. These risks include:

- challenges in designing new facilities that can be scaled for future expansion, replicating current processes and bringing new facilities up to full operation;
- unpredictable costs, redundancy costs and cost overruns for developing new facilities and acquiring equipment;
- building local management teams, technical personnel and other staff for functions that we have not previously conducted outside of the United States;
- technical obstacles such as poor production or process yield and loss of quality control during the ramp of a new facility;
- re-qualifications and other procedures that may be required by our customers;
- our ability to bring up local suppliers to meet our quality and cycle-time needs;
- our ability to reduce costs in the United States as we add costs in Asia;
- rapidly changing business conditions that may require plans to be changed or abandoned before they are fully implemented; and
- challenges posed by distance and by differences in language and culture.

These and other factors could delay the development and implementation of our strategy, as well as impair our gross margins, delay shipments and deliveries, cause us to lose sales, require us to write off investments already made, damage our reputation and harm our business, financial condition and results of operations. If we decide to change our current globalization strategy, we may incur charges for certain costs incurred.

Acquisitions and Divestitures

We may make acquisitions of, or significant investments in, other businesses with complementary products, services or technologies, such as our June 2012 acquisition of Eolite Systems. In addition, subsequent to the end of the fiscal year, we acquired the assets of the Semiconductor Systems business from GSI, Group Inc. Acquisitions involve numerous risks, many of which are unpredictable and beyond our control, including:

- difficulties and increased costs in connection with integration of the personnel, operations, technologies and products of the acquired businesses;
- implementation of our enterprise resource planning (ERP) system into the acquired company's operations;
- diversion of management's attention from other operational matters;
- the potential loss of key employees of the acquired company;
- lack of synergy or inability to realize expected synergies resulting from the acquisition;
- acquired assets becoming impaired as a result of technological advancements or worse-than-expected performance by the acquired company;
- difficulties establishing satisfactory internal controls at the acquired company;
- risks and uncertainties relating to the performance of the combined company following the transaction; and

- acquiring unanticipated liabilities for which we will not be indemnified.

Furthermore, the accounting for an acquisition could result in significant charges resulting from amortization or write-off of intangible assets we acquire. Our inability to effectively manage these risks could result in our inability to realize the anticipated benefits of an acquisition on a timely basis, or at all, and materially and adversely affect our business, financial condition and results of operations. In addition, all acquisition transaction costs must be expensed as incurred rather than capitalized, which may have a material adverse effect on our results of operations.

The means by which we finance an acquisition may also significantly affect our business or the value of the shares of our common stock. If we issue common stock to pay for an acquisition, the ownership percentage of our existing shareholders will be diluted and the value of the shares held by our existing shareholders could be reduced. If we use cash on hand to pay for an acquisition, the payment could significantly reduce the cash that would be available to fund our operations or to use for other purposes. If we borrow funds in connection with an acquisition, we would be required to use cash to service the debt and to comply with financial and other covenants.

We may from time to time also make strategic investments in development stage companies. Investments in development stage companies are subject to a high degree of risk. We could lose all or a portion of our investment in any such company.

Hiring and Retention of Personnel

Our continued success depends in part upon the services of our key managerial, financial and technical personnel. The loss of key personnel, or our inability to attract, assimilate and retain qualified personnel, could result in the loss of customers, inhibit our ability to operate and grow our business and otherwise have a material adverse effect on our business and results of operations. We have previously had to, and may in the future have to, impose salary reductions on employees during economic downturns in an effort to maintain our financial position. These actions may have an adverse effect on employee loyalty and may make it more difficult for us to attract and retain key personnel. Competition for qualified personnel in the industries in which we compete is intense, and we may not be successful in attracting and retaining qualified personnel. We may incur significant costs in our efforts to recruit and retain key personnel, which could affect our financial position and results of operations.

Risks Related to Technology

Markets Characterized by Rapid Technological Change

The markets for our products are characterized by rapid technological change and innovation, frequent new product introductions, changes in customer requirements and evolving industry standards. Our future performance will depend on the successful development, introduction and market acceptance of new and enhanced products that address technological changes and the requirements of current and potential customers. The development of new, technologically advanced products is a complex and uncertain process, requiring high levels of innovation and highly skilled engineering and development personnel, as well as the accurate anticipation of technological and market trends. We cannot assure you that we will be able to identify, develop, manufacture, market or support new or enhanced products successfully, if at all, or on a timely basis. The introduction by us or by our competitors of new or enhanced products, or alternative technologies, may cause our customers to defer, change or cancel orders for our existing products or cease purchasing our products altogether. For example, our semiconductor memory customers are exploring alternative redundancy technologies such as electrical redundancy technology. We believe our historical semiconductor memory customers are converting these technologies into their manufacturing process for newer products, thereby materially reducing the size of the addressable market of our memory yield improvement systems. Further, we cannot assure that our new products will gain market acceptance or that we will be able to respond effectively to product announcements by

competitors, technology changes or emerging industry standards. If we are unable to develop new or enhanced products to address product or technology changes or new industry standards on a timely basis or at all, or if our new or enhanced products are not accepted by the market, or if our customers adopt alternative technologies, our business, financial condition and results of operations may be adversely affected.

Need to Invest in Research and Development

Our industry is characterized by the need for continued investment in research and development. Because of intense competition in the industries in which we compete, if we were to fail to invest sufficiently in research and development, our products could become less attractive to our current and potential customers or obsolete, and our business and financial condition could be materially and adversely affected. As a result of our need to maintain our spending levels in this area, our operating results could be materially harmed if our net sales decline. In addition, as a result of our emphasis on research and development and technological innovation, our operating costs may increase in the future, and research and development expenses may increase as a percentage of total operating expenses and as a percentage of net sales.

Products are Highly Complex

Our products are highly complex, and our extensive product development, manufacturing and testing processes may not be adequate to detect all defects, errors, failures and quality issues that could impact customer satisfaction or result in claims against us. As a result, we may have to replace certain components or provide remediation in response to the discovery of defects in products after they are shipped. The occurrence of any defects, errors, failures or quality issues could result in cancellation of orders, product returns, diversion of our resources, legal actions by our customers and other losses to us or to our customers. These occurrences could also result in the loss of, or delay in, market acceptance of our products, loss of sales and increased expenses and warranty costs, which would harm our business and adversely affect our revenues and profitability.

Risks Related to Legal Matters

Protection of Proprietary Rights – Generally

Our success depends significantly upon the protection of our proprietary rights. We attempt to protect our proprietary rights through patents, copyrights, trademarks, maintenance of trade secrets and other measures, including entering into confidentiality agreements. We incur substantial costs to obtain and maintain patents and to defend our intellectual property rights. For example, we initiated litigation against All Ring Tech Co., Ltd. in Taiwan in August 2005 alleging that certain of our patent rights had been violated. We rely upon the laws of the United States and foreign countries where we develop, manufacture or sell our products to protect our proprietary rights. We may not be successful in protecting these proprietary rights, these rights may not provide the competitive advantages that we expect, or other parties may challenge, invalidate or circumvent these rights.

Protection of Proprietary Rights – Foreign Jurisdictions

Our efforts to protect our intellectual property may be less effective in some foreign countries where intellectual property rights are not as well protected as in the United States. Many United States companies have encountered substantial problems in protecting their proprietary rights against infringement in foreign countries. If we fail to adequately protect our intellectual property in these countries, it could be easier for our competitors to sell competing products in foreign countries, which could result in reduced sales and gross margins.

Intellectual Property Infringement Claims

Several of our competitors hold patents covering a variety of technologies, applications and methods of use similar to some of those used in our products. While we attempt in our designs to avoid patent infringement, from time to time we and our customers have received correspondence from our competitors claiming that some

of our products, as used by our customers, may be infringing one or more of these patents. Competitors or others have in the past and may in the future assert infringement claims against our customers or us with respect to current or future products or uses, and these assertions may result in costly litigation or require us to obtain a license to use intellectual property rights of others. If claims of infringement are asserted against our customers, those customers may seek indemnification from us for damages or expenses they incur.

If we become subject to infringement claims, we will evaluate our position and consider the available alternatives, which may include seeking licenses to use the technology in question or defending our position. These licenses, however, may not be available on satisfactory terms or at all. If we are not able to negotiate the necessary licenses on commercially reasonable terms or successfully defend our position, our financial condition and results of operations could be materially and adversely affected.

Tax Audits and Changes in Tax Law

We are periodically under audit by United States and foreign tax authorities and may have exposure to additional tax liabilities as a result. Significant judgment is required in determining our provision for income and other tax liabilities. Although we believe our tax estimates are reasonable, the final outcome of tax audits and the impact of changes in tax laws or the interpretation of tax laws could result in material differences from what is reflected in historical income tax accruals. If additional taxes are assessed as a result of an examination, a material effect on our financial results, tax positions or cash flows could occur in the period or periods in which the determination is made.

Legal Proceedings

From time to time we are subject to various legal proceedings, including breach of contract claims and claims that involve possible infringement of patent or other intellectual property rights of third parties. It is inherently difficult to assess the outcome of litigation matters, and there can be no assurance that we will prevail in any litigation. Any litigation could result in substantial cost and diversion of management's attention, which by itself could have a material adverse effect on our financial condition and results of operations. Further, adverse determinations in such litigation could result in loss of our property rights, subject us to significant liabilities, require us to seek licenses from others or prevent us from manufacturing or selling our products, any of which could materially adversely affect our business, financial condition, results of operations or cash flows.

Provisions Restricting Our Acquisition

Our articles of incorporation and bylaws contain provisions that could make it harder for a third party to acquire us without the consent of our Board of Directors. Our Board of Directors has also adopted a shareholder rights plan, or "poison pill," which would significantly dilute the ownership of a hostile acquirer. In addition, the Oregon Control Share Act and the Oregon Business Combination Act limit the ability of parties who acquire a significant amount of voting stock to exercise control over us. These provisions may have the effect of lengthening the time required for a person to acquire control of us through a proxy contest or the election of a majority of our Board of Directors, may deter efforts to obtain control of us and may make it more difficult for a third party to acquire us without negotiation. These provisions may apply even if the offer may be considered beneficial by our shareholders.

Risks Related to Financial Matters

Unfavorable Currency Exchange Rate Fluctuations

Currency exchange rate fluctuations could have an adverse effect on our sales and results of operations and we could experience losses with respect to forward exchange contracts into which we may enter. Unfavorable currency fluctuations could require us to increase prices to foreign customers, which could result in lower net sales by us to those customers. Alternatively, if we do not adjust the prices for our products in response to

unfavorable currency fluctuations, our results of operations could be materially and adversely affected. In addition, some of our foreign sales are denominated in the currency of the country in which these products are sold and the currency we receive in payment for such sales could be less valuable at the time of receipt as a result of exchange rate fluctuations. From time to time, we enter into forward exchange contracts to hedge the value of accounts receivable primarily denominated in Japanese yen and other currencies. However, we cannot be certain that our efforts will be adequate to protect us against significant currency fluctuations or that such efforts will not expose us to additional exchange rate risks, which could adversely affect our results of operations.

Fluctuations in Effective Tax Rate

As a global company, we are subject to taxation in the United States and numerous foreign jurisdictions. Our effective tax rate is subject to fluctuation from one period to the next because the income tax rates for each year are a function of many factors, including: (a) taxable income levels and the effects of a mix of profits (losses) earned by ESI and our subsidiaries in numerous tax jurisdictions with a broad range of income tax rates; (b) our ability to utilize deferred tax assets; (c) taxes, refunds, interest or penalties resulting from tax audits; (d) the magnitude of various credits and deductions as a percentage of total taxable income; and (e) changes in tax laws or the interpretation of such tax laws. Changes in the mix of these items may cause our effective tax rate to fluctuate between periods, which could have a material adverse effect on our financial position and results of operations.

Impairment of Intangible Assets

We held a total of \$9.1 million in acquired intangible assets and \$7.9 million in goodwill at March 30, 2013. We review our acquired intangible assets for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. We test goodwill for impairment using a quantitative approach at least annually or between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below the carrying value.

We performed a review of our acquired intangible assets in the fourth quarter of 2013. We identified intangible assets relating to acquired in-process research and development programs from which we no longer expect to derive value. As a result, we accelerated amortization of \$2.3 million on acquired intangible assets. There were no other events or circumstances during 2013 that would indicate the carrying value of our long-lived assets may not be recoverable.

We performed our annual goodwill impairment analysis during the fourth quarter of 2013 and determined that it was not “more likely than not” that the fair value of our single reporting unit was less than its carrying value. If at any time management determines that an impairment exists, we will be required to reflect the impaired value as part of operating income, which will result in a reduction in earnings and a corresponding reduction in our net asset value in the period such impairment is identified.

Stock Price Volatility

The market price of our common stock has fluctuated widely. During fiscal 2013, our stock price fluctuated between a high of \$15.20 per share and a low of \$9.46 per share. Consequently, the current market price of our common stock may not be indicative of future market prices, and we may be unable to sustain or increase the value of an investment in our common stock. Factors affecting our stock price, many of which are outside of our control, may include:

- variations in operating results from quarter to quarter;
- changes in earnings estimates by analysts or our failure to meet analysts’ expectations;
- changes in the market price per share of our public company customers;
- market conditions in the semiconductor and other industries into which we sell products;

- general economic conditions;
- political changes, hostilities or natural disasters;
- low trading volume of our common stock;
- the number of analysts covering our common stock; and
- the number of firms making a market in our common stock.

In addition, the stock market has recently experienced significant price and volume fluctuations. These fluctuations have particularly affected the market prices of the securities of high-technology companies like ours. These market fluctuations could adversely affect the market price of our common stock.

Reduction or Cessation of Dividends

Our Board of Directors first adopted a dividend policy in December 2011. We intend to pay quarterly dividends subject to capital availability and periodic determinations by our Board of Directors that cash dividends are in the best interest of our shareholders and are in compliance with all laws and agreements applicable to the declaration and payment of cash dividends. Future dividends may be affected by, among other factors: our views on potential future capital requirements for investments in acquisitions; funding of research and development; legal risks; stock repurchase programs; changes in federal and state income tax laws or corporate laws; and changes to our business model. Our dividend payments may change from time to time, and we cannot provide assurance that we will continue to declare dividends at all or in any particular amounts. Further, the special dividend declared by the Board of Directors in December 2012 should not be considered a recurring event. A reduction or cessation in our dividend payments could have a negative effect on our stock price.

Impairment of Investments

Our investment portfolio is primarily comprised of commercial paper, debt securities issued by U.S. governmental agencies and municipal debt securities. These investments are intended to be highly liquid and low risk. If the markets for these securities were to deteriorate for any reason, including as a result of a downgrade in the credit rating of U.S. government securities, the liquidity and value of these investments could be negatively affected, which could result in impairment charges. Any such impairment charges may have a material impact on our financial condition and results of operations.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our executive and administrative headquarters, which houses our primary engineering and marketing functions, advanced manufacturing capability for new products, and manufacturing of select legacy products are located in a four-building complex with 250,800 square feet of space on 15 acres in Portland, Oregon. Additionally, our Components Group (CG) consumable products are manufactured at a 53,000 square foot plant on 31 acres in Klamath Falls, Oregon. We own all of these buildings. We believe the productive capacity of these facilities to be adequate and suitable for the requirements of our business for the foreseeable future.

Our primary system manufacturing facilities are located in leased facilities in Singapore. We lease approximately 26,000 square feet of facilities in Singapore where we manufacture certain Interconnect & Microfabrication Group (IMG), LED, CG and laser ablation products. We also lease approximately 65,000 square feet of facilities in Fremont, California that are used primarily for engineering and marketing of our LED products and as a demonstration center for our microfabrication systems. We additionally lease approximately

20,150 square feet of facilities in Beijing, China, where we manufacture certain laser products. Additionally, we lease other office and facility space in various locations throughout the United States and various foreign countries.

Item 3. Legal Proceedings

In the ordinary course of business, we are involved in various legal matters, either asserted or unasserted, and investigations. In the opinion of management, ultimate resolution of these matters will not have a material effect on our consolidated financial position, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not Applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Common Stock Prices

Our common stock trades on the NASDAQ Stock Market under the symbol ESIO. There were approximately 533 shareholders of record as of June 5, 2013, and on that date there were 29,732,681 common shares outstanding. The closing price on June 5, 2013 was \$11.30.

The following table shows the high and low closing prices for our common stock as reported on the NASDAQ Stock Market for the fiscal quarters indicated:

<u>Fiscal 2013</u>	<u>High</u>	<u>Low</u>
Quarter 1	\$15.20	\$10.89
Quarter 2	13.16	10.49
Quarter 3	12.84	9.46
Quarter 4	11.63	9.74
<u>Fiscal 2012</u>	<u>High</u>	<u>Low</u>
Quarter 1	\$19.30	\$15.19
Quarter 2	19.88	11.81
Quarter 3	14.68	11.10
Quarter 4	16.65	13.84

Share Repurchase Program

On December 9, 2011, the Board of Directors authorized a share repurchase program totaling \$20.0 million to acquire shares of our outstanding common stock. The repurchases are to be made at management's discretion in the open market or in privately negotiated transactions in compliance with applicable securities laws and other legal requirements and are subject to market conditions, share price and other factors. We did not repurchase any shares under this program in 2013. There is no fixed completion date for the repurchase program.

Disclosures related to securities authorized for issuance under our Equity Compensation Plans are incorporated by reference into Item 12 of this annual report on Form 10-K, Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters, from our Proxy Statement for our fiscal 2013 annual meeting.

Dividends

In December 2011, the Board of Directors adopted a dividend policy under which we intend to pay quarterly cash dividends. The following table summarizes the quarterly dividend declared and paid by us since the adoption of the dividend policy:

<u>Date Declared</u>	<u>Record Date</u>	<u>Payable Date</u>	<u>Amount per Share</u>
February 7, 2013	February 28, 2013	March 14, 2013	\$ 0.08
November 8, 2012	November 21, 2012	December 5, 2012	\$ 0.08
August 9, 2012	August 24, 2012	September 10, 2012	\$ 0.08
May 10, 2012	June 4, 2012	June 18, 2012	\$ 0.08
December 9, 2011	January 27, 2012	February 17, 2012	\$ 0.08

A special dividend of \$2.00 per share was declared by the Board of Directors on December 3, 2012 after the successful patent settlement. The special dividend should not be considered a recurring event.

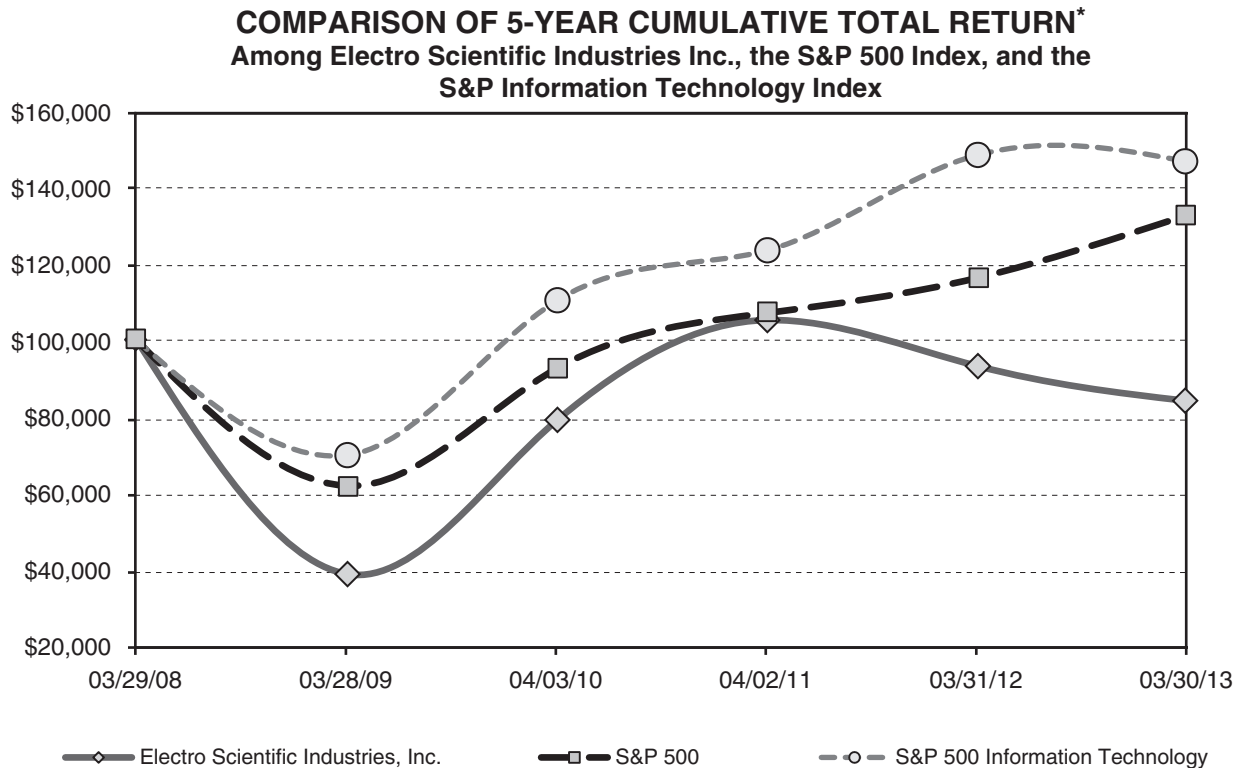
We paid aggregate dividends of \$68.1 million and \$2.3 million in 2013 and 2012, respectively. Subsequent to the year ended March 30, 2013, the Board of Directors declared an \$0.08 per outstanding common share cash dividend on May 9, 2013, payable June 19, 2013 to shareholders of record on June 5, 2013. The estimated amount to be paid as a result of the May 9, 2013 declaration is \$2.4 million.

We currently anticipate that we will continue to pay cash dividends on a quarterly basis in the future, although the declaration, timing and amount of any future cash dividends are at the discretion of the Board of Directors and will depend on our financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination that cash dividends are in the best interest of our shareholders.

Stock Performance Graph

The graph below compares the cumulative 58-month total return to holders of Electro Scientific Industries, Inc. common stock with the cumulative total returns of the S&P 500 Index and the S&P Information Technology Index for the same period. The graph assumes that the value of the investment in Electro Scientific Industries, Inc. common stock and in each of the indices (including reinvestment of dividends) was \$100.00 on March 29, 2008 and tracks it through March 30, 2013.

Historical stock price performance should not be relied upon as indicative of future stock price performance.



* \$100 invested on 3/29/08 in stock or 3/31/08 index, including reinvestment of dividends. Indexes calculated on month-end basis.

	Cumulative Total Return ¹					
	March 29, 2008	March 28, 2009	April 3, 2010	April 2, 2011	March 31, 2012	March 30, 2013
Electro Scientific Industries, Inc.	100.00	38.81	79.17	105.32	93.22	84.33
S&P 500	100.00	61.91	92.72	107.23	116.39	132.64
S&P Information Technology Index	100.00	69.93	110.50	123.63	148.62	146.95

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Item 6. Selected Financial Data

<u>(In thousands, except per share data)</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Statement of Operations Data					
Net sales	\$216,625	\$254,229	\$256,811	\$148,893	\$157,313
Provision for (benefit from) income taxes ^{2,6}	39,851	(1,417)	390	(9,778)	(13,627)
Net (loss) income ^{1,2,3,4,5,6}	(54,716)	4,904	7,934	(11,984)	(51,050)
Net (loss) income per share—basic ^{1,2,3,4,5,6}	(1.86)	0.17	0.28	(0.44)	(1.89)
Net (loss) income per share—diluted ^{1,2,3,4,5,6}	(1.86)	0.17	0.28	(0.44)	(1.89)
Cash dividends paid per outstanding common share	2.32	0.08	—	—	—
Balance Sheet Data					
Cash and cash equivalents, restricted cash, short-term investments and auction rate securities ^{7,8,9,10}	\$145,057	\$198,723	\$201,592	\$171,320	\$161,925
Working capital	194,406	269,532	259,739	253,728	246,910
Net property, plant and equipment	27,894	32,103	39,661	40,590	43,005
Total assets	322,208	433,210	440,167	394,418	384,247
Long-term debt	—	—	—	—	—
Shareholders' equity	264,142	378,670	362,299	342,662	343,523

1. Fiscal 2013 included \$2.6 million for restructuring costs, which primarily consisted of \$1.5 million of employee severance costs and \$1.1 million of charges related to asset write-offs. Fiscal 2013 also included \$21.0 million of charges in cost of sales for inventory write-offs, \$8.1 million for share-based compensation expense, \$4.8 million for amortization of acquired intangible assets, including \$2.3 million of accelerated amortization, \$1.2 million for net gain on sale of property and equipment, and \$15.3 million for net legal settlement proceeds.
2. Fiscal 2013 included a \$46.9 million valuation allowance on deferred tax assets.
3. Fiscal 2012 included \$3.8 million for restructuring costs, which primarily consisted of \$1.9 million of employee severance costs and \$1.7 million of accelerated depreciation for certain assets. Fiscal 2012 also included \$2.0 million of charges in cost of sales for an inventory write-off, \$11.5 million for share-based compensation expense, \$1.7 million for amortization of acquired intangible assets, \$1.2 million for loss on disposal of assets and the write-off of engineering materials, \$0.6 million for legal settlement costs, and a gain of \$2.7 million from sale of previously impaired auction rate securities.
4. Fiscal 2011 included \$9.3 million for share-based compensation expense, \$1.4 million for legal settlement costs, \$0.8 million for restructuring costs, \$2.0 million for amortization of acquired intangible assets, and a gain of \$0.7 million from sale of previously impaired auction rate securities.
5. Fiscal 2010 included \$7.7 million for share-based compensation expense, \$2.1 million for amortization of acquired intangible assets, a charge of \$1.3 million for other-than-temporary impairment of auction rate securities, and a benefit of \$4.5 million for net merger termination proceeds.
6. Fiscal 2009 included \$17.4 million for a goodwill impairment charge, \$13.6 million for other-than-temporary impairment of auction rate securities, and \$6.0 million for increases to the valuation allowance on deferred tax assets. Fiscal 2009 also included \$4.4 million for share-based compensation expense, \$4.1 million for the write-off of materials from a research, development and engineering program due to a change in product development strategy, \$4.0 million for restructuring costs, and \$2.3 million for amortization of acquired intangible assets.
7. No investments in auction rate securities were held at the end of fiscal 2012 and fiscal 2013.
8. Fiscal 2011 included auction rate securities at a fair value of \$5.2 million.
9. Fiscal 2010 included auction rate securities at a fair value of \$5.0 million.
10. Fiscal 2009 included auction rate securities at a fair value of \$6.0 million.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview of Business

Electro Scientific Industries, Inc. and its subsidiaries (ESI) is a leading supplier of innovative laser-based manufacturing solutions for the microtechnology industry. Our advanced laser systems enable precise structuring of micron to submicron features in components and devices which are used in a wide variety of end products in the consumer electronics, computer, semiconductor, communications and other markets. These features enable our customers to achieve functionality, or improve yield and productivity in their manufacturing processes that can be critical to their profitability. Founded in 1944, ESI is headquartered in Portland, Oregon, with global operations and subsidiaries in Asia, Canada, Europe and the United States.

Our advanced laser microfabrication systems allow microelectronics, semiconductor, and other microtechnology manufacturers to physically alter select device features during high-volume production in order to increase performance and improve production yields. Laser microfabrication comprises a set of precise micron-level processes, including drilling, scribing, dicing, singulation, cutting, ablating, trimming, and precision marking on multiple types of materials. These processes require application-specific laser systems that are able to meet our customers' exacting performance and productivity requirements. Our laser-based systems improve production yields or enable improved performance for flexible and rigid high density interconnect printed circuit boards, semiconductor devices, light emitting diodes (LEDs), advanced semiconductor packaging, touch-panel glass, flat panel liquid crystal displays (LCDs) and other high value components.

Additionally, we produce high-capacity test and inspection equipment that is critical to the quality control process during the production of multilayer ceramic capacitors (MLCCs). Our equipment ensures that each component meets the electrical and physical tolerances required to perform properly. Lastly, we produce systems that use photonic technology to perform precision inspection for quality control and defect identification.

Overview of Financial Results

Our fiscal year consists of 52 or 53 weeks ending on the Saturday nearest March 31. Accordingly, our fiscal 2013 reporting period consisted of a 52-week period ending on March 30, 2013, our fiscal 2012 reporting period consisted of a 52-week period ending on March 31, 2012 and our fiscal 2011 reporting period consisted of a 52-week period ending on April 2, 2011. All references to years or quarters relate to fiscal years or fiscal quarters unless otherwise noted.

In 2013, we saw a decline in orders primarily due to overcapacity in the semiconductor memory repair, LED, MLCC, and Flex drilling markets. Our total order volume in 2013 was \$179.5 million, down approximately 30%, compared to orders of \$255.5 million in 2012. While revenue increased from the prior year, orders for our Interconnect & Microfabrication (IMG) products declined due to absorption of capacity for our flex-circuit via drilling products following record orders the prior year and timing of service contract orders. Orders for our Semiconductor Group (SG) decreased on overcapacity, and orders for our Components Group (CG) products increased driven by technology buys for new systems to test next generation capacitors.

Total shipments were \$215.8 million in 2013 compared to \$251.5 million in 2012. By product group, SG shipments decreased by approximately 69% following capacity buys in 2012 for DRAM memory repair and LED systems while IMG and CG shipments remained relatively flat. Backlog was \$32.8 million as of March 30, 2013 compared to \$69.1 million as of March 31, 2012 primarily as a result of shipping the record flex via drilling orders received late in fiscal 2012.

Net sales were \$216.6 million in 2013 compared to \$254.2 million in 2012. This decrease was primarily due to lower demand in SG and CG for memory repair, LED and passive component products, partially offset by increases in IMG sales as a result of shipments of our flex-circuit via drilling following record orders in the fourth quarter of 2012 and demand for our advanced microfabrication systems.

Gross profit was \$64.3 million in 2013 compared to \$107.7 million in 2012. This decrease was primarily due to \$23.3 million of charges in cost of sales for inventory write-offs and accelerated amortization of acquired intangible assets related to our corporate restructuring program, lower production and sales volumes, and product mix. Gross margins were 29.7% on net sales of \$216.6 million in 2013 compared to 42.4% on net sales of \$254.2 million in 2012.

Net operating expenses of \$79.4 million in 2013 decreased \$27.1 million from \$106.5 million in 2012. This decrease was primarily due to \$15.8 million in net legal settlement proceeds, reflected as a credit offset to operating expenses. Additionally, operating expenses decreased from 2012 as a result of a \$5.4 million reduction in research, development and engineering, a \$2.5 million decrease in selling, service and administration, a \$1.2 million decrease in restructuring costs, and a \$2.2 million increase in net gain on sale of property. The decrease in research and development was primarily due to lower labor costs from selective headcount reductions, declines in project material costs, and lower depreciation. The decrease in selling, service and administration was primarily attributable to a \$2.9 million decrease in share-based compensation expenses. Operating loss was \$15.1 million in 2013 compared to operating income of \$1.2 million in 2012, a decrease of \$16.3 million.

Non-operating income was \$0.3 million in 2013 compared to \$2.3 million in 2012. The decrease was primarily due to a \$2.7 million gain on sale of previously impaired auction rate securities (ARS) included in 2012.

Provision for income taxes was \$39.9 million in 2013 compared to a benefit from income taxes of \$1.4 million in 2012, due primarily to a \$46.9 million valuation allowance recorded in the fourth quarter on our federal and state deferred tax assets. Net loss was \$54.7 million in 2013 compared to net income of \$4.9 million in 2012, primarily the result of the tax valuation allowance, inventory write-offs, and accelerated amortization of acquired intangible assets recorded in 2013.

Results of Operations

The following table presents results of operations data as a percentage of net sales for the years ended March 30, 2013, March 31, 2012 and April 2, 2011:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net sales	100.0%	100.0%	100.0%
Cost of sales	<u>70.3</u>	<u>57.6</u>	<u>57.6</u>
Gross profit	29.7	42.4	42.4
Selling, service and administration	25.9	23.0	22.7
Research, development and engineering	17.2	16.8	16.0
Restructuring costs	1.2	1.5	0.3
(Gain) loss on sale of property and equipment, net	(0.6)	0.4	—
Legal settlement (proceeds) costs, net	<u>(7.0)</u>	<u>0.2</u>	<u>0.5</u>
Operating (loss) income	(7.0)	0.5	2.9
Gain on sale of previously impaired auction rate securities	—	1.1	0.3
Interest and other income (expense), net	<u>0.1</u>	<u>(0.2)</u>	<u>0.1</u>
(Loss) income before income taxes	(6.9)	1.4	3.3
Provision for (benefit from) income taxes	<u>18.4</u>	<u>(0.5)</u>	<u>0.2</u>
Net (loss) income	<u>(25.3)%</u>	<u>1.9%</u>	<u>3.1%</u>

Fiscal Year Ended March 30, 2013 Compared to Fiscal Year Ended March 31, 2012

Net Sales

The following table presents net sales information by product group:

(In thousands, except percentages)	2013		2012	
	Net Sales	% of Net Sales	Net Sales	% of Net Sales
Interconnect & Microfabrication Group (IMG)	\$170,360	78.6%	\$166,477	65.5%
Components Group (CG)	27,511	12.7	28,976	11.4
Semiconductor Group (SG)	18,754	8.7	58,776	23.1
	<u>\$216,625</u>	<u>100.0%</u>	<u>\$254,229</u>	<u>100.0%</u>

Net sales for 2013 decreased \$37.6 million or 14.8% from net sales for 2012. Sales in IMG increased by 2% while CG and SG decreased by 5% and 68%, respectively.

IMG sales for 2013 increased \$3.9 million compared to 2012. The increase in IMG sales was driven by higher sales of our flex-circuit via drilling and advanced microfabrication systems especially in the first half of 2013. Shipments in the flex-circuit and integrated circuit packaging segments of the market has continued to strengthen as a result of growth in portable consumer electronics such as smart phones and tablet computers. Additionally, increased demand for our advanced microfabrication products were driven by new design wins and follow-on orders to expand capacity for existing applications.

CG sales for 2013 decreased \$1.5 million compared to 2012. The decrease was primarily driven by end user utilization of existing capacity reflecting only modest growth in the demand for overall electronics, partially offset by technology buys for new systems for next generation MLCC's.

SG sales for 2013 decreased \$40.0 million compared to 2012. The decrease in SG revenues was primarily driven by overcapacity and lower sales of our memory repair and LED systems. Within DRAM memory repair, slowing bit growth, industry consolidation, and adoption of alternative technologies have resulted in a near saturation of the market. As a result, during fiscal 2013 we announced that this product line would not be significant for us in the future and took several restructuring actions to refocus our business which resulted in part in a charge against our inventory for these products.

The following table presents net sales information by geographic region:

(In thousands, except percentages)	2013		2012	
	Net Sales	% of Net Sales	Net Sales	% of Net Sales
Asia	\$186,346	86.0%	\$224,100	88.2%
Americas	20,907	9.7	19,448	7.6
Europe	9,372	4.3	10,681	4.2
	<u>\$216,625</u>	<u>100.0%</u>	<u>\$254,229</u>	<u>100.0%</u>

Gross Profit

(In thousands, except percentages)	2013		2012	
	Gross Profit	% of Net Sales	Gross Profit	% of Net Sales
Gross Profit	<u>\$64,253</u>	<u>29.7%</u>	<u>\$107,691</u>	<u>42.4%</u>

Gross profit was \$64.3 million for 2013, a decrease of \$43.4 million compared to 2012. This decrease was primarily due to \$23.3 million of charges in cost of sales for inventory write-offs and accelerated amortization of

acquired intangible assets related to our corporate restructuring program, lower sales and production volumes, and product mix. Gross profit as a percentage of net sales was 29.7% and 42.4% for 2013 and 2012, respectively.

Operating Expenses

<u>(In thousands, except percentages)</u>	<u>2013</u>		<u>2012</u>	
	<u>Expense</u>	<u>% of Net Sales</u>	<u>Expense</u>	<u>% of Net Sales</u>
Selling, service and administration	\$ 56,051	25.9%	\$ 58,555	23.0%
Research, development and engineering	37,196	17.2	42,640	16.8
Restructuring costs	2,612	1.2	3,785	1.5
(Gain) loss on sale of property and equipment, net	(1,226)	(0.6)	966	0.4
Legal settlement (proceeds) costs, net	<u>(15,262)</u>	<u>(7.0)</u>	<u>550</u>	<u>0.2</u>
	<u>\$ 79,371</u>	<u>36.7%</u>	<u>\$106,496</u>	<u>41.9%</u>

Selling, Service and Administration

Selling, service and administration (SS&A) expenses primarily consist of labor and other employee-related expenses including share-based compensation expense, travel expenses, professional fees, sales commissions and facilities costs.

SS&A expenses for 2013 decreased \$2.5 million compared to 2012. This decrease was primarily attributable to a \$2.9 million decrease in share-based compensation expenses, which was driven by accelerated expenses associated with the Chief Executive Officer's retirement eligibility date in 2012 and decreased attainment in 2013 of performance-based grants. In addition, labor and other variable expenses declined in 2013, but were offset by certain restructuring and Eolite integration expenses.

Research, Development and Engineering

Research, development and engineering (RD&E) expenses are primarily comprised of labor and other employee-related expenses, professional fees, project materials costs, equipment costs and facilities costs. RD&E expenses for 2013 decreased \$5.4 million compared to 2012. This decrease was primarily due to lower labor costs from selective headcount reductions, combined with declines in project material costs and depreciation.

Restructuring Costs

In 2013, we initiated a restructuring plan to improve efficiency, transition from memory repair and other legacy products, and focus on laser microfabrication for consumer electronics, emerging technologies related to semiconductor 3D, and proprietary laser technology. The planned completion date for actions to be taken under the plan is December 31, 2013.

The restructuring costs of \$2.6 million recognized in 2013 were comprised primarily of \$1.5 million of employee severance and related benefits and \$1.1 million of charges related to accelerated depreciation on assets that will no longer be utilized.

As part of our globalization strategy, during 2011, we initiated a restructuring plan to reduce our worldwide cost structure through transition of certain procurement and manufacturing activities to Asia. In 2012, we continued our globalization efforts and we additionally identified and initiated other cost reduction actions. As a result of these actions, we recognized \$3.8 million of restructuring costs in 2012. We completed these actions December 29, 2012.

The restructuring costs of \$3.8 million incurred in 2012 were comprised primarily of \$1.9 million in employee severance and related benefits and \$1.7 million of accelerated depreciation for certain assets. We

shortened the depreciable lives of these assets in the fourth quarter of 2012 largely as a result of consolidating facilities in the United States and Asia.

(Gain) Loss on Sale of Property and Equipment, net

In 2013, we sold a facility located in China, for \$2.0 million, resulting in a pre-tax gain of \$1.3 million, partially offset by loss on disposal of certain fixed assets primarily used in testing and development. In 2012, as a part of our globalization strategy and cost reduction actions discussed above, we recognized a loss of \$1.0 million resulting from disposal of certain fixed assets primarily used in testing and development.

Legal Settlement (Proceeds) Costs, net

Legal settlement proceeds net of costs, were \$15.3 million in 2013, which consisted of the All Ring litigation settlement proceeds of \$16.3 million partially offset by court and legal fees associated with the All Ring litigation and other non-recurring legal matters. The settlement of these proceedings allowed for the release of \$22.3 million of restricted cash in the fourth quarter of 2013.

In 2012, we recognized \$0.6 million in legal settlement costs arising from the settlement of an arbitration matter with James Dooley, our former Chief Executive Officer.

Share-Based Compensation

The table of operating expenses shown above includes \$7.2 million and \$10.4 million of share-based compensation expense for 2013 and 2012, respectively. The decrease in share-based compensation expense was driven by accelerated expenses associated with the Chief Executive Officer's retirement eligibility date in 2012 and decreased attainment in 2013 of performance-based grants.

Non-operating Income and Expense

Gain on Sale of Previously Impaired Auction Rate Securities (ARS)

During the first quarter of 2012, we sold all of our remaining ARS with a total par value of \$14.7 million for approximately \$6.5 million. We recorded a total gain of \$2.7 million, which included \$1.4 million in reclassification of previously recorded unrealized gains out of accumulated other comprehensive income. See Note 5 "Fair Value Measurements" to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data for further discussion.

Interest and Other Income (Expense), net

Interest and other expense, net, consists of interest income and expense, market gains and losses on assets held in employees' deferred compensation accounts, realized and unrealized foreign exchange gains and losses, bank charges, investment management fees, and other miscellaneous non-operating items. Net interest and other income (expense) were as follows:

	2013		2012	
	Interest and Other Income, net	% of Net Sales	Interest and Other Expense, net	% of Net Sales
(In thousands, except percentages)				
Interest and other income (expense), net	\$253	0.1%	\$(437)	(0.2)%

Net interest and other income was \$0.3 million in 2013 compared to net interest and other expense of \$0.4 million in 2012. The increase was primarily attributable to smaller foreign exchange losses compared to 2012 and increases on market gains on assets held for our deferred compensation plan.

Income Taxes

<u>(In thousands, except percentages)</u>	2013		2012	
	<u>Income Tax Provision</u>	<u>Effective Tax Rate</u>	<u>Income Tax Benefit</u>	<u>Effective Tax Rate</u>
Provision for (benefit from) income taxes	<u>\$39,851</u>	<u>(268.1)%</u>	<u>\$(1,417)</u>	<u>(40.6)%</u>

The income tax provision for 2013 was \$39.9 million on pretax loss of \$14.9 million, an effective tax rate of 268.1%. For 2012, the income tax benefit was \$1.4 million on pretax income of \$3.5 million, an effective rate of 40.6%. In 2013, our effective tax rate was significantly impacted by the valuation allowance established against U.S. deferred tax assets and attributes. We recorded this valuation allowance based on the operating results of the company, significant restructuring of the business, changes in our future forecast for the U.S. jurisdiction, our continued transition of production overseas, and consideration of available tax planning strategies. These factors led us to provide a valuation allowance against our deferred tax assets and attributes, which we believe no longer meet the threshold for recognition.

Our effective tax rate is subject to fluctuation based upon the mix of income and relative tax rates between jurisdictions, and the occurrence and timing of numerous discrete events such as changes in tax laws or their interpretations, extensions or expirations of research and experimentation credits, closure of tax years subject to examination, finalization of income tax returns, the relationship of fixed deductions to overall changes in estimated and actual pretax income or loss and the tax jurisdictions where income or loss is generated. Based on currently available information, we are not aware of any further discrete events which are likely to occur that would have a material effect on our financial position, expected cash flows or results of operations.

Net (Loss) Income

<u>(In thousands, except percentages)</u>	2013		2012	
	<u>Net Loss</u>	<u>% of Net Sales</u>	<u>Net Income</u>	<u>% of Net Sales</u>
Net (loss) income	<u>\$(54,716)</u>	<u>(25.3)%</u>	<u>\$4,904</u>	<u>1.9%</u>

As a result of the factors discussed above, net loss for 2013 was \$54.7 million, or \$1.86 per basic and diluted share, compared to net income of \$4.9 million, or \$0.17 per basic and diluted share for 2012.

Fiscal Year Ended March 31, 2012 Compared to Fiscal Year Ended April 2, 2011

Net Sales

The following table presents net sales information by product group:

<u>(In thousands, except percentages)</u>	2012		2011	
	<u>Net Sales</u>	<u>% of Net Sales</u>	<u>Net Sales</u>	<u>% of Net Sales</u>
Interconnect & Microfabrication Group (IMG)	\$166,477	65.5%	\$123,888	48.2%
Semiconductor Group (SG)	58,776	23.1	78,739	30.7
Components Group (CG)	28,976	11.4	54,184	21.1
	<u>\$254,229</u>	<u>100.0%</u>	<u>\$256,811</u>	<u>100.0%</u>

Net sales for 2012 decreased \$2.6 million or 1% from net sales for 2011. Sales in IMG increased by 34% while SG and CG decreased by 25% and 47%, respectively.

IMG sales for 2012 increased \$42.6 million compared to 2011. The increase in IMG sales was driven by higher sales of our flex-circuit via drilling and advanced microfabrication systems. Demand from the flex-circuit

and integrated circuit packaging segments of the market continued to strengthen as a result of growth in portable consumer electronics such as smart phones and tablet computers. Additionally, increased shipments for our advanced microfabrication products were driven by follow-on orders to expand capacity for existing applications.

SG sales for 2012 decreased \$20.0 million compared to 2011. The increase in IMG sales was driven by higher sales of our flex-circuit via drilling and advanced microfabrication systems. Demand from the flex-circuit and integrated circuit packaging segments of the market continued to strengthen as a result of growth in portable consumer electronics such as smart phones and tablet computers. Additionally, increased shipments for our advanced microfabrication products were driven by follow-on orders to expand capacity for existing applications.

CG sales for 2012 decreased \$25.2 million compared to 2011. The decrease in SG revenues was primarily driven by lower sales of our memory repair systems as a result of slower demand for DRAM and related overcapacity in the DRAM market.

The following table presents net sales information by geographic region:

<u>(In thousands, except percentages)</u>	<u>2012</u>		<u>2011</u>	
	<u>Net Sales</u>	<u>% of Net Sales</u>	<u>Net Sales</u>	<u>% of Net Sales</u>
Asia	\$224,100	88.2%	\$229,420	89.3%
Americas	19,448	7.6	15,647	6.1
Europe	10,681	4.2	11,744	4.6
	<u>\$254,229</u>	<u>100.0%</u>	<u>\$256,811</u>	<u>100.0%</u>

Gross Profit

<u>(In thousands, except percentages)</u>	<u>2012</u>		<u>2011</u>	
	<u>Gross Profit</u>	<u>% of Net Sales</u>	<u>Gross Profit</u>	<u>% of Net Sales</u>
Gross Profit	<u>\$107,691</u>	<u>42.4%</u>	<u>\$108,949</u>	<u>42.4%</u>

Gross profit was \$107.7 million for 2012, a decrease of \$1.3 million or 1% compared to 2011. Gross profit decreased primarily due to \$2.0 million of charges in cost of sales for an inventory write-off associated with discontinued products in the fourth quarter. Gross profit as a percentage of net sales was 42.4% for both 2012 and 2011. While overall gross margins remained flat year over year on similar volumes, excluding the inventory write-off, they improved slightly on favorable product mix.

Operating Expenses

<u>(In thousands, except percentages)</u>	<u>2012</u>		<u>2011</u>	
	<u>Expense</u>	<u>% of Net Sales</u>	<u>Expense</u>	<u>% of Net Sales</u>
Selling, service and administration	\$ 58,555	23.0%	\$ 58,262	22.7%
Research, development and engineering	42,640	16.8	41,095	16.0
Restructuring costs	3,785	1.5	797	0.3
Loss on disposal of assets	966	0.4	—	—
Legal settlement costs	550	0.2	1,367	0.5
	<u>\$106,496</u>	<u>41.9%</u>	<u>\$101,521</u>	<u>39.5%</u>

Selling, Service and Administration

Selling, service and administration (SS&A) expenses primarily consist of labor and other employee-related expenses including share-based compensation expense, travel expenses, professional fees, sales commissions and facilities costs.

SS&A expenses for 2012 increased \$0.3 million compared to 2011. This increase was primarily attributable to a \$1.6 million increase in share-based compensation expense, which was driven by accelerated expenses associated with the Chief Executive Officer's retirement eligibility date and increased estimated attainment of performance-based grants. This increase was largely offset by lower compensation expense.

Research, Development and Engineering

Research, development and engineering (RD&E) expenses are primarily comprised of labor and other employee-related expenses, professional fees, project materials costs, equipment costs and facilities costs. RD&E expenses for 2012 increased \$1.5 million compared to 2011. This increase was primarily due to higher project materials costs and increased professional fees associated with patent activity.

Share-Based Compensation

The table of operating expenses shown above includes \$10.4 million and \$8.2 million of share-based compensation expense for 2012 and 2011, respectively. The increase in share-based compensation expense was primarily driven by accelerated expenses associated with the Chief Executive Officer's retirement eligibility date and increased estimated attainment of performance-based grants.

Restructuring Costs

As part of our globalization strategy, during 2011, we initiated a restructuring plan to reduce our worldwide cost structure through transition of certain procurement and manufacturing activities to Asia. In 2012, we continued our globalization efforts and we additionally identified and initiated other cost reduction actions. As a result of these actions, we recognized \$3.8 million of restructuring costs in 2012. We completed these actions on December 29, 2012.

The restructuring costs of \$3.8 million incurred in 2012 were comprised primarily of \$1.9 million of employee severance and related benefits and \$1.7 million of accelerated depreciation for certain assets. We shortened the depreciable lives of these assets in the fourth quarter of 2012 largely as a result of consolidating facilities in the United States and Asia. Restructuring costs were \$0.8 million in 2011 primarily due to employee severance and related benefits.

Loss on Disposal of Assets

As a part of our on-going globalization strategy and cost reduction actions discussed above, in 2012, we recognized a loss of \$1.0 million resulting from disposal of certain fixed assets primarily used in testing and development.

Legal Settlement Costs

In 2012, we recognized \$0.6 million in legal settlement costs arising from the settlement of an arbitration matter with James Dooley, our former Chief Executive Officer.

Non-operating Income and Expense

Gain on Sale of Previously Impaired Auction Rate Securities (ARS)

During the first quarter of 2012, we sold all of our remaining ARS with a total par value of \$14.7 million for approximately \$6.5 million. We recorded a total gain of \$2.7 million, which included \$1.4 million in reclassification of previously recorded unrealized gains out of accumulated other comprehensive income. See Note 5 "Fair Value Measurements" to the Consolidated Financial Statements in Item 8 Financial Statements and Supplementary Data for further discussion.

Interest and Other Income (Expense), net

Interest and other expense, net, consists of interest income and expense, market gains and losses on assets held in employees' deferred compensation accounts, realized and unrealized foreign exchange gains and losses, bank charges, investment management fees, and other miscellaneous non-operating items. Net interest and other income (expense) were as follows:

<u>(In thousands, except percentages)</u>	<u>2012</u>		<u>2011</u>	
	<u>Interest and Other Expense, net</u>	<u>% of Net Sales</u>	<u>Interest and Other Income, net</u>	<u>% of Net Sales</u>
Interest and other (expense) income, net	<u>\$ (437)</u>	<u>(0.2)%</u>	<u>\$ 188</u>	<u>0.1%</u>

Net interest and other expense was \$0.4 million in 2012 compared to net interest and other income of \$0.2 million in 2011. The decrease was primarily attributable to lower interest yields on our investments and market losses on assets held for our deferred compensation plan. We sold our remaining ARS in the fourth quarter of 2011 and early in the first quarter of 2012, which were earning above market interest rates.

Income Taxes

<u>(In thousands, except percentages)</u>	<u>2012</u>		<u>2011</u>	
	<u>Income Tax Benefit</u>	<u>Effective Tax Rate</u>	<u>Income Tax Provision</u>	<u>Effective Tax Rate</u>
(Benefit from) provision for income taxes	<u>\$ (1,417)</u>	<u>(40.6)%</u>	<u>\$ 390</u>	<u>4.7%</u>

The income tax benefit for 2012 was \$1.4 million on pretax income of \$3.5 million, an effective rate of 40.6%. For 2011, the income tax provision was \$0.4 million on pretax income of \$8.3 million, an effective rate of 4.7%. In 2012, our effective tax rate was favorably impacted by the increased tax advantages from growth in our Singapore manufacturing operations as well as higher tax credits.

Our effective tax rate is subject to fluctuation based upon the mix of income and relative tax rates between jurisdictions, and the occurrence and timing of numerous discrete events such as changes in tax laws or their interpretations, extensions or expirations of research and experimentation credits, closure of tax years subject to examination, finalization of income tax returns, the relationship of fixed deductions to overall changes in estimated and actual pretax income or loss and the tax jurisdictions where income or loss is generated. Based on currently available information, we are not aware of any further discrete events which are likely to occur that would have a material effect on our financial position, expected cash flows or results of operations.

Net Income

<u>(In thousands, except percentages)</u>	<u>2012</u>		<u>2011</u>	
	<u>Net Income</u>	<u>% of Net Sales</u>	<u>Net Income</u>	<u>% of Net Sales</u>
Net income	<u>\$ 4,904</u>	<u>1.9%</u>	<u>\$ 7,934</u>	<u>3.1%</u>

As a result of the factors discussed above, net income for 2012 was \$4.9 million, or \$0.17 per basic and diluted share, compared to net income of \$7.9 million, or \$0.28 per basic and diluted share for 2011.

Financial Condition and Liquidity

At March 30, 2013, our principal sources of liquidity were cash and cash equivalents of \$88.9 million, short-term investments of \$56.1 million and accounts receivable of \$31.8 million. At March 30, 2013, we had a current

ratio of 4.73 and held no long-term debt. Working capital of \$194.4 million decreased \$75.1 million compared to the March 31, 2012 balance of \$269.5 million. We also held approximately \$12.3 million of non-current investments at March 30, 2013. As of March 30, 2013, we have permanently reinvested \$25.8 million of foreign earnings primarily related to manufacturing operations in Singapore.

In December 2011, the Board of Directors adopted a dividend policy under which we intend to pay quarterly cash dividends. The following table summarizes the quarterly dividend declared and paid by us since adoption of the dividend policy:

<u>Date Declared</u>	<u>Record Date</u>	<u>Payable Date</u>	<u>Amount per Share</u>
February 7, 2013	February 28, 2013	March 14, 2013	\$ 0.08
November 8, 2012	November 21, 2012	December 5, 2012	\$ 0.08
August 9, 2012	August 24, 2012	September 10, 2012	\$ 0.08
May 10, 2012	June 4, 2012	June 18, 2012	\$ 0.08
December 9, 2011	January 27, 2012	February 17, 2012	\$ 0.08

A special dividend of \$2.00 per share was declared by the Board of Directors on December 3, 2012 after the successful patent settlement. The special dividend should not be considered a recurring event.

We paid aggregate dividends of \$68.1 million and \$2.3 million in 2013 and 2012, respectively. Subsequent to the year ended March 30, 2013, the Board of Directors declared an \$0.08 per outstanding common share cash dividend on May 9, 2013. The estimated amount to be paid as a result of the May 9, 2013 declaration is \$2.4 million.

We currently anticipate that we will continue to pay cash dividends on a quarterly basis in the future, although the declaration, timing and amount of any future cash dividends are at the discretion of the Board of Directors and will depend on our financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination that cash dividends are in the best interest of our shareholders.

In December 2011, the Board of Directors authorized a share repurchase program totaling \$20.0 million to acquire shares of our outstanding common stock. The repurchases are to be made at management's discretion in the open market or in privately negotiated transactions in compliance with applicable securities laws and other legal requirements and are subject to market conditions, share price and other factors. We did not repurchase any shares under this program in 2013 or 2012. There is no fixed completion date for the repurchase program.

As of March 30, 2013, we did not hold any ARS investments. During the first quarter of 2012, we sold all of the remaining ARS for approximately \$6.0 million and all of the preferred stock for approximately \$0.5 million. We recorded a gain of \$2.7 million in the first quarter of 2012, which included \$1.4 million in reclassification of previously recorded unrealized gain out of accumulated other comprehensive income.

Sources and Uses of Cash

Net cash provided by operating activities totaled \$17.1 million for 2013 due to \$9.4 million from net income and non-cash items and \$7.7 million from net changes within working capital, net of acquisitions. Cash provided by operating activities is net income adjusted for certain non-cash items and changes in assets and liabilities within working capital. In 2013, the primary sources of cash inflow from working capital consisted of \$3.6 million decreases in inventories, \$2.6 million increases in accounts payable and accrued liabilities, \$1.2 million decreases in trade receivables, \$0.6 million from decreases in other current assets, and \$0.4 million decreases in shipped systems pending acceptance, partially offset by \$0.7 million decreases in deferred revenue.

In 2013, net cash provided by investing activities of \$70.7 million primarily resulted from \$61.5 million of proceeds from sales and maturities of investments, net of purchases, and \$22.3 million due to the release of restricted cash, partially offset by \$9.5 million for the acquisition of Eolite and \$4.2 million of net purchases and sales of property, plant and equipment.

In 2013, net cash used by financing activities of \$67.1 million primarily resulted from \$68.1 million of cash dividends paid to shareholders partially offset by \$0.9 million from stock plan activity.

We believe that our existing cash, cash equivalents and short-term investments are adequate to fund our operations, any dividends which may be declared, our share repurchase program and contractual obligations for at least the next twelve months.

Contractual Obligations

The contractual commitments and obligations below represent our estimates of future payments under fixed contractual obligations and commitments. The actual payments may differ from these estimates due to changes in our business needs, cancellation provisions, and other factors. We cannot provide certainty regarding the timing of the payment schedule and the amounts of payments.

The following table summarizes our contractual commitments and obligations as of March 30, 2013, by the fiscal year in which they are due:

<u>(In thousands)</u>	<u>Total</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>Thereafter</u>
Purchase commitments	\$23,359	\$23,318	\$ 41	\$—	\$—	\$—	\$—
Operating leases	4,719	2,043	1,381	776	172	168	179
	<u>\$28,078</u>	<u>\$25,361</u>	<u>\$1,422</u>	<u>\$776</u>	<u>\$172</u>	<u>\$168</u>	<u>\$179</u>

This table does not include \$9.2 million of unrecognized tax benefits due to the uncertainty with respect to the timing of future cash flows as of March 30, 2013. We are unable to make reasonably reliable estimates of the period of cash settlement with the respective taxing authorities and the total amounts of income tax payable and the timing of such tax payments may depend on the resolution of current and future tax examinations which cannot be estimated.

Critical Accounting Policies and Estimates

The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Our estimates are based on historical experience and on various assumptions that we believe to be reasonable under the circumstances. These estimates form the basis for judgments about the carrying values of assets and liabilities that are not readily apparent from other sources.

Our critical accounting policies and estimates include the following:

- revenue recognition;
- inventory valuation;
- product warranty reserves;
- allowance for doubtful accounts;
- accrued restructuring costs;
- share-based compensation;

- income taxes including the valuation of deferred tax assets;
- fair value measurements;
- valuation of cost method equity investments;
- valuation of long-lived assets; and
- valuation of goodwill.

Revenue Recognition

We recognize revenue when persuasive evidence of an arrangement exists, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to the customer at the time of delivery of the product to a common carrier. Revenue is recognized upon such delivery, provided that fulfillment of acceptance criteria can be demonstrated prior to shipment. Where the acceptance criteria cannot be demonstrated prior to shipment, or in the case of substantially new products, revenue is deferred until acceptance has been received. For multiple element arrangements, the relative fair values of any undelivered elements are deferred until the elements are delivered and acceptance criteria are met. Revenues are recorded net of taxes collected which are required to be submitted to government authorities. Installation services are not essential to the functionality of the delivered equipment and installation revenue is deferred until installation is complete. Historically, neither the costs of installation accrued nor the fair value of installation service revenue deferred has been material.

Revenues associated with sales to customers under local contracts in Japan are recognized upon title transfer, which generally occurs upon customer acceptance. Revenues related to spare parts and consumable sales are generally recognized upon shipment. Revenues related to maintenance and service contracts are recognized ratably over the duration of the contracts.

Inventory Valuation

We regularly evaluate the value of our inventory based on a combination of factors including, but not limited to, the following: forecasted sales or usage, historical usage rates, estimated service period, product end-of-life dates, estimated current and future market values, service inventory requirements and new product introductions. Purchasing requirements and alternative uses for the inventory are explored within these processes to mitigate inventory exposure. Inventory materials with quantities in excess of forecasted usage are reviewed quarterly for obsolescence. Obsolescence write-downs are typically caused by engineering change orders or product life cycle changes.

Research and development product costs are generally expensed as incurred. Engineering materials that are expected to provide future value are generally classified as raw materials inventory.

Finished goods are reviewed quarterly by product marketing and operating personnel to determine if inventory carrying costs exceed market selling prices. When necessary, we record inventory write-downs as an increase to cost of sales based on the above factors and take into account worldwide quantities on hand and forecasted demand into our analysis. Additionally, from time to time, we make strategic decisions to exit or alter product lines which may result in an inventory write-down. If circumstances related to our inventories change, our estimates of the value of inventory could materially change.

Product Warranty Reserves

We evaluate obligations related to product warranties quarterly. A standard one-year warranty is provided on most products. Warranty charges are comprised of costs to service the warranty, including labor to repair the system and replacement parts for defective items, as well as other costs incidental to the repairs. Warranty

charges are recorded net of any cost recoveries resulting from either successful repair of damaged parts or from warranties offered by our suppliers for defective components. Using historical data, we estimate average warranty cost per system or part type and record the provision for such charges as an element of cost of goods sold upon recognition of the related revenue. Additionally, the overall warranty accrual balance is separately analyzed using the remaining warranty periods outstanding on systems and items under warranty, and any resulting changes in estimates are recorded as an adjustment to cost of sales. If circumstances change, or if a significant change in warranty-related incidents occurs, the impact of the change in the warranty accrual could be material. Accrued product warranty is included on the Consolidated Balance Sheets as a component of accrued liabilities.

Allowance for Doubtful Accounts

Credit limits are established by reviewing the financial history and stability of each customer. Where appropriate, we obtain credit rating reports and financial statements of the customer to establish and modify their credit limits. On certain foreign sales, we require letters of credit. We regularly evaluate the collectability of our trade receivable balances based on a combination of factors. When a customer's account becomes past due, we talk with the customer to determine the cause. If we determine that a customer will be unable to fully meet its financial obligation to us, such as in the case of a bankruptcy filing or other material events impacting its business, we record a specific reserve for bad debt to reduce the related receivable to the amount we expect to recover given all information then available. If circumstances related to specific customers change, our estimates of the recoverability of receivables could materially change. We record estimated bad debt expense as an increase to selling, service and administration expenses.

Accrued Restructuring Costs

We have engaged, and may continue to engage, in restructuring actions, which require us to make estimates in certain areas including expenses for severance and other employee separation costs. Because we have a history of paying severance benefits, expenses and liabilities associated with exit or disposal activities are recognized when probable and estimable. For further discussion on the restructuring activities and related charges in 2013, refer to our discussion of "Restructuring Costs" in the "Results of Operations" section above.

Share-Based Compensation

We measure and recognize compensation expense for all share-based payment awards granted to our employees and directors, including employee stock options, stock-settled stock appreciation rights (SARs), non-vested restricted stock units and purchases under the employee stock purchase plan, based on the estimated fair value of the award on the grant date. We use the Black-Scholes valuation model as our method of valuation for stock option and SAR awards.

The use of the Black-Scholes valuation model to estimate the fair value of stock option and SAR awards requires us to make assumptions regarding the risk-free interest rate, expected dividend yield, expected term and expected volatility over the expected term of the award. The assumptions used in calculating the fair value of share-based payment awards represent management's best estimates based on our historical data, but these estimates involve inherent uncertainties and the recognition of expense could be materially different in the future.

Compensation expense is only recognized on awards that are estimated to ultimately vest. Therefore, based on historical forfeiture rates and patterns, the estimated future forfeitures are factored into the compensation expense to be recognized over the vesting period. We update our forfeiture estimates at least annually and recognize any changes to accumulated compensation expense in the period of change. If actual forfeitures differ significantly from our estimates, our results of operations could be materially impacted.

Income Taxes

We are subject to income taxes in the United States and in numerous foreign jurisdictions and in the ordinary course of business, there are transactions and calculations where the ultimate tax determination is uncertain. We report a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. We recognize interest and penalties, if any, related to the unrecognized tax benefits in income tax expense.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those assets and liabilities are expected to be recovered or settled. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. When management determines that it is more likely than not that a deferred tax asset will not be fully realized, a valuation allowance is established to reduce deferred tax assets to the amount expected to be realized. In the fourth quarter of 2013, we recorded a valuation allowance established against U.S. deferred tax assets and attributes. We recorded this valuation allowance based on the operating results of the company, significant restructuring of the business, changes in our future forecast for the U.S. jurisdiction, our continued transition of production overseas, and consideration of available tax planning strategies. These factors led us to provide a valuation allowance against our deferred tax assets and attributes, which we believe no longer meet the threshold for recognition. Should management's assumptions and expectations be inaccurate, our financial condition and results of operations could be adversely affected in future periods.

Fair Value Measurements

Fair value is defined under Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820 "Fair Value Measurements and Disclosures" (ASC Topic 820). When determining fair value on the financial assets and liabilities, we consider the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants in the principal or most advantageous market. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs.

Valuation of Cost Method Equity Investments

As of March 30, 2013, minority equity investments included \$6.0 million invested in Series D Preferred Stock and \$3.0 million invested in Series E Preferred Stock of OmniGuide, Inc., representing an 11% interest. At each reporting period, we determine whether events or circumstances have occurred that are likely to have a significant adverse effect on the fair value of these investments. If there are no events or circumstances identified that would adversely affect the fair value of the investments, the fair values of the investments are not calculated as it is not practicable to do so. As of March 30, 2013, we had not identified any events or circumstances that indicated the investments were impaired; therefore, the full carrying value of \$9.0 million was included in Other assets on the Consolidated Balance Sheets.

Valuation of Long-Lived Assets

Long-lived assets, principally property and equipment and identifiable intangibles held and used by us, are reviewed for impairment whenever events or circumstances indicate that the carrying amount of assets may not be recoverable. We evaluate recoverability of assets to be held and used by comparing the carrying amount of an asset to estimated future net undiscounted cash flows to be generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets. In the fourth quarter of 2013, we identified intangible assets relating to acquired in-process research and development programs that we no longer expect to derive value from and as a result recorded \$2.3 million of accelerated amortization. There were no other events or circumstances during 2013 that would indicate the carrying value of our long-lived assets may not be recoverable.

Valuation of Goodwill

We account for goodwill pursuant to Accounting Standards Codification (ASC) Topic 350 as amended in September 2011 by Accounting Standard Update (ASU) 2011-08, “Intangibles- Goodwill and Other (Topic 350): Testing Goodwill for Impairment” (ASC ASU 2011-08). ASC Topic 350 requires that goodwill be tested for impairment at least annually. ASC ASU 2011-08 permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit’s fair value is less than its carrying amount before applying the two-step goodwill impairment test. We test goodwill for impairment using a quantitative approach at least annually or between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below the carrying value. Goodwill was tested for impairment in the fourth quarter of 2013 and as fair value was substantially in excess of book value it was determined that there was no impairment as of March 30, 2013.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

The primary objectives of our investment activities are to preserve principal and maintain liquidity to meet operating needs. To achieve these objectives, we maintain an investment portfolio of cash, cash equivalents, and investments in a variety of securities, including commercial paper, corporate bonds and U.S. government agency notes.

Interest Rate Risk

Our investment securities are subject to interest rate risk and will decline in value if interest rates increase. The majority of these securities are classified as available-for-sale securities; therefore, the impact on fair value of interest rate changes is reflected as a separate component of shareholders’ equity. Due to the short duration of our investment portfolio, an immediate 10% change in interest rates would not have a material effect on the fair value of our invested assets.

Investment Risk

Our marketable securities are classified as available-for-sale securities measured at fair value. The market value of our investments is influenced by market risks, liquidity risk and the credit worthiness of underlying issuers of our investment. We strive to minimize the investment risk by investing in high quality securities and by utilizing experienced and high credit quality financial institutions to manage the investment portfolio.

As of March 30, 2013, we did not hold any auction rate securities (ARS) investments. During the first quarter of 2012, we sold all of our remaining ARS with a total par value of \$14.7 million for approximately \$6.5 million and recorded a total gain of \$2.7 million in the first quarter of 2012 including \$1.4 million in reclassification of previously recorded unrealized net gains out of accumulated other comprehensive income.

Foreign Currency Exchange Rate Risk

We purchase derivative financial instruments on a limited basis and do not use them for trading purposes. We do, however, use derivatives to manage well-defined foreign currency risks. We enter into forward exchange contracts to hedge the value of material non-functional currency monetary asset and liability balances. The net effect of an immediate 10% change in exchange rates on the forward exchange contracts and the underlying hedged positions would not be material to our financial position or the results of our operations.

The table below summarizes, by currency, the notional amounts of our forward exchange contracts in U.S. dollars as of March 30, 2013 and March 31, 2012. The “bought” amounts represent the net U.S. dollar equivalents of commitments to purchase foreign currencies, and the “sold” amounts represent the net U.S. dollar equivalents of commitments to sell foreign currencies. The foreign currency amounts have been translated into a U.S. dollar equivalent value using the exchange rates at the reporting date.

<u>(In thousands)</u>	Bought (Sold)	
	2013	2012
Japanese Yen	\$ 4,136	\$ 6,893
Euro	6,471	192
New Taiwan Dollar	(783)	(600)
Korean Won	(2,654)	(1,438)
British Pound	(4,272)	(2,771)
Chinese Renminbi	(1,542)	(3,562)
Singapore Dollar	\$ (204)	\$ —
	<u>\$ 1,152</u>	<u>\$(1,286)</u>

Item 8. Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders
Electro Scientific Industries, Inc.:

We have audited the accompanying consolidated balance sheets of Electro Scientific Industries, Inc. and subsidiaries as of March 30, 2013 and March 31, 2012, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended March 30, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Electro Scientific Industries, Inc. and subsidiaries as of March 30, 2013 and March 31, 2012, and the results of their operations and their cash flows for each of the years in the three-year period ended March 30, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Electro Scientific Industries, Inc.'s internal control over financial reporting as of March 30, 2013, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated June 12, 2013 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

Portland, Oregon
June 12, 2013

ELECTRO SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of March 30, 2013 and March 31, 2012

<u>(In thousands)</u>	<u>2013</u>	<u>2012</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 88,913	\$ 69,780
Restricted cash	—	22,269
Short-term investments	56,144	106,674
Trade receivables, net of allowances of \$442 and \$390	31,779	32,744
Inventories	63,067	68,055
Shipped systems pending acceptance	1,007	1,360
Deferred income taxes, net	1,682	10,021
Other current assets	3,898	4,060
Total current assets	246,490	314,963
Non-current assets:		
Non-current investments	12,329	23,046
Property, plant and equipment, net	27,894	32,103
Non-current deferred income taxes, net	3,766	36,489
Goodwill	7,889	4,014
Acquired intangible assets, net	9,088	8,332
Other assets	14,752	14,263
Total assets	\$322,208	\$433,210
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 16,958	\$ 13,045
Accrued liabilities	24,930	21,635
Deferred revenue	10,196	10,751
Total current liabilities	52,084	45,431
Non-current liabilities:		
Income taxes payable	5,982	9,109
Commitments and contingencies (Notes 18 and 21)		
Shareholders' equity:		
Preferred stock, without par value; 1,000 shares authorized; no shares issued	—	—
Common stock, without par value; 100,000 shares authorized; 29,583 and 28,970 issued and outstanding	176,631	168,143
Retained earnings	87,228	210,021
Accumulated other comprehensive income, other	283	506
Total shareholders' equity	264,142	378,670
Total liabilities and shareholders' equity	\$322,208	\$433,210

See Accompanying Notes to Consolidated Financial Statements

ELECTRO SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended March 30, 2013, March 31, 2012 and April 2, 2011

<u>(In thousands, except per share amounts)</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net sales	\$216,625	\$254,229	\$256,811
Cost of sales	152,372	146,538	147,862
Gross profit	64,253	107,691	108,949
Operating expenses:			
Selling, service and administration	56,051	58,555	58,262
Research, development and engineering	37,196	42,640	41,095
Restructuring costs	2,612	3,785	797
(Gain) loss on sale of property and equipment, net	(1,226)	966	—
Legal settlement (proceeds) costs, net	(15,262)	550	1,367
Net operating expenses	79,371	106,496	101,521
Operating (loss) income	(15,118)	1,195	7,428
Non-operating income (expense):			
Gain on sale of previously impaired auction rate securities	—	2,729	708
Interest and other income (expense), net	253	(437)	188
Total non-operating income	253	2,292	896
(Loss) income before income taxes	(14,865)	3,487	8,324
Provision for (benefit from) income taxes	39,851	(1,417)	390
Net (loss) income	<u>\$ (54,716)</u>	<u>\$ 4,904</u>	<u>\$ 7,934</u>
Net (loss) income per share—basic	<u>\$ (1.86)</u>	<u>\$ 0.17</u>	<u>\$ 0.28</u>
Net (loss) income per share—diluted	<u>\$ (1.86)</u>	<u>\$ 0.17</u>	<u>\$ 0.28</u>
Weighted average number of shares—basic	<u>29,357</u>	<u>28,749</u>	<u>28,045</u>
Weighted average number of shares—diluted	<u>29,357</u>	<u>29,461</u>	<u>28,608</u>
Cash dividends paid per outstanding common share	<u>\$ 2.32</u>	<u>\$ 0.08</u>	<u>\$ —</u>

See Accompanying Notes to Consolidated Financial Statements

ELECTRO SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS COMPREHENSIVE INCOME (LOSS)
For the years ended March 30, 2013, March 31, 2012 and April 2, 2011

<u>(In thousands)</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net (loss) income	\$(54,716)	\$ 4,904	\$7,934
Other comprehensive (loss) income:			
Foreign currency translation adjustment, net of taxes of \$0, \$12, and (\$449)	(198)	277	715
Reclassification of unrealized gain on auction rate securities	—	(1,445)	144
Accumulated other comprehensive income related to benefit plan obligation, net of taxes of \$8, (\$15), and \$4	9	(23)	(3)
Net unrealized (loss) gain on available-for-sale securities, net of taxes of \$0, (\$3), and (\$15)	(34)	7	27
Comprehensive (loss) income	<u>\$(54,939)</u>	<u>\$ 3,720</u>	<u>\$8,817</u>

See Accompanying Notes to Consolidated Financial Statements

ELECTRO SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the years ended March 30, 2013, March 31, 2012 and April 2, 2011

(In thousands)	Common Stock		Retained Earnings	Accumulated Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount			
Balance at April 3, 2010	27,665	142,369	199,486	807	342,662
Employee stock plans	634	10,568	—	—	10,568
Tax impact of stock options exercised	—	252	—	—	252
Net income	—	—	7,934	—	7,934
Net unrealized gain on securities (net of tax)	—	—	—	27	27
Net unrealized gain on auction rate securities	—	—	—	144	144
Cumulative translation adjustment (net of tax)	—	—	—	715	715
Accumulated other comprehensive loss related to benefit plan obligations (net of tax)	—	—	—	(3)	(3)
Comprehensive income					8,817
Balance at April 2, 2011	28,299	153,189	207,420	1,690	362,299
Cash dividends paid (\$0.08 per outstanding common share)	—	—	(2,303)	—	(2,303)
Employee stock plans	671	14,449	—	—	14,449
Tax impact of stock options exercised	—	505	—	—	505
Net income	—	—	4,904	—	4,904
Net unrealized gain on securities (net of tax)	—	—	—	7	7
Reclassification of unrealized gain on auction rate securities to earnings	—	—	—	(1,445)	(1,445)
Cumulative translation adjustment (net of tax)	—	—	—	277	277
Accumulated other comprehensive loss related to benefit plan obligations (net of tax)	—	—	—	(23)	(23)
Comprehensive income					3,720
Balance at March 31, 2012	28,970	168,143	210,021	506	378,670
Cash dividends paid (\$2.32 per outstanding common share)	—	—	(68,077)	—	(68,077)
Employee stock plans	613	8,488	—	—	8,488
Tax impact of stock options exercised	—	—	—	—	—
Net loss	—	—	(54,716)	—	(54,716)
Net unrealized loss on securities (net of tax)	—	—	—	(34)	(34)
Cumulative translation adjustment (net of tax)	—	—	—	(198)	(198)
Accumulated other comprehensive income related to benefit plan obligations (net of tax)	—	—	—	9	9
Comprehensive loss					(54,939)
Balance at March 30, 2013	29,583	\$176,631	\$ 87,228	\$ 283	\$264,142

See Accompanying Notes to Consolidated Financial Statements

ELECTRO SCIENTIFIC INDUSTRIES, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended March 30, 2013, March 31, 2012 and April 2, 2011

<u>(In thousands)</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Net (loss) income	\$ (54,716)	\$ 4,904	\$ 7,934
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	9,905	12,489	10,317
Amortization of acquired intangible assets	4,746	1,722	1,964
Share-based compensation expense	7,861	11,451	9,309
Provision for (recovery of) doubtful accounts	—	50	(150)
Gain on sale of previously impaired auction rate securities	—	(2,729)	—
Loss on sale of property and equipment, net	680	1,007	106
Decrease (increase) in deferred income taxes	40,971	(5,724)	(2,752)
Changes in operating accounts, net of acquisitions:			
Decrease (increase) in trade receivables, net	1,232	11,191	(5,755)
Decrease (increase) in inventories	3,564	(4,389)	3,108
Decrease (increase) in shipped systems pending acceptance	353	3,929	(1,183)
Decrease in other current assets	633	2,559	2,228
Increase (decrease) in accounts payable and accrued liabilities	2,550	(16,886)	22,706
(Decrease) increase in deferred revenue	(672)	(5,261)	2,758
Net cash provided by operating activities	<u>17,107</u>	<u>14,313</u>	<u>50,590</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of investments	(1,061,654)	(929,201)	(471,112)
Proceeds from sales and maturities of investments	1,123,156	876,822	509,935
Proceeds from sale of auction rate securities	—	6,450	—
Purchase of property, plant and equipment	(6,213)	(4,937)	(6,556)
Proceeds from sale of property, plant and equipment	2,030	26	—
Decrease (increase) in restricted cash	22,269	(11,500)	55
Cash paid to acquire subsidiaries	(9,466)	—	(8,075)
Minority equity investment	—	—	(782)
Decrease (increase) in other assets	625	(131)	487
Net cash provided by (used in) investing activities	<u>70,747</u>	<u>(62,471)</u>	<u>23,952</u>
CASH FLOWS FROM FINANCING ACTIVITIES			
Cash dividends paid to shareholders	(68,077)	(2,303)	—
Stock plan activity, net	627	2,999	1,259
Excess tax benefit of share-based compensation	307	546	252
Net cash (used in) provided by financing activities	<u>(67,143)</u>	<u>1,242</u>	<u>1,511</u>
Effect of exchange rate changes on cash	(1,578)	284	1,024
NET CHANGE IN CASH AND CASH EQUIVALENTS	19,133	(46,632)	77,077
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	69,780	116,412	39,335
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 88,913</u>	<u>\$ 69,780</u>	<u>\$ 116,412</u>
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for interest	\$ (21)	\$ —	\$ —
Cash paid for income taxes	\$ (1,823)	\$ (4,371)	\$ (2,026)
Income tax refunds received	\$ 890	\$ 132	\$ 3,360

See Accompanying Notes to Consolidated Financial Statements

ELECTRO SCIENTIFIC INDUSTRIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. The Company

Electro Scientific Industries, Inc. together with its wholly-owned subsidiaries (collectively, the Company) is a leading supplier of innovative laser-based manufacturing solutions for the microtechnology industry. The Company's advanced laser systems enable precise structuring of micron to submicron features in components and devices which are used in a wide variety of end products in the consumer electronics, computer, semiconductor, communications and other markets. These features enable the Company's customers to achieve functionality, or improve yield and productivity in their manufacturing processes that can be critical to their profitability. Founded in 1944, the Company is headquartered in Portland, Oregon, with global operations and subsidiaries in Asia, Canada, Europe and the United States.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Electro Scientific Industries, Inc. and its subsidiaries. All intercompany accounts and transactions have been eliminated.

The Company's fiscal year consists of 52 or 53 weeks ending on the Saturday nearest March 31. Accordingly, the fiscal 2013 reporting period consisted of a 52-week period ending on March 30, 2013, the fiscal 2012 reporting period consisted of a 52-week period ending on March 31, 2012 and the fiscal 2011 reporting period consisted of a 52-week period ending on April 2, 2011. All references to years or quarters relate to fiscal years or fiscal quarters unless otherwise noted.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results may differ from those estimates.

Management believes that the estimates used are reasonable. Significant estimates made by management include: revenue recognition; inventory valuation; product warranty reserves; allowance for doubtful accounts; accrued restructuring costs; share-based compensation; income taxes including the valuation of deferred tax assets; fair value measurements; valuation of cost method equity investments; valuation of long-lived assets; and valuation of goodwill.

Risks and Uncertainties

The Company uses financial instruments that potentially subject it to concentrations of credit risk. Such instruments include cash equivalents, available-for-sale marketable securities, trade receivables and financial instruments used in hedging activities. The Company invests cash in cash deposits, money market funds, commercial paper, certificates of deposit and readily marketable securities. Investments are placed with high credit quality financial institutions and the credit exposure from any one institution or instrument is minimized. See Note 5 "Fair Value Measurements" for further discussion on these investments.

The Company sells a significant portion of its products to a small number of large semiconductor and microelectronics manufacturers. The top ten customers accounted for approximately 61%, 56% and 62% of total

net sales in 2013, 2012 and 2011, respectively. One consumer electronics manufacturer accounted for approximately 31%, 29% and 24% of total net sales in 2013, 2012 and 2011, respectively. In 2011, two other customers individually accounted for approximately 11% of total net sales. No other customer individually accounted for more than 10% of total net sales in 2013, 2012 or 2011. The Company's operating results may be adversely affected if orders and revenues from these key customers decline.

The Company uses qualified manufacturers to supply many components and sub-system modules of its products. The systems that the Company manufactures use high-performance computers, peripherals, lasers and other components from various suppliers. The Company obtains some of the components from a single source or a limited group of suppliers. An interruption in the supply of a particular component would have a temporary adverse impact on the Company's operating results.

The Company's net investment exposure in foreign subsidiaries translated into U.S. dollars using the period-end exchange rates at March 30, 2013 and March 31, 2012 was approximately \$56.4 million and \$45.5 million, respectively. The potential loss in fair value resulting from a hypothetical 10% adverse change in foreign exchange rates would be approximately \$5.6 million and \$4.6 million at March 30, 2013 and March 31, 2012, respectively. Foreign exchange rate gains or losses on foreign investments as of March 30, 2013 were reflected as a cumulative translation adjustment, net of tax, and do not affect the Company's results of operations.

The Company's operations involve a number of other risks and uncertainties including but not limited to those relating to the cyclical nature of the semiconductor and microelectronics markets, the effect of general economic conditions, rapid changes in technology and international operations.

Cash Equivalents and Investments

All highly liquid investments with a maturity of 90 days or less at the date of purchase are considered to be cash equivalents. Short-term investments reflect marketable securities that have maturities of less than one year or are subject to immediate pre-payment or call provisions. These securities consist primarily of marketable debt securities and are classified as "available-for-sale securities" and recorded at fair market value. Unrealized gains and losses on short-term investments are recorded as a component of accumulated other comprehensive income (loss). To determine whether any existing impairment is other-than-temporary and requires recognition of an impairment loss in the results of operations, the Company evaluates its marketable securities based on the nature of the investments and the Company's intent and ability to hold the securities until the securities are no longer in an unrealized loss position.

Restricted Cash

Restricted cash represented cash which collateralized commercial letters of credit substituted for a cash bond previously held by the Kaohsiung District Court of Taiwan related to the Company's proceedings against All Ring Tech Co., Ltd (All Ring). As a part of these proceedings, the Company established three letters of credit for approximately \$19.5 million in July 2009, September 2009 and June 2011, which were collateralized by \$22.3 million of restricted cash. The total restricted cash balance of \$22.3 million was included in Restricted cash on the Consolidated Balance Sheets at March 31, 2012 as a current asset. The Company's proceedings against All Ring were settled in the Company's favor on November 29, 2012. The settlement of proceedings eliminated the need for the Company to maintain the letters of credit, and they were closed in March 2013. See Note 21 "Legal Proceedings" below for further discussion.

Accounts Receivable and Allowance for Doubtful Accounts

Trade accounts receivable are stated at the amount the Company expects to collect and do not bear interest. Credit limits are established by reviewing the financial history and stability of each customer. Where appropriate, the Company obtains credit rating reports and financial statements of the customer to establish or modify credit

limits. On certain foreign sales, letters of credit are required. The collectability of trade receivable balances is regularly evaluated based on a combination of factors such as customer credit-worthiness, past transaction history with the customer, current economic industry trends, and changes in customer payment terms. If it is determined or estimated that a customer will be unable to fully meet its financial obligation, such as in the case of a bankruptcy filing or other material events impacting its business, a specific reserve for bad debt is recorded to reduce the related receivable to the amount expected to be recovered.

Accrued Restructuring Costs

The Company has engaged, and may continue to engage, in restructuring actions, which require it to make estimates in certain areas including expenses for severance and other employee separation costs. Because the Company has a history of paying severance benefits, expenses associated with exit or disposal activities are recognized when probable and estimable. Should the actual amounts differ from our estimates, the amount of the restructuring charges could be materially impacted. See Note 24 “Restructuring and Cost Management Plans” for further discussion.

Inventories

Inventories are principally valued at standard costs, which approximate the lower of cost (first-in, first-out) or market. Costs utilized for inventory valuation purposes include material, labor and manufacturing overhead.

Shipped Systems Pending Acceptance

Shipped systems pending acceptance relate to systems that have been ordered and shipped to the customer, but have been deferred in accordance with the Company’s revenue recognition policy. Shipped systems pending acceptance are recognized as cost of sales once all criteria for revenue recognition have been met and revenue is recorded. Shipped systems pending acceptance are valued at standard costs, which approximate the lower of cost (first-in, first-out) or market. Costs utilized in the valuation of shipped systems pending acceptance include material, labor and manufacturing overhead and exclude costs of installation.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are provided using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs and minor improvements are expensed as incurred. Major improvements and additions are capitalized. When assets are sold or retired, the cost and related accumulated depreciation and amortization are removed from the accounts and the resulting gain or loss is included as a component of operating expenses.

Long-Lived Asset Impairment

Long-lived assets, principally property, plant and equipment and identifiable definite-lived intangibles, are reviewed for impairment whenever events or circumstances indicate that the carrying amount of the assets may not be recoverable. The Company evaluates recoverability of assets to be held and used by comparing the carrying amount of an asset to estimated future net undiscounted cash flows generated by the asset. If such assets are considered to be impaired, the impairment recognized is measured as the amount by which the carrying amount of the assets exceeds the fair value of the assets.

The Company’s purchased patents are amortized over their estimated useful lives, generally 10 to 17 years.

Other purchased intangible assets with definite useful lives are carried at cost less accumulated amortization. Amortization expense is recognized on either a straight-line or sum-of-the-years digits method over the estimated useful lives of the intangible assets, which range from 1 to 9 years.

Goodwill Impairment

The Company accounts for goodwill pursuant to Accounting Standards Codification (ASC) Topic 350 as amended in September 2011 by Accounting Standard Update (ASU) 2011-08, “Intangibles-Goodwill and Other (Topic 350): Testing Goodwill for Impairment” (ASC ASU 2011-08). ASC Topic 350 requires that goodwill be tested for impairment at least annually. ASC ASU 2011-08 permits an entity to make a quantitative assessment of whether it is more likely than not that a reporting unit’s fair value is less than its carrying amount before applying the two-step goodwill impairment test. The Company tests goodwill for impairment using a quantitative approach at least annually or between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value below the carrying value. Goodwill was tested for impairment in the fourth quarter of 2013 and it was determined that there was no impairment as of March 30, 2013.

Other Assets

Other assets include consignment, demonstration (demo) equipment, minority equity investments and long-term deposits.

Consignment, demo and training equipment are recorded at the lower of standard costs or estimated market values, until the assets are sold.

As of March 30, 2013 and March 31, 2012, the Company had a \$9.0 million minority equity investment in preferred stock of OmniGuide, Inc. (OmniGuide), a private company, which included \$6.0 million of Series D Preferred Stock and \$3.0 million of Series E Preferred Stock. These investments are accounted for as cost method investments as the Company does not have the ability to significantly influence OmniGuide. At each reporting period end, the Company determines whether events or circumstances have occurred that are likely to have a significant adverse effect on the fair value of the investments. If there are no identified events or circumstances that may have a significant adverse effect on the fair value of the investments, the fair value of the investments are not calculated as it is not practicable to do so. As of March 30, 2013, management had not identified any events or circumstances that indicated the investments were impaired, therefore the full carrying value of \$9.0 million was included in other assets on the Consolidated Balance Sheets.

Fair Value of Financial Instruments

The carrying amounts of financial instruments, including cash equivalents and accrued liabilities approximate fair value because of the nature of the underlying transactions and short-term maturities involved. Current and non-current marketable securities are recorded at fair value which is defined under Financial Accounting Standards Board (FASB) ASC Topic 820 “Fair Value Measurements and Disclosures” (ASC Topic 820). ASC Topic 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include the following:

- *Level 1*, defined as observable inputs such as quoted prices in active markets for identical assets or liabilities;
- *Level 2*, defined as inputs other than quoted prices in active markets for similar assets or liabilities that are either directly or indirectly observable; and
- *Level 3*, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

See Note 5 “Fair Value Measurements” for further discussion and disclosure of fair value on our financial assets and investments.

Derivative Financial Instruments

The Company's primary objective for holding derivative financial instruments is to manage currency risk. The Company's accounting policies for these instruments are based on whether they meet the Company's criteria for designation as hedging transactions, either as cash flow or fair value hedges. A hedge of the exposure to variability in the cash flows of an asset or a liability, or of a forecasted transaction, is referred to as a cash flow hedge. A hedge of the exposure to changes in fair value of an asset or a liability, or of an unrecognized firm commitment, is referred to as a fair value hedge. The criteria for designating a derivative as a hedge include the instrument's effectiveness in risk reduction and, in most cases, a one-to-one matching of the derivative instrument to its underlying transaction. The Company enters into foreign currency exchange contracts to offset the earnings impact relating to the variability in exchange rates on certain short-term monetary assets and liabilities denominated in non-functional currencies. The Company does not designate these foreign currency contracts as hedges. The change in fair value of these derivative instruments not designated as hedging instruments is reported each period in other income (expense), net, in our consolidated statement of operations.

Revenue Recognition

The Company recognizes revenue when persuasive evidence of an arrangement exists, delivery has occurred or the services have been rendered, the sales price is fixed or determinable and collection of the related receivable is reasonably assured. Title and risk of loss generally pass to the customer at the time of delivery of the product to a common carrier. Revenue is recognized upon such delivery, provided that fulfillment of acceptance criteria can be demonstrated prior to shipment. Where the acceptance criteria cannot be demonstrated prior to shipment, or in the case of substantially new products, revenue is deferred until acceptance has been received. For multiple element arrangements, the relative fair value of any undelivered elements is deferred until the elements are delivered and acceptance criteria are met. Revenues are recorded net of taxes collected which are required to be submitted to government authorities. Installation services are not essential to the functionality of the delivered equipment and installation revenue is deferred until installation is complete. Neither the costs of installation accrued nor the fair value of installation service revenue deferred has been material.

Revenues associated with sales to customers under local contracts in Japan are recognized upon title transfer, which generally occurs upon customer acceptance. Revenues related to spare parts and consumable sales are generally recognized upon shipment. Revenues related to maintenance and service contracts are recognized ratably over the duration of the contracts.

Product Warranty

The Company evaluates obligations related to product warranties quarterly. A standard one-year warranty from the date of acceptance is provided on most products. Warranty charges are comprised of costs to service the warranty, including labor to repair the system and replacement parts for defective items, as well as other costs incidental to the repairs. Warranty charges are recorded net of any cost recoveries resulting from either successful repair of damaged parts or from warranties offered by the Company's suppliers for defective components. Using historical data, the Company estimates average warranty cost per system or part type and records the provision for such charges as an element of cost of goods sold upon recognition of the related revenue. Additionally, the overall warranty accrual balance is separately analyzed using the remaining warranty periods outstanding on systems and items under warranty, and any resulting changes in estimates are recorded as an adjustment to cost of sales. If circumstances change, or if a significant change in warranty-related incidents occurs, the impact of the change in the warranty accrual could be material. Accrued product warranty is included on the Consolidated Balance Sheets as a component of accrued liabilities.

Research and Development

Research and development costs, which include labor and related employee expenses, patent maintenance fees, project materials costs, project subcontractors, depreciation of engineering equipment, building costs and

other administration expenses, are generally expensed as incurred. Engineering materials that are expected to provide future value are included in inventories.

Taxes on Unremitted Foreign Income

The Company provides for income taxes on its foreign subsidiaries' taxable income based on the effective income tax rate in each respective jurisdiction. The Company provides for deferred taxes on the undistributed earnings of a subsidiary, except to the extent that the income is intended to be indefinitely reinvested or remitted in a tax-free liquidation. The only foreign jurisdiction where the Company is permanently reinvested is Singapore. The cumulative amount of earnings upon which U.S. income taxes have not been provided was \$25.8 million and \$20.9 million as of March 30, 2013 and March 31, 2012, respectively. The unrecognized deferred tax liability related to these earnings was \$9.0 million and \$7.3 million as of March 30, 2013 and March 31, 2012, respectively.

Comprehensive Income (Loss)

Comprehensive income (loss) includes net income (loss) and "other comprehensive income," which includes charges or credits to equity that are not the result of transactions with shareholders. Comprehensive income (loss) within these consolidated financial statements includes primarily cumulative foreign currency translation adjustments and unrealized gains and losses on securities available for sale. The cumulative translation adjustment included in accumulated other comprehensive income (loss) at March 30, 2013 and March 31, 2012 was \$0.4 million and \$0.6 million, respectively.

Earnings Per Share

Basic earnings per share (EPS) is computed utilizing the weighted average number of shares outstanding during the period. Diluted EPS also considers common stock equivalents, such as stock options, stock-settled stock appreciation rights (SARs), employee stock purchase plan (ESPP) shares and restricted stock units, to the extent that they are not antidilutive.

Share-Based Compensation

The Company recognizes expense related to the fair value of its share-based compensation awards. The Company uses the Black-Scholes model to estimate the fair value of all share-based compensation awards on the date of grant, except for unvested restricted stock units, which are valued at the fair market value of the Company's stock on the date of award. The Company recognizes the compensation expense for options, SARs and unvested restricted stock units on a straight-line basis over the requisite service period of the award.

Segment Reporting

The Company complies with ASC Topic 280 "Segment Reporting" (ASC Topic 280). ASC Topic 280, which is based on a management approach to segment reporting, establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products, major customers and the geographies in which the entity holds material assets and reports revenue. An operating segment is defined as a component that engages in business activities whose operating results are reviewed by the chief operating decision maker and for which discrete financial information is available. Based on the provisions of ASC Topic 280, the Company has determined that it operates in one segment. The Company manages its resources and assesses its performance on an enterprise-wide basis.

Employee Benefit Plans

The Company has an employee savings plan under the provisions of Section 401(k) of the Internal Revenue Code. During 2013 and 2012, contributions to the plan by the Company were \$0.3 million and \$0.3 million, respectively.

The Company has defined benefit retirement plans at certain of its foreign subsidiaries. The Company accounts for these plans based on the provisions of ASC Topic 715 “Compensation-Retirement Benefits”.

3. Recent Accounting Pronouncements

In June 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Codification (ASC) Accounting Standards Update (ASU) 2011-05 “Comprehensive Income: Presentation of Comprehensive Income” (ASC ASU 2011-05). ASC ASU 2011-05 eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders’ equity, however, it does not change the items that must be reported in other comprehensive income. ASC ASU 2011-05 requires that all nonowner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but continuous statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, and the total of comprehensive income. In December 2011, the FASB issued ASU 2011-12 “Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05” (ASC ASU 2011-12). ASC ASU 2011-12 defers the effective date pertaining to the requirement in ASC ASU 2011-05 regarding the reclassification adjustments for each component of accumulated other comprehensive income in both net income and other comprehensive income on the face of the financial statements. The adoption of ASC ASU 2011-05, as amended by ASC ASU 2011-12, in the first quarter of 2013 did not have a material effect on the Company’s financial position, results of operations and cash flows.

In July 2012, the FASB issued ASU 2012-02, “Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment” (ASC ASU 2012-02). ASC ASU 2012-02 permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit’s fair value is less than its carrying amount before performing the quantitative impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, the entity is not required to perform further impairment test and assessment. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. The adoption of ASC ASU 2012-02 did not have a material effect on the Company’s financial position, results of operations or cash flows.

In February 2013, the FASB issued ASU 2013-02, “Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income” (ASC ASU 2013-02). ASC ASU 2013-02 is intended to improve the reporting of reclassifications out of accumulated other comprehensive income. Accordingly, an entity is required to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. The amendments in this ASU supersede the presentation requirements for reclassifications out of accumulated other comprehensive income in ASC ASU 2013-05 and ASC ASU 2013-12. ASC ASU 2013-02 is effective for reporting periods beginning after December 15, 2012. The Company plans to adopt ASC ASU 2013-02 in the first quarter of fiscal year 2014 and does not expect that this adoption will have a material effect on the measurement of net earnings or other comprehensive income.

4. Share-Based Compensation

The Company recognizes expense related to the fair value of its share-based compensation awards using the Black-Scholes model to estimate the fair value of awards on the date of grant, except for unvested restricted stock unit awards, which are valued at the fair market value of the Company’s stock on the date of award. The Company recognizes compensation expense for all share-based compensation awards on a straight-line basis over the requisite service period of the award.

Stock Plans

In October 2004, the shareholders approved the adoption of the 2004 Stock Incentive Plan (the 2004 Plan) that replaced various stock compensation plans that were previously approved by the shareholders or the Board of Directors (the Replaced Plans), except with respect to options and other awards previously outstanding. Outstanding options and awards remained subject to the terms of the Replaced Plans under which they were originally granted. At that time, the shareholders also approved the reservation of 3,000,000 shares of common stock for issuance under the 2004 Plan. These shares are in addition to any shares of common stock that, at the time the 2004 Plan was approved by shareholders, were available for grant under the Replaced Plans or that may subsequently become available for grant under any of the Replaced Plans through the expiration, termination, forfeiture or cancellation of grants. In January 2005, the Board of Directors approved certain amendments to the 2004 Plan. These amendments prohibit grants of stock options or stock-settled stock appreciation rights (SARs) with an exercise price less than fair market value, require that time-based restricted stock awards have a minimum vesting period of at least three years, with the subject shares vesting no more quickly than one-third annually over the three-year period, and expressly prohibit the reservation of additional shares under the 2004 Plan without shareholder approval. In October 2007, the shareholders approved an additional amendment to the 2004 Plan to permit awards to non-employee service providers and implement certain claw-back provisions.

The 2004 Plan allows for grants of stock options, stock appreciation rights, stock bonuses (including restricted stock units), restricted stock, performance-based awards and dividend equivalents. Stock options and SARs outstanding under the 2004 Plan and the Replaced Plans vest over variable periods determined at the grant date, generally with terms of immediate vesting or up to four years, and expire ten years from the date of grant. Options and SARs issued under the 2004 Plan and the Replaced Plans are exercisable at prices not less than fair market value on the date of the grant. The 2004 Plan prohibits repricing of options and SARs granted without prior shareholder approval. Certain restricted stock units awarded under the 2004 Plan vest based on performance criteria that are tied to the Company's results of operations, personal performance criteria, and, in certain cases, length of service. Unvested restricted stock awards are credited with dividend equivalents in the form of additional unvested restricted stock units at the same time and in the same amount as dividends paid to shareholders of the Company. The dividend equivalents have the same vesting and terms as the underlying restricted stock award and are subject to forfeiture if related awards do not vest.

In September 1990, the shareholders approved the adoption of the 1990 Employee Stock Purchase Plan, as amended in September 1998, October 2003, October 2004, January 2008 and August 2009 (the ESPP), pursuant to which 3,400,000 shares of common stock have been reserved for issuance to participating employees. Eligible employees may elect to contribute up to 15 percent of their base wage and commissions during each pay period. The ESPP provides for separate overlapping twenty-four month offerings starting every three months. Each offering has eight purchase dates occurring every three months on designated dates. The offerings under the ESPP commence on February 15, May 15, August 15 and November 15 of each calendar year. Any eligible employee may participate in only one offering at a time and may purchase shares only through payroll deductions permitted under the ESPP. At the end of each three-month purchase period, the purchase price is determined and the accumulated funds are used to automatically purchase shares of common stock. The purchase price per share is equal to 85 percent of the lower of the fair market value of the common stock on (a) the first day of the offering period or (b) the date of purchase. The ESPP also provides that if the fair market value of the common stock on the first day of the new offering period is less than or equal to the fair market value of the common stock on the first date of any ongoing offering, employees participating in any such ongoing offering will be automatically withdrawn from it and enrolled in the new offering.

The Company granted SARs starting in the first quarter of 2010. SARs grant the right to receive shares of the Company's stock equivalent to the increase in stock value of a specified number of shares over a specified period of time, divided by the stock price at the time of exercise. The Company uses the Black-Scholes model to estimate the fair value of SARs. Similar to options, SARs are recorded at the fair value of the award at grant date and the expense is recognized on a straight-line basis over the requisite service period of the award. The Company did not grant any stock options during 2013, 2012 or 2011.

Share-based compensation expense was included in the Company's Consolidated Statements of Operations as follows:

<u>(In thousands)</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cost of sales	\$ 898	\$ 1,118	\$1,084
Selling, service and administration	5,330	8,244	6,688
Research, development and engineering	<u>1,860</u>	<u>2,113</u>	<u>1,554</u>
Total share-based compensation expense	<u>\$8,088</u>	<u>\$11,475</u>	<u>\$9,326</u>

The share-based compensation expense decrease in 2013 compared to 2012 was primarily driven by accelerated expense associated with the Chief Executive Officer's retirement eligibility date in 2012 and decreased attainment of performance-based grants in 2013. The share-based compensation expense increased in 2012 compared to 2011 was primarily driven by accelerated expenses associated with the Chief Executive Officer's retirement eligibility date and increased attainment of performance-based grants.

The total amount of cash received from the stock plan awards was \$0.6 million, \$3.0 million and \$1.3 million for 2013, 2012 and 2011, respectively. All stock plan awards are settled with newly issued shares.

No share-based compensation costs were capitalized during 2013. As of March 30, 2013, the Company had \$8.6 million of total unrecognized share-based compensation costs, net of estimated forfeitures, which are expected to be recognized over a weighted average period of 1.8 years.

Valuation Assumptions

The Black-Scholes option pricing model is utilized to determine the fair value of options and SARs granted. The following weighted average assumptions were used in calculating the fair value during the periods presented:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Risk-free interest rate	1.63%	1.86%	2.08%
Expected dividend yield	2.6%	— %	— %
Expected lives	1.5 years	6.2 years	5.5 years
Expected volatility	47%	45%	47%

The following weighted average assumptions were used to estimate the fair value of ESPP shares issued during the periods presented:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Risk-free interest rate	0.18%	0.12%	0.34%
Expected dividend yield	3.0%	2.3%	— %
Expected lives	1.1 years	1.1 years	1.1 years
Expected volatility	43%	49%	44%

The risk-free interest rates used are based on the U.S. Treasury yields over the expected terms. In December 2011, the Board of Directors adopted a dividend policy under which the Company intends to pay quarterly cash dividends. Accordingly, the Company paid a dividend of \$0.08 per outstanding common share in all four quarters of 2013 and in the fourth quarter of 2012. There were no dividends declared or paid during 2011. The expected dividend yield used is derived using a mathematical formula which uses the expected Company annual dividend rate over the expected term divided by the fair value of the Company's common stock at the grant date.

The expected term and forfeiture estimates for stock options and SARs are based on an analysis of actual exercise behavior. The expected term for the ESPP is the weighted average length of the purchase periods. The Company uses its historical volatility over the estimated expected term as the expected volatility.

At March 30, 2013, the Company had 7,828,817 shares of its common stock reserved for issuance under all of the above plans combined. Of those shares, 4,238,804 are subject to issuance under currently outstanding stock options, SARs and stock awards and 3,590,012 shares, including 537,505 shares available for issuance under the ESPP, are available for future grants. The weighted-average fair-value of share-based compensation awards, including stock option and SAR awards granted and vested during the period, unvested restricted stock unit awards granted during the period and the intrinsic value of stock options and SARs exercised during the period were:

<u>(In thousands, except per share data)</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Stock-Option and SAR Awards:			
Grant date fair value per share	\$ 4.82	\$ 8.49	\$ 6.35
Total fair value of options and SARs granted	\$ 25	\$1,646	\$1,220
Total fair value of options and SARs vested	\$2,050	\$1,845	\$1,322
Total intrinsic value of options and SARs exercised	\$ 230	\$1,170	\$ 444
Unvested Restricted Stock Unit Awards:			
Grant date fair value per share	\$ 8.05	\$18.40	\$14.18
Total fair value of awards granted	\$7,026	\$8,985	\$7,766
Total fair value of awards vested	\$6,266	\$5,417	\$4,556
Employee Stock Purchase Plan:			
Grant date fair value per share	\$ 3.22	\$ 3.85	\$ 2.76
Total grant date fair value	\$ 869	\$ 977	\$1,109

Share-Based Payment Award Activity

Information with respect to stock option and SAR activity was as follows:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (In years)</u>	<u>Aggregate Intrinsic Value (In thousands)</u>
Outstanding at March 31, 2012	3,185,956	\$19.61		
Granted	5,000	12.03		
Exercised	(56,915)	8.13		
Expired or forfeited	(360,253)	27.41		
Outstanding at March 30, 2013	<u>2,773,788</u>	<u>\$17.98</u>	<u>3.40</u>	<u>\$1,959</u>
Vested and expected to vest at March 30, 2013	<u>2,760,106</u>	<u>\$17.99</u>	<u>3.34</u>	<u>\$1,955</u>
Exercisable at March 30, 2013	<u>2,396,961</u>	<u>\$18.86</u>	<u>2.81</u>	<u>\$1,348</u>

Information with respect to unvested restricted stock unit awards activity was as follows:

	<u>Shares</u>	<u>Weighted Average Grant Date Fair Value</u>	<u>Weighted Average Remaining Contractual Term (In years)</u>	<u>Aggregate Intrinsic Value (In thousands)</u>
Outstanding at March 31, 2012	1,157,232	\$15.33		
Awarded	873,008	8.05		
Vested	(478,362)	13.10		
Forfeited	(86,862)	13.93		
Outstanding at March 30, 2013	<u>1,465,016</u>	<u>\$11.80</u>	<u>1.48</u>	<u>\$16,188</u>

5. Fair Value Measurements

Financial Assets Measured at Fair Value

ASC Topic 820 establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include the following:

- *Level 1*, defined as observable inputs such as quoted prices in active markets for identical assets or liabilities;
- *Level 2*, defined as inputs other than quoted prices in active markets for similar assets or liabilities that are either directly or indirectly observable; and
- *Level 3*, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions.

The Company's fair value hierarchy for its financial assets measured at fair value on a recurring basis as of March 30, 2013 and March 31, 2012 was as follows (in thousands):

<u>March 30, 2013</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Money market securities	\$9,457	\$ —	\$—	\$ 9,457
Commercial paper	—	51,443	—	51,443
Government agencies	—	29,646	—	29,646
Corporate Bonds	—	18,396	—	18,396
Municipal Bonds	—	3,389	—	3,389
Forward purchase or (sale) contracts:				
Japanese Yen	—	176	—	176
New Taiwan Dollar	—	(10)	—	(10)
Korean Won	—	(46)	—	(46)
Euro	—	100	—	100
British Pound	—	38	—	38
Chinese Renminbi	—	(1)	—	(1)
Singapore Dollar	—	(12)	—	(12)
 <u>March 31, 2012</u>	 <u>Level 1</u>	 <u>Level 2</u>	 <u>Level 3</u>	 <u>Total</u>
Money market securities	\$5,244	\$ —	\$—	\$ 5,244
Commercial paper	—	83,645	—	83,645
Government agencies	—	67,261	—	67,261
Corporate Bonds	—	20,121	—	20,121
Forward purchase or (sale) contracts:				
Japanese Yen	—	202	—	202
New Taiwan Dollar	—	(5)	—	(5)
Korean Won	—	(17)	—	(17)
Euro	—	(1)	—	(1)
British Pound	—	20	—	20
Chinese Renminbi	—	(1)	—	(1)

For Level 1 assets, the Company utilized quoted prices in active markets for identical assets.

For Level 2 assets, exclusive of forward contracts, the Company utilized quoted prices in active markets for similar assets. For forward contracts, spot prices at March 30, 2013 and March 31, 2012 were utilized to calculate fair values.

During 2013, there were no transfers between Level 1 and Level 2 assets.

As of March 30, 2013 and March 31, 2012, the Company did not hold any level 3 assets. The Company's level 3 assets had consisted of ARS and preferred stock acquired through the conversion of ARS. As none of the Company's ARS traded through the auction process, estimated fair values were based primarily upon the income approach using a discounted cash flow model which took into account the following: (i) the underlying structure of each security; (ii) the present value of future principal and interest payments discounted at rates that reflect current market conditions; (iii) consideration of the probabilities of default, restructuring or redemption by the issuer (trigger events); (iv) estimates of the recovery rates in the event of default for each security; (v) the financial condition, results, ratings of and financial claims on the bond insurers and issuers; and (vi) the underlying trust assets of the securities.

During the first quarter of 2012, the Company sold all of its remaining ARS for approximately \$6.0 million and all of its preferred stock for approximately \$0.5 million. The Company recorded a gain of \$2.7 million in the first quarter of 2012, which included \$1.4 million in reclassification of previously recorded unrealized gain out of accumulated other comprehensive income. During the fourth quarter of 2011, the Company sold a certain ARS with a par value of \$3.0 million for approximately \$0.7 million. The Company recorded a gain of \$0.7 million in 2011 as the security was previously written down to zero value.

The following table illustrates the activity related to credit loss on ARS from April 3, 2010 to March 30, 2013:

<u>(In thousands)</u>	<u>Credit Loss</u>
Balance at April 3, 2010	\$(13,980)
Other-than-temporary impairment recognized as credit loss	—
Sales of ARS	3,001
Balance at April 2, 2011	(10,979)
Other-than-temporary impairment recognized as credit loss	—
Sales of ARS	10,979
Balance at March 31, 2012	—
Other-than-temporary impairment recognized as credit loss	—
Sales of ARS	—
Balance at March 30, 2013	<u>\$ —</u>

The following table illustrates Level 3 activity from April 2, 2011 to March 30, 2013:

<u>(In thousands)</u>	<u>Auction Rate Securities</u>	<u>Preferred Stock</u>	<u>Total</u>
Fair Value, April 2, 2011	\$ 5,166	\$ —	\$ 5,166
Sales of ARS	(5,967)	(483)	(6,450)
Realized gains, included in non-operating income (expense)	2,246	483	2,729
Reclassifications out of accumulated other comprehensive income	(1,445)	—	(1,445)
Fair Value, March 31, 2012	—	—	—
Sales of ARS	—	—	—
Realized gains, included in non-operating income (expense)	—	—	—
Reclassifications out of accumulated other comprehensive income	—	—	—
Fair Value, March 30, 2013	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

As of March 30, 2013, the Company had \$6.0 million invested in Series D Preferred Stock and \$3.0 million invested in Series E Preferred Stock of OmniGuide, Inc., representing an 11% interest. At each reporting period end, the Company determines whether events or circumstances have occurred that are likely to have a significant

adverse effect on the fair value of these investments. If there are no events or circumstances identified that would adversely affect the fair value of the investments, the fair values of the investments are not calculated as it is not practicable to do so. As of March 30, 2013 and March 31, 2012, management had not identified any events or circumstances that indicated the investments were impaired; therefore, as presented in Note 12 “Other Assets”, the full carrying value of \$9.0 million was included in Other assets on the Consolidated Balance Sheets at March 30, 2013 and March 31, 2012.

Investments

Certain information regarding the Company’s investments at March 30, 2013 and March 31, 2012 was as follows (in thousands):

<u>March 30, 2013</u>	<u>Cost</u>	<u>Unrealized</u>		<u>Fair Value</u>
		<u>Gain</u>	<u>Loss</u>	
Available-for-sale securities (current):				
Commercial paper	\$ 51,443	\$ —	\$ —	\$ 51,443
Government agencies	26,556	8	—	26,564
Corporate bonds	10,473	7	—	10,480
Municipal bonds	2,058	—	—	2,058
	<u>\$ 90,530</u>	<u>\$ 15</u>	<u>\$ —</u>	<u>\$ 90,545</u>
Available-for-sale securities (non-current):				
Corporate Bonds	\$ 7,923	\$ —	\$ (7)	\$ 7,916
Government agencies	3,082	—	—	3,082
Municipal bonds	1,330	1	—	1,331
	<u>\$ 12,335</u>	<u>\$ 1</u>	<u>\$ (7)</u>	<u>\$ 12,329</u>
<u>March 31, 2012</u>	<u>Cost</u>	<u>Unrealized</u>		<u>Fair Value</u>
Available-for-sale securities (current):				
Commercial paper	\$ 83,645	\$ —	\$ —	\$ 83,645
Government agencies	46,293	5	—	46,298
Corporate bonds	17,987	51	—	18,038
	<u>\$147,925</u>	<u>\$ 56</u>	<u>\$ —</u>	<u>\$147,981</u>
Available-for-sale securities (non-current):				
Government agencies	\$ 20,989	\$ —	\$ (26)	\$ 20,963
Corporate bonds	2,070	13	—	2,083
	<u>\$ 23,059</u>	<u>\$ 13</u>	<u>\$ (26)</u>	<u>\$ 23,046</u>

In addition to the sales of ARS, the Company sold certain available-for-sale securities for approximately \$3.5 million at cost during 2012.

For purposes of determining gross realized gains and losses and reclassification out of accumulated other comprehensive income (loss), the cost of securities sold is based on specific identification. Net unrealized holding gains and losses on current available-for-sale securities included in accumulated other comprehensive income (loss) were insignificant as of March 30, 2013 and March 31, 2012.

Underlying maturities of investments at March 30, 2013 were \$90.5 million within one year and \$12.3 million between one to five years.

6. Business Acquisition

Fiscal 2013

On June 14, 2012, the Company acquired Eolite Systems (Eolite), a designer and manufacturer of unique fiber lasers, for \$9.7 million in cash for all their outstanding shares. The Company also incurred approximately \$0.9 million in acquisition-related costs which are included in Selling, service and administration expenses in the Condensed Consolidated Statements of Operations. The purchase price was allocated to the underlying assets acquired and liabilities assumed based on their fair values. Analyses supporting the purchase price allocation included a valuation of assets and liabilities as of the closing date, an analysis of intangible assets and a detailed review of the opening balance sheet to determine other significant adjustments required to recognize assets and liabilities at fair value.

The following table presents the allocation of the purchase price of \$9.5 million, net of cash acquired, to the assets acquired and liabilities assumed based on their fair values (in thousands):

Investments	\$ 285
Accounts receivable	113
Inventory	1,554
Prepaid expense and other current assets	824
Property, plant and equipment	227
Acquired intangibles	5,539
Goodwill	3,875
Accounts payable and accrued liabilities	(1,157)
Short term debt	(1,794)
Total purchase price, net of cash acquired	<u>\$ 9,466</u>

The acquisition provides the Company with direct access to differentiated, higher power laser technology which can be used in a broad set of microfabrication applications. The Company has allocated \$3.9 million of the purchase price to goodwill. The premium paid over the fair value of the individual assets acquired and liabilities assumed reflects the Company's view that this acquisition will increase the Company's ability to customize lasers to specific customer applications with differentiated capability. None of the goodwill is deductible for tax purposes.

As a result of the acquisition, the Company recorded \$5.5 million of identifiable intangible assets including approximately \$5.0 million of developed technology, \$0.4 million in customer relationships, and \$0.1 million in trademarks and backlog. The acquired intangibles will be amortized over their useful lives which range from one to nine years.

The operating results of this acquisition are included in the Company's results of operations since the date of acquisition. Pro forma financial information has not been provided for the acquisition of Eolite as it was not material to the Company's overall financial position.

Fiscal 2011

In September 2010, the Company acquired certain assets of PyroPhotonics Lasers, Inc. (PyroPhotonics), a manufacturer of tailored-pulse fiber lasers, for approximately \$8.1 million in cash plus acquisition related costs of approximately \$0.3 million. The purchase price was allocated to the underlying assets acquired and liabilities assumed based on their fair values. Analyses supporting the purchase price allocation included a valuation of assets and liabilities as of the closing date, an analysis of intangible assets and a detailed review of the opening balance sheet to determine other significant adjustments required to recognize assets and liabilities at fair value.

The following table presents the allocation of the purchase price of \$8.1 million to the assets acquired and liabilities assumed based on their fair values (in thousands):

Inventory	\$ 395
Prepaid expense and other current assets	20
Property, plant and equipment	84
Patents ¹	410
In-process research and development ¹	3,204
Goodwill	4,014
Accounts payable and accrued liabilities	(52)
Total purchase price, net of cash acquired	<u>\$8,075</u>

1. See Note 11 “Acquired Intangible Assets” for additional discussion.

The acquisition was an investment to integrate PyroPhotonics’ technology into certain of the Company’s product groups, which supported the premium paid over the fair market value of the individual assets. As a result, the Company recorded \$4.0 million of goodwill. A portion of the goodwill amount is deductible for tax purposes.

As a result of the acquisition, the Company recorded \$3.6 million of identifiable intangible assets, including \$3.2 million of in-process research and development (IPR&D) at the date of the acquisition. The IPR&D program consisted of three laser platforms with primary focus on PyroFlex-25. The PyroFlex-25 is a unique pulse-programmable fiber laser platform designed to serve a broad range of industrial applications. In the fourth quarter of 2013, the Company accelerated amortization on portions of this program where future value is no longer anticipated. See Note 11 “Acquired Intangible Assets” for additional discussion.

In determining the value of in-process research and development, the Company applied the excess earnings method. The key value drivers under the excess earnings method are as follows: (a) projected revenue and earnings generated by the assets; (b) expected economic life of the asset; (c) contributory asset charges that would be paid to the requisite operating assets; and (d) a discount rate which reflects risk associated with receiving future cash flows. Forecasted sales and expenses were projected individually for these three laser platforms including PyroFlex-25. The selected discount rate for the IPR&D was 25.6%. In applying a discount rate for the IPR&D, the Company considered the overall weighted average cost of capital of PyroPhotonics.

The operating results of this acquisition are included in the Company’s results of operations since the date of acquisition. Pro forma financial information has not been provided for the acquisition of PyroPhotonics as it was not material to the Company’s overall financial position.

7. Inventories

The components of inventories at March 30, 2013 and March 31, 2012 were as follows:

<u>(In thousands)</u>	<u>2013</u>	<u>2012</u>
Raw materials and purchased parts	\$44,332	\$48,126
Work-in-process	8,985	10,511
Finished goods	9,750	9,418
	<u>\$63,067</u>	<u>\$68,055</u>

In 2013, the Company recorded a charge against inventory related to write-offs associated with discontinued products. See Note 24 “Restructuring and Cost Management Plans” for further discussion.

8. Other Current Assets

Other current assets at March 30, 2013 and March 31, 2012 consisted of the following:

<u>(In thousands)</u>	<u>2013</u>	<u>2012</u>
Prepaid expenses	\$2,240	\$2,687
Value added tax receivable	763	1,055
Other	895	318
	<u>\$3,898</u>	<u>\$4,060</u>

9. Property, Plant and Equipment

Property, plant and equipment as of March 30, 2013 and March 31, 2012 consisted of the following:

<u>(In thousands)</u>	<u>Estimated Useful Lives</u>	<u>2013</u>	<u>2012</u>
Land	n/a	\$ 3,118	\$ 3,118
Buildings and improvements	3 to 40 years	42,079	41,191
Machinery and equipment	3 to 10 years	48,269	57,277
Computer equipment and software	1 to 7 years	33,162	32,233
		126,628	133,819
Less accumulated depreciation		<u>(98,734)</u>	<u>(101,716)</u>
		<u>\$ 27,894</u>	<u>\$ 32,103</u>

Depreciation expense totaled \$9.2 million, \$12.5 million and \$10.3 million in 2013, 2012 and 2011, respectively. In 2012 and 2013, the Company recorded charges against property, plant and equipment related to cost management and restructuring efforts. See Note 24 “Restructuring and Cost Management Plans” for further discussion.

10. Goodwill

As of March 30, 2013 and March 31, 2012, the Company had \$7.9 million and \$4.0 million in goodwill, respectively. The goodwill balance is comprised of \$3.9 million from the Eolite acquisition in 2013 and \$4.0 million from the PyroPhotonics acquisition in 2011. As a result of the acquisitions, the Company recorded \$9.1 million of identifiable intangible assets and \$7.9 million of goodwill. See Note 6 “Business Acquisition” for additional discussion.

11. Acquired Intangible Assets

Acquired intangible assets as of March 30, 2013 and March 31, 2012 consisted of the following:

<u>(In thousands, except years)</u>	<u>Weighted Average Useful Life (In years)</u>	<u>2013</u>	<u>2012</u>
Developed technology	7.8	\$ 13,073	\$ 8,100
Customer relationships	5.6	3,154	2,700
Customer backlog	1	750	700
Trade name and trademarks	3	463	400
Fair value of below-market lease (non-current portion)	3.8	310	310
Change of control agreements	1	100	100
Patents	13.1	3,427	3,427
In-process research and development ¹	Indefinite	3,204	3,204
		<u>24,481</u>	<u>18,941</u>
Less accumulated amortization		<u>(15,393)</u>	<u>(10,609)</u>
Total non-current acquired intangible assets		<u>9,088</u>	<u>8,332</u>
Fair value of below-market lease (current portion)		—	110
Less accumulated amortization		—	(110)
Total acquired intangible assets		<u>\$ 9,088</u>	<u>\$ 8,332</u>

1. In the fourth quarter of 2013, the Company identified IPR&D programs that we no longer expect to derive value from. As a result, the Company accelerated amortization of \$2.3 million on these assets. See Note 6 “Business Acquisition” for additional discussion on these IPR&D programs.

Amortization expense for acquired intangible assets has been recorded on the Consolidated Statements of Operations as follows:

<u>(In thousands)</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Cost of sales	\$4,239	\$1,157	\$1,157
Selling, service and administration	305	315	576
Research, development and engineering	240	250	231
	<u>\$4,784</u>	<u>\$1,722</u>	<u>\$1,964</u>

The estimated amortization expense for acquired intangible assets in future years is as follows (in thousands):

<u>Year</u>	<u>Amortization</u>
2014	\$2,160
2015	1,441
2016	949
2017	909
2018	906
Future years	<u>2,723</u>
	<u>\$9,088</u>

The above table excludes estimated amortization expense on certain in-process research and development assets as the project completion dates are not known as of March 30, 2013.

12. Other Assets

Other assets consisted of the following as of March 30, 2013 and March 31, 2012:

<u>(In thousands)</u>	<u>2013</u>	<u>2012</u>
Minority equity investment	\$ 8,966	\$ 8,966
Consignment and demo equipment, net	4,263	4,394
Other	1,523	903
	<u>\$14,752</u>	<u>\$14,263</u>

13. Income Taxes

The Company accounts for income taxes under the asset and liability method. Under this method, deferred income taxes are recognized for the future tax consequences attributable to temporary differences between the financial statement and tax balances of existing assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those assets and liabilities are expected to be recovered or settled. The effect on deferred taxes resulting from a change in tax rates is recognized in income in the period that includes the enactment date. When management determines that it is not more likely than not that a deferred tax asset will be fully realized, a valuation allowance is established to reduce deferred tax assets to the amount expected to be realized.

Net deferred tax assets at March 30, 2013 and March 31, 2012 consisted of the following:

<u>(In thousands)</u>	<u>2013</u>	<u>2012</u>
Deferred tax assets and liabilities:		
Current		
Inventory valuation and warranty costs	\$ 11,779	\$ 5,660
Receivables and other current assets	(217)	(257)
Payroll-related accruals	1,901	1,367
Accrued liabilities	2,226	1,097
Deferred revenue	3,182	3,897
Other	15	642
Total current deferred tax assets	18,886	12,406
Valuation allowance, current	(17,204)	(2,385)
Net current deferred tax assets	<u>\$ 1,682</u>	<u>\$ 10,021</u>
Non-current		
Deferred compensation	\$ 6,745	\$ 6,497
Intangible assets and investments	(1,431)	(6)
Accrued liabilities	523	722
Property, plant and equipment	4,967	3,975
Other comprehensive income	(302)	(303)
Tax loss and credit carryforwards	36,442	32,408
Other	427	1,880
Total non-current deferred tax asset	47,371	45,173
Valuation allowance, non-current	(43,605)	(8,684)
Net non-current deferred tax assets	<u>\$ 3,766</u>	<u>\$ 36,489</u>
Total deferred tax assets	\$ 66,257	\$ 57,579
Total valuation allowance	(60,809)	(11,069)
Net deferred tax assets	<u>\$ 5,448</u>	<u>\$ 46,510</u>

As of March 30, 2013, the Company had approximately \$40.1 million in tax assets resulting from federal, state and foreign net operating losses and tax credits. A detailed breakdown of the net operating loss carryforwards, net of tax, and tax credits at March 30, 2013 and March 31, 2012 was as follows:

<u>(In thousands)</u>	<u>2013</u>	<u>2012</u>
Federal net operating losses	\$ —	\$ 1,308
State net operating losses	2,863	3,004
Foreign operating losses and tax credits	9,923	3,099
Federal research credits	17,633	15,010
State research credits	4,439	4,630
Federal minimum tax credit	1,171	1,246
Federal capital losses	4,038	4,111
	<u>\$40,067</u>	<u>\$32,408</u>

The state net operating losses expire on various dates through fiscal 2032. The majority of the foreign tax credits expire on various dates through fiscal 2023. The federal and most of the state research credits expire on various dates through fiscal 2033. Certain state research credits and the federal minimum tax credits are available indefinitely. The state net operating losses and credits are reflected net of their federal tax impact.

A valuation allowance is required by U.S. generally accepted accounting principles (“GAAP”) if it is more likely than not that all or a part of a deferred tax asset will not be realized in the future. A valuation allowance of \$60.8 million and \$11.1 million was recorded as of March 30, 2013 and March 31, 2012, respectively. The valuation allowance increased by \$49.7 million in 2013. This increase was primarily related to the valuation allowance recorded in the fourth quarter on the Company’s federal and state deferred tax assets. In 2013, the Company’s effective rate was significantly impacted by the valuation allowance established against our U.S. deferred tax assets and attributes. The Company recorded this valuation allowance based on its operating results, significant restructuring of the business, changes in the Company’s future forecast for its U.S. jurisdiction, the Company’s continued transition of production overseas, and consideration of available tax planning strategies. These factors led it to provide a valuation allowance against its deferred tax assets and attributes, which the Company believes no longer meet the threshold for recognition.

The components of income before income taxes and the provision for (benefit from) income taxes, all from continuing operations, were as follows:

<u>(In thousands)</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
(Loss) income before income taxes:			
Domestic	\$(16,935)	\$(3,298)	\$(1,118)
Foreign	2,070	6,785	9,442
Total (loss) income before income taxes	<u>\$(14,865)</u>	<u>\$ 3,487</u>	<u>\$ 8,324</u>
(Benefit from) provision for income taxes:			
Current:			
U.S. federal and state	\$ (2,978)	\$ 2,287	\$ 1,579
Foreign	1,767	2,093	1,214
	(1,211)	4,380	2,793
Deferred:			
U.S. federal and state	40,055	(5,221)	(2,024)
Foreign	1,007	(576)	(379)
	41,062	(5,797)	(2,403)
Total provision for (benefit from) income taxes	<u>\$ 39,851</u>	<u>\$(1,417)</u>	<u>\$ 390</u>

The portion of the tax benefit derived from stock-based compensation that is allocated as common stock was zero in 2013, \$0.5 million in 2012, and \$0.3 million in 2011, respectively.

A reconciliation of the Company's effective tax rate to the United States federal statutory income tax rate was as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
U.S. federal statutory income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal benefit	1.1	(7.7)	0.1
Tax credits	11.3	(72.2)	(12.1)
Domestic production and export tax incentives	3.7	—	(2.4)
Non-U.S. income taxed at different rates	8.4	(16.0)	(23.3)
Changes in unrecognized tax benefits	3.6	21.1	4.6
Change in valuation allowance	(327.2)	(9.4)	(0.4)
Stock compensation	(3.6)	5.2	2.5
Other, net	<u>(0.4)</u>	<u>3.4</u>	<u>0.7</u>
	<u>(268.1)%</u>	<u>(40.6)%</u>	<u>4.7%</u>

The Company currently benefits from a Pioneer Tax Incentive in Singapore. The incentive commenced on July 1, 2006 and will continue through June 30, 2016 assuming the Company is able to satisfy applicable requirements.

The Company operates globally but considers its significant tax jurisdictions to include Canada, China, France, Japan, Korea, Singapore, Taiwan, the United Kingdom and the United States. As of March 30, 2013, the following tax years remained subject to examination by the major tax jurisdictions indicated:

<u>Major Jurisdictions</u>	<u>Open Tax Years</u>
Canada	2011 and forward
China	2003 and forward
France	2010 and forward
Japan	2006 and forward
Korea	2008 and forward
Singapore	2009 and forward
Taiwan	2008 and forward
United Kingdom	2008 and forward
United States	2004 and forward

A reconciliation of the beginning and ending amount of the consolidated liability for unrecognized income tax benefits for the years ended March 30, 2013 and March 31, 2012 was as follows:

<u>(In thousands)</u>	<u>2013</u>	<u>2012</u>
Beginning unrecognized tax benefits balance	\$8,613	\$8,016
Gross increases for tax positions of prior years	109	78
Gross decreases for tax positions of prior years	(581)	—
Gross increases for tax positions for current year	<u>1,069</u>	<u>519</u>
Ending unrecognized tax benefits balance	<u>\$9,210</u>	<u>\$8,613</u>

The unrecognized tax benefits were presented as short-term and long-term income taxes payable on the Consolidated Balance Sheets as of March 30, 2013 and March 31, 2012. The total amount of net unrecognized tax benefits that, if recognized, would affect the effective tax rate was \$9.2 million as of March 30, 2013 and \$8.6

million at March 31, 2012. The total amount of unrecognized tax positions that offset deferred tax assets was \$4.1 million and \$2.7 million as of March 30, 2013 and March 31, 2012, respectively. The Company expects a \$0.6 million decrease in unrecognized tax benefits within the next twelve months from the lapse in statutes of limitation. The Company also expects the annual increases to be consistent with prior years and does not anticipate any significant changes in unrecognized tax benefits in the next twelve months as the result of examinations.

14. Accrued Liabilities

Accrued liabilities consisted of the following at March 30, 2013 and March 31, 2012:

<u>(In thousands)</u>	<u>2013</u>	<u>2012</u>
Payroll-related liabilities	\$ 7,918	\$ 6,446
Product warranty accrual	5,411	4,187
Purchase order commitments and receipts	2,533	1,473
Pension benefit liabilities	1,501	2,110
Professional fees payable	1,322	2,011
Freight accrual	646	1,119
Income taxes payable	2,884	1,730
Restructuring costs payable	485	1,048
Customer deposits	225	385
Value added taxes payable	258	260
Other	1,747	866
	<u>\$24,930</u>	<u>\$21,635</u>

15. Product Warranty

The following is a reconciliation of the changes in the aggregate product warranty accrual for 2013, 2012 and 2011:

<u>(In thousands)</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Product warranty accrual, beginning	\$ 4,187	\$ 4,415	\$ 2,576
Warranty charges incurred, net	(7,381)	(7,200)	(6,818)
Provision for warranty charges	8,605	6,972	8,657
Product warranty accrual, ending	<u>\$ 5,411</u>	<u>\$ 4,187</u>	<u>\$ 4,415</u>

Net warranty charges incurred include labor charges and costs of replacement parts for system repairs under warranty. These costs are recorded net of any estimated cost recoveries resulting from either successful repair of damaged parts or from warranties offered by the Company's suppliers for defective components. The provision for warranty charges reflects the estimate of future anticipated net warranty costs to be incurred for all products under warranty at fiscal year end and is recorded to cost of sales.

16. Deferred Revenue

The following is a reconciliation of the changes in deferred revenue for 2013, 2012 and 2011:

<u>(In thousands)</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Deferred revenue, beginning	\$ 10,751	\$ 16,039	\$ 13,193
Revenue deferred	54,535	48,917	37,120
Revenue recognized	(55,090)	(54,205)	(34,274)
Deferred revenue, ending	<u>\$ 10,196</u>	<u>\$ 10,751</u>	<u>\$ 16,039</u>

17. Derivative Financial Instruments

The Company enters into derivative financial instruments on a limited basis and does not use them for trading purposes. It does, however, use derivatives to manage well-defined foreign currency risks. The Company hedges material non-functional currency monetary asset and liability balances. Foreign exchange contract gains and losses are recognized at the end of each fiscal period in the Company's results of operations. Such gains and losses are typically offset by the corresponding changes to the related underlying hedged item. Cash flows from derivative financial instruments are classified in the same category as the cash flows from the items hedged.

At March 30, 2013 and March 31, 2012, the Company had net forward exchange contracts to purchase (sell) foreign currencies totaling \$1.2 million and \$(1.3) million, respectively. In general, these contracts mature in less than six months and the counterparties are large, highly rated banks; therefore, the Company believes that the risk of loss as a result of nonperformance by the banks is minimal.

The table below summarizes, by currency, the notional amounts of forward exchange contracts in U.S. dollars as of March 30, 2013 and March 31, 2012. The "bought" amounts represent the net U.S. dollar equivalents of commitments to purchase foreign currencies, and the "sold" amounts represent the net U.S. dollar equivalents of commitments to sell foreign currencies. The foreign currency amounts have been translated into a U.S. dollar equivalent value using the exchange rates as of March 30, 2013 and March 31, 2012.

<u>(In thousands)</u>	<u>Bought (Sold)</u>	
	<u>2013</u>	<u>2012</u>
Japanese Yen	\$ 4,136	\$ 6,893
Euro	6,471	192
New Taiwan Dollar	(783)	(600)
Korean Won	(2,654)	(1,438)
British Pound	(4,272)	(2,771)
Chinese Renminbi	(1,542)	(3,562)
Singapore Dollar	\$ (204)	\$ —
	<u>\$ 1,152</u>	<u>\$(1,286)</u>

18. Commitments and Contingencies

The aggregate minimum commitment obligation under operating leases beyond March 30, 2013 was as follows (in thousands):

<u>Year</u>	<u>Operating Leases</u>
2014	\$2,043
2015	1,381
2016	776
2017	172
2018	168
Thereafter	179
	<u>\$4,719</u>

The Company leases certain equipment, automobiles, manufacturing and office space under operating leases, which are non-cancelable and expire on various dates through fiscal 2016. Rental expense for all operating leases was \$2.6 million, \$2.3 million and \$2.3 million in 2013, 2012 and 2011, respectively.

In the normal course of business, the Company agrees to indemnify customers with respect to certain matters. The Company has agreed, under certain conditions, to hold these third parties harmless against specified

losses, such as those arising from other third party claims that the Company's products, when used for their intended purposes, infringe the intellectual property rights of such other third parties. To date, the Company has not recorded any material charges related to these types of obligations.

19. (Loss) Earnings Per Share

The following was a reconciliation of weighted average shares outstanding used in the calculation of basic and diluted earnings per share for 2013, 2012 and 2011:

<u>(In thousands, except per share data)</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Net (loss) income	\$(54,716)	\$ 4,904	\$ 7,934
Weighted average shares used for basic earnings per share	29,357	28,749	28,045
Incremental diluted shares	—	712	563
Weighted average shares used for diluted earnings per share	<u>29,357</u>	<u>29,461</u>	<u>28,608</u>
Net (loss) income per share:			
Net (loss) income—basic	<u>\$ (1.86)</u>	<u>\$ 0.17</u>	<u>\$ 0.28</u>
Net (loss) income—diluted	<u>\$ (1.86)</u>	<u>\$ 0.17</u>	<u>\$ 0.28</u>

Awards of options, stock appreciation rights (SARs) and unvested restricted stock units (RSUs) representing an additional 3.4 million, 2.7 million and 2.9 million shares of stock for 2013, 2012 and 2011, respectively, were not included in the calculation of diluted net earnings per share because their effect would have been antidilutive.

20. Shareholders' Equity

Share Repurchase Program

On December 9, 2011, the Board of Directors authorized a share repurchase program totaling \$20.0 million to acquire shares of the Company's outstanding common stock. The repurchases are to be made at management's discretion in the open market or in privately negotiated transactions in compliance with applicable securities laws and other legal requirements and are subject to market conditions, share price and other factors. The Company did not repurchase any shares under this program in 2012 or 2013. There is no fixed completion date for the repurchase program.

Dividends

In December 2011, the Board of Directors adopted a dividend policy under which the Company intends to pay quarterly cash dividends. The following table summarizes the quarterly dividend declared and paid by the Company since adoption of the dividend policy:

<u>Date Declared</u>	<u>Record Date</u>	<u>Payable Date</u>	<u>Amount per Share</u>
February 7, 2013	February 28, 2013	March 14, 2013	\$ 0.08
November 8, 2012	November 21, 2012	December 5, 2012	\$ 0.08
August 9, 2012	August 24, 2012	September 10, 2012	\$ 0.08
May 10, 2012	June 4, 2012	June 18, 2012	\$ 0.08
December 9, 2011	January 27, 2012	February 17, 2012	\$ 0.08

A special dividend of \$2.00 per share was declared by the Board of Directors on December 3, 2012 after the successful patent settlement. The special dividend should not be considered a recurring event.

The Company paid aggregate dividends of \$68.1 million and \$2.3 million in 2013 and 2012, respectively. Subsequent to the year ended March 30, 2013, the Board of Directors declared an \$0.08 per outstanding common share cash dividend on May 9, 2013. The estimated amount to be paid as a result of the May 9, 2013 declaration is \$2.4 million.

The Company currently anticipates that it will continue to pay cash dividends on a quarterly basis in the future, although the declaration, timing and amount of any future cash dividends are at the discretion of the Board of Directors and will depend on the Company's financial condition, results of operations, capital requirements, business conditions and other factors, as well as a determination that cash dividends are in the best interest of the shareholders.

21. Legal Proceedings

All Ring Patent Infringement Prosecution

In August 2005, the Company commenced a proceeding in the Kaohsiung District Court of Taiwan (the Court) directed against All Ring Tech Co., Ltd. (All Ring) of Taiwan. The Company alleged that All Ring's Capacitor Tester Model RK-T6600 (the Capacitor Tester) infringes ESI's Taiwan Patent No. 207469, entitled "Circuit Component Handler" (the 207469 patent).

The Company's proceedings were settled in the Company's favor on November 29, 2012. All Ring paid the Company \$475 million New Taiwan Dollars, representing approximately \$16.3 million to settle the case, and the case was dismissed. This gain was partially offset by court and legal fees associated with the All Ring litigation and other non-recurring legal matters and is included in legal settlement proceeds, net, in the Consolidated Statements of Operations.

As a part of these proceedings, the Company established three letters of credit for approximately \$19.5 million in July 2009, September 2009 and June 2011, which were collateralized by \$22.3 million of restricted cash. The total restricted cash balance of \$22.3 million was included in Restricted cash on the Consolidated Balance Sheets at March 31, 2012 as a current asset. In 2013, the settlement of the proceedings eliminated the need for the Company to maintain the letters of credit, and the Company closed the letters of credit during the fourth quarter.

Legal Settlement

The company recognized \$0.6 million and \$1.4 million in legal settlements costs in 2012 and 2011, respectively, arising from the settlement of an arbitration matter with James Dooley, our former Chief Executive Officer.

In the ordinary course of business, the Company is involved in various other legal matters, either asserted or unasserted, and investigations. In the opinion of management, ultimate resolution of these matters will not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

22. Shareholder Rights Plan

The Company has a shareholder rights plan, under which each share of common stock carries with it an associated right (a "Right"). Each Right entitles the holder to purchase 1/100 of a share of Series A No Par Preferred Stock at a purchase price of \$60, subject to adjustment. The Rights do not have voting or dividend rights and, until they become exercisable, have no dilutive effect on the Company's earnings. The Rights expire on May 18, 2019 and may be redeemed by the Company for \$0.001 per Right.

The Rights are not presently exercisable and will only become exercisable following the occurrence of certain specified events, including the following: (a) a person or group acquires or commences a tender offer that would result in beneficial ownership of 15 percent or more of outstanding common stock; (b) any person becomes a beneficial owner of 10 percent or more of outstanding common stock and is determined by the Board of Directors to be an "Adverse Person"; or (c) a person or group acquires, or obtains the right to acquire, 15 percent of the outstanding Common Stock. If either of the events described in clause (b) or (c) above occurs, each Right will thereafter entitle its holder to receive, upon exercise and in lieu of Series A No Par Preferred Stock,

Common Stock (or in certain circumstances, cash, property or other securities of the Company) having a value equal to twice the exercise price of the Right. If, after the Rights become exercisable as described above, the Company is acquired in a merger or other business combination, each Right will thereafter entitle its holder to receive, upon exercise and in lieu of capital stock of the Company, common stock of the acquiring company having a value equal to twice the exercise price of the Right.

23. Product and Geographic Information

Net sales by product type were as follows:

<u>(In thousands)</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Interconnect & Microfabrication Group (IMG)	\$170,360	\$166,477	\$123,888
Components Group (CG)	27,511	28,976	54,184
Semiconductor Group (SG)	18,754	58,776	78,739
	<u>\$216,625</u>	<u>\$254,229</u>	<u>\$256,811</u>

Net sales by geographic area, based on the location of the end user, were as follows:

<u>(In thousands)</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Asia	\$186,346	\$224,100	\$229,420
Americas	20,907	19,448	15,647
Europe	9,372	10,681	11,744
	<u>\$216,625</u>	<u>\$254,229</u>	<u>\$256,811</u>

Long-lived assets, exclusive of investments and net deferred tax assets, by geographic area were as follows:

<u>(In thousands)</u>	<u>2013</u>	<u>2012</u>
Americas	\$43,771	\$52,789
Asia	6,177	5,838
Europe	9,675	85
	<u>\$59,623</u>	<u>\$58,712</u>

24. Restructuring and Cost Management Plans

In 2013, the Company initiated a restructuring plan to improve efficiency, transition from memory repair and other legacy products, and focus on laser microfabrication for consumer electronics, emerging technologies related to semiconductor 3D, and proprietary laser technology. As a result of these actions, the Company recognized \$2.6 million of restructuring costs in 2013. The restructuring costs of \$2.6 million were comprised primarily of \$1.5 million of employee severance and related benefits and \$1.1 of accelerated depreciation for certain assets. The planned completion date for actions to be taken under this plan is December 31, 2013.

In 2012, the Company continued its efforts to reduce its worldwide cost structure through transition of certain procurement and manufacturing activities to Asia and additionally identified and initiated other cost reduction actions. As a result of these actions, the Company recognized \$3.8 million of restructuring costs in 2012. The restructuring costs of \$3.8 million were comprised primarily of \$1.9 million of employee severance and related benefits and \$1.7 million of accelerated depreciation for certain assets. The Company shortened the depreciable lives of these assets in the fourth quarter of 2012 largely as a result of consolidating facilities in the United States and Asia. The Company completed these actions on December 29, 2012.

At March 30, 2013 and March 31, 2012, the amount of unpaid restructuring costs included in accrued liabilities was \$0.5 million and \$1.0 million, respectively.

The following table presents the amounts related to restructuring costs payable (in thousands):

Restructuring costs payable balance as of April 2, 2011 ¹	\$ 670
Employee severance and related benefits:	
Costs incurred and other adjustments	1,949
Cash payments	<u>(1,571)</u>
Restructuring costs payable balance as of March 31, 2012	1,048
Employee severance and related benefits:	
Costs incurred and other adjustments	1,381
Cash payments	<u>(1,944)</u>
Restructuring costs payable balance as of March 30, 2013	<u>\$ 485</u>

1. Includes only the globalization strategy related restructuring costs payable balance as of April 2, 2011.

Additionally, in 2012, the Company recorded \$2.0 million of charges in cost of sales for an inventory write-off associated with discontinued products. In 2013, the Company recorded \$23.3 million of charges in cost of sales, of which \$21.0 million related to inventory write-off associated with discontinued products and \$2.3 million related to accelerated amortization of acquired intangible assets.

25. Quarterly Financial Information (Unaudited)

<u>(In thousands, except per share data)</u>	<u>1st Quarter</u>	<u>2nd Quarter</u>	<u>3rd Quarter</u>	<u>4th Quarter</u>
<i>Year ended March 30, 2013</i>				
Net sales	\$58,969	\$80,152	\$37,930	\$ 39,574
Gross profit ^{1,2}	23,653	33,520	13,233	(6,153)
Net operating expenses ^{3,4}	25,197	25,641	3,835	24,698
(Benefit from) provision for income taxes ⁵	(750)	2,759	2,625	35,217
Net (loss) income	(944)	5,211	6,768	(65,751)
Basic net (loss) income per share	(0.03)	0.18	0.23	(2.23)
Diluted net (loss) income per share	(0.03)	0.17	0.23	(2.23)
Dividends per outstanding common share				
Declared	\$ 0.08	\$ 0.08	\$ 2.08	\$ 0.08
Paid	\$ 0.08	\$ 0.08	\$ 2.08	\$ 0.08
<i>Year ended March 31, 2012</i>				
Net sales	\$77,046	\$81,884	\$49,807	\$ 45,492
Gross profit ⁶	33,760	35,941	21,161	16,829
Net operating expenses ^{7,8,9}	28,280	25,626	25,285	27,305
Provision for (benefit from) income taxes	2,159	1,372	(2,196)	(2,752)
Net income (loss) ¹⁰	5,913	8,537	(1,881)	(7,665)
Basic net income (loss) per share	0.21	0.30	(0.07)	(0.26)
Diluted net income (loss) per share	0.20	0.29	(0.07)	(0.26)
Dividends per outstanding common share				
Declared	\$ —	\$ —	\$ 0.08	\$ —
Paid	\$ —	\$ —	\$ —	\$ 0.08

The sum of the quarterly data presented in the table above for fiscal 2013 and 2012 may not equal annual results due to rounding.

1. In the fourth quarter of 2013, gross profit included \$19.8 million of charges for inventory write-offs and \$2.3 million of accelerated amortization of acquired intangible assets.
2. In the third quarter of 2013, gross profit included \$1.2 million of charges for an inventory write-off.

3. In the fourth quarter of 2013, net operating expenses included \$2.6 million in restructuring costs, \$1.0 million in loss of disposal of assets, and \$0.1 million in legal settlement costs.
4. In the third quarter of 2013, net operating expenses included a net gain related to legal settlement proceeds of \$15.4 million and a net gain on sale of property and equipment of \$1.3 million.
5. In the fourth quarter of 2013, provision for income taxes included a \$46.9 million valuation allowance on deferred tax assets.
6. In the fourth quarter of 2012, gross profit included \$2.0 million of charges for an inventory write-off.
7. In the fourth quarter of 2012, net operating expenses included \$2.9 million in restructuring costs and \$1.0 million in loss of disposal of assets.
8. In the third quarter of 2012, net operating expenses included \$0.9 million in restructuring costs.
9. In the first quarter of 2012, net operating expenses included \$0.6 million in legal settlement costs.
10. In the first quarter of 2012, net income included a gain of \$2.7 million related to a sale of previously impaired auction rate securities.

26. Subsequent Events

On May 3, 2013, the Company completed the purchase of assets related to the Semiconductor Systems business from GSI Group Inc. for \$8.0 million in cash, subject to certain closing working capital adjustments. The Company will record the fair value of the assets acquired and liabilities assumed on May 3, 2013, the date the Company obtained control of the operations, and include the results of their operations and cash flows in their consolidated financial statements from that date forward.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Attached to this annual report as exhibits 31.1 and 31.2 are the certifications of our President and Chief Executive Officer (CEO) and our Chief Financial Officer (CFO) required by Section 302 of the Sarbanes-Oxley Act of 2002 (the Section 302 Certifications). This “Controls and Procedures” section of our annual report on Form 10-K is our disclosure of the conclusions of our management, including our CEO and our CFO, regarding the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report based on management’s evaluation of those disclosure controls and procedures. This section of the Annual Report on Form 10-K should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

(a) Evaluation of Disclosure Controls and Procedures

We evaluated the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. This controls evaluation was performed under the supervision and with the participation of management, including our CEO and CFO. Disclosure controls are procedures that are designed to ensure that information required to be disclosed in our reports filed under the Securities Exchange Act of 1934 (the Exchange Act), such as this Annual Report on Form 10-K, is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission (the SEC). Disclosure controls are also designed to ensure that such information is accumulated and communicated to our management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure. Our quarterly evaluation of disclosure controls includes an evaluation of some components of our internal control over financial reporting. We also perform a separate annual evaluation of internal control over financial reporting for the purpose of providing the management report below.

The evaluation of our disclosure controls included a review of their objectives and design as well as their effect on the information generated for use in this Annual Report on Form 10-K. This type of evaluation is performed on a quarterly basis so that the conclusions of management, including the CEO and CFO, concerning the effectiveness of the disclosure controls can be reported in our periodic reports on Form 10-Q and Form 10-K. Many of the components of our disclosure controls are also evaluated on an ongoing basis by our finance organization. The overall goals of these various evaluation activities are to monitor our disclosure controls and to modify them as necessary. We intend to maintain the disclosure controls as dynamic systems that we adjust as circumstances merit.

Based on the controls evaluation, our CEO and CFO have concluded that, subject to the limitations noted in (c) below, as of the end of the period covered by this Form 10-K, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in our Exchange Act reports is recorded, processed, summarized and reported within the time periods specified by the SEC, and that material information relating to the Company is made known to management, including the CEO and the CFO, particularly during the time when our periodic reports are being prepared.

(b) Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our CEO and CFO, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of March 30, 2013 based on the guidelines established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of

the Treadway Commission (COSO). Based on this evaluation, our management has concluded that our internal control over financial reporting was effective as of March 30, 2013.

KPMG LLP, an independent registered public accounting firm, has performed an independent assessment on the effectiveness of our internal control over financial reporting as referenced in their report included in (e) below.

(c) Limitations on Effectiveness of Controls

Our management, including our CEO and CFO, do not expect that our disclosure controls or our internal control over financial reporting will prevent all error and all fraud. A control system, no matter how well-conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

(d) Changes in Internal Control

There has been no change in our internal control over financial reporting that occurred during our last fiscal quarter that has materially affected or is reasonably likely to materially affect our internal control over financial reporting.

(e) Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Electro Scientific Industries, Inc.:

We have audited Electro Scientific Industries, Inc.'s internal control over financial reporting as of March 30, 2013, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Electro Scientific Industries, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting included in Item 9A(b). Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Electro Scientific Industries, Inc. maintained, in all material respects, effective internal control over financial reporting as of March 30, 2013, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Electro Scientific Industries, Inc. and subsidiaries as of March 30, 2013 and March 31, 2012, and the related consolidated statements of operations, comprehensive income (loss), shareholders' equity, and cash flows for each of the years in the three-year period ended March 30, 2013, and our report dated June 12, 2013 expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Portland, Oregon
June 12, 2013

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information required by this item, including information about the Company's audit committee, is included under the headings "Proposal 1: Election of Directors," "Board Committees," "Executive Officers" and "Section 16(a) Beneficial Ownership Reporting Compliance" in our Proxy Statement for our 2013 Annual Meeting of Shareholders and is incorporated herein by reference.

The Company has adopted the ESI Code of Conduct, a code of ethics and business practices with which every person who works for the Company is expected to comply. In addition, the Company has adopted a Code of Ethics for Financial Managers applicable to the chief executive officer, principal financial officer, principal accounting officer or controller and any other person performing similar functions on behalf of the Company. The ESI Code of Conduct and Code of Ethics for Financial Managers are publicly available on the Company's website under "Corporate Governance" in the Investors Section (at <http://investors.esi.com/governance.cfm>). This website address is intended to be an inactive, textual reference only; none of the materials on this website are part of this report. If any waiver is granted, including any implicit waiver, from a provision of the Code of Ethics for Financial Managers, the Company will disclose the nature of such waiver on that website or in a report on Form 8-K.

Item 11. Executive Compensation

The information required by this item is included under the headings "Board Compensation," "Executive Compensation," "Potential Payments Upon Termination or Change in Control," "Compensation Discussion and Analysis," "Compensation Committee Report" and "Compensation Committee Interlocks and Insider Participation" in our Proxy Statement for our 2013 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

Certain information required by this item is included under the headings "Security Ownership of Certain Beneficial Owners and Management" and "Equity Compensation Plan Information" in our Proxy Statement for our 2013 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by this item is included under "Certain Relationships and Related Transactions" and "Corporate Governance Guidelines and Independence" in our Proxy Statement for our 2013 Annual Meeting of Shareholders and is incorporated herein by reference.

Item 14. Principal Accounting Fees and Services

The information required by this item is included under "Principal Accounting Fees and Services" in our Proxy Statement for our 2013 Annual Meeting of Shareholders and is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) and (a)(2) Financial Statements and Schedules

The Consolidated Financial Statements, together with the reports thereon of our independent registered public accounting firm, are included on the pages indicated below:

	<u>Page</u>
Report of Independent Registered Public Accounting Firm	35
Consolidated Balance Sheets as of March 30, 2013 and March 31, 2012	35
Consolidated Statements of Operations for the years ended March 30, 2013, March 31, 2012, and April 2, 2011	37
Consolidated Statements of Comprehensive Income (Loss) for the years ended March 30, 2013, March 31, 2012, and April 2, 2011	38
Consolidated Statements of Shareholders' Equity and Comprehensive Income (Loss) for the years ended March 30, 2013, March 31, 2012, and April 2, 2011	39
Consolidated Statements of Cash Flows for the years ended March 30, 2013, March 31, 2012, and April 2, 2011	40
Notes to Consolidated Financial Statements	41

There are no schedules required to be filed herewith.

(a)(3) Exhibits

The following exhibits are filed herewith and this list is intended to constitute the exhibit index. An asterisk (*) beside the exhibit number indicates the exhibits containing a management contract, compensatory plan or arrangement, which are required to be identified in this report.

- 3.1 Third Restated Articles of Incorporation, as amended. Incorporated by reference to Exhibit 3.1 of the Company's Annual Report on Form 10-K for the fiscal year ended April 3, 2010.
- 3.2 2009 Amended and Restated Bylaws, as amended. Incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on November 9, 2012.
- 4.1 Rights Agreement, dated as of May 18, 2009, between Electro Scientific Industries, Inc. and Mellon Investor Services. Incorporated by reference to Exhibit 4.1 of the Company's Current Report on Form 8-K filed on May 19, 2009.
- 10.1* 2000 Stock Option Plan. Incorporated by reference to Exhibit 10-F of the Company's Annual Report on Form 10-K for the fiscal year ended June 3, 2000.
- 10.2* 2000 Stock Option Incentive Plan. Incorporated by reference to Appendix A of the Company's definitive Proxy Statement for its 2000 Annual Meeting of Shareholders.
- 10.3* Employment Agreement between the Company and Nicholas C. Konidaris, dated January 7, 2004. Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter ended February 28, 2004.
- 10.4* Amendment No. 1 to Employment Agreement between the Company and Nicholas Konidaris, dated as of January 25, 2005. Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on January 31, 2005 (the "January 31 8-K").
- 10.5* Amendment to Employment Agreement, dated November 12, 2008, between the Company and Nicholas Konidaris. Incorporated by reference to Exhibit 10.2 of the Company's Quarterly Report on Form 10-Q for the quarter ended December 27, 2008.

- 10.6* Amendment No. 3 to Employment Agreement, dated September 30, 2009, between Electro Scientific Industries, Inc. and Nicholas Konidaris. Incorporated by reference to Exhibit 10 of the Company's Current Report on Form 8-K filed on October 2, 2009.
- 10.7* Amendment No. 4 to Employment Agreement, dated as of August 11, 2011, between the Company and Nicholas Konidaris. Incorporated by reference to Exhibit 10 of the Company's current Report on Form 8-K filed on August 12, 2011.
- 10.8* 2004 Stock Incentive Plan, as amended. Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the quarter year ended December 29, 2012.
- 10.9* Deferred Compensation Plan 2008 Restatement. Incorporated by reference to Exhibit 10.14 of the Company's Annual Report on Form 10-K for the fiscal year ended March 29, 2008 (the "2008 10-K").
- 10.10* Amendment No. 1 to Deferred Compensation Plan 2008 Restatement. Incorporated by reference to Exhibit 10.31 of the 2008 10-K.
- 10.11* Amendment No. 2 to Deferred Compensation Plan 2008 Restatement, dated February 16, 2012. Incorporated by reference to Exhibit 10.15 of the Company's Annual Report on Form 10-K for the fiscal year ended March 31, 2012 (the "2012 10-K").
- 10.12* Form of Notice of Grant of Stock Options and Option Agreement and related Option Terms and Conditions (Incentive Stock Options) (for awards made prior to July 20, 2005). Incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed on October 21, 2004 (the "October 21 8-K").
- 10.13* Form of Notice of Grant of Stock Options and Option Agreement and related Option Terms and Conditions (Non-Qualified Stock Options) (for awards made prior to July 20, 2005). Incorporated by reference to Exhibit 10.4 of the October 21 8-K.
- 10.14* Form of Notice of Grant of Stock Options and Option Agreement and related Terms and Conditions (non-directors) (for awards made on July 20, 2005). Incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed July 26, 2005 (the "July 26 8-K").
- 10.15* Form of Notice of Grant of Stock Options and Option Agreement and related Terms and Conditions (directors) (for awards made on July 20, 2005). Incorporated by reference to Exhibit 10.3 of the July 26 8-K.
- 10.16* Form of Notice of Grant of Stock Options and Option Agreement and related Option Terms and Conditions (Non-Qualified Stock Options granted to Non-Directors) (for awards made on May 24, 2006). Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on May 30, 2006 (the "May 30 8-K").
- 10.17* Form of Notice of Grant of Stock Options and Option Agreement and related Option Terms and Conditions (Non-Qualified Stock Options granted to Directors) (for awards made in May 2006). Incorporated by reference to Exhibit 10.2 of the May 30 8-K.
- 10.18* Form of Change in Control Agreement between the Company and each of Robert DeBakker and Paul Oldham. Incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed September 26, 2006.
- 10.19* Form of Restricted Stock Unit Agreement for directors. Incorporated by reference to Exhibit 10.4 of the Company's Current Report on Form 8-K filed July 25, 2006.
- 10.20* Form of Notice of Grant of Stock Options and Option Agreement and related Terms and Conditions (for awards made after February 2008). Incorporated by reference to Exhibit 10.27 of the 2008 10-K.
- 10.21* Form of Stock Appreciation Rights Agreement (for awards made prior to May 2010). Incorporated by reference to Exhibit 10.1 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended September 26, 2009.

- 10.22* Form of Indemnification Agreement for directors and certain officers. Incorporated by reference to Exhibit 10 of the Company’s Current Report on Form 8-K filed on February 17, 2010.
- 10.23* Form of Performance-Based Restricted Stock Units Award Agreement (for awards made on May 13, 2010). Incorporated by reference to Exhibit 10.32 of the Company’s Annual Report on Form 10-K for the fiscal year ended April 22, 2011 (the “2011 10-K”).
- 10.24* Form of Restricted Stock Units Award Agreement (for awards made on May 13, 2010). Incorporated by reference to Exhibit 10.33 of the 2011 10-K.
- 10.25* Form of Stock Appreciation Rights Agreement (for awards made on May 13, 2010). Incorporated by reference to Exhibit 10.34 of the 2011 10-K.
- 10.26* Form of Performance-Based Restricted Stock Units Award Agreement between the Company and Nicholas Konidaris, dated as of May 13, 2010. Incorporated by reference to Exhibit 10.35 of the 2011 10-K.
- 10.27* Form of Restricted Stock Units Award Agreement between the Company and Nicholas Konidaris, dated as of May 13, 2010. Incorporated by reference to Exhibit 10.36 of the 2011 10-K.
- 10.28* Form of Stock Appreciation Rights Agreement between the Company and Nicholas Konidaris, dated as of May 13, 2010. Incorporated by reference to Exhibit 10.37 of the 2011 10-K.
- 10.29* Form of Restricted Stock Units Award Agreement (for awards made on or after May 12, 2011). Incorporated by reference to Exhibit 10.40 of the 2012 10-K.
- 10.30* Form of Restricted Stock Units Award Agreement between the Company and Nicholas Konidaris, dated as of May 12, 2011. Incorporated by reference to Exhibit 10.41 of the 2012 10-K.
- 10.31* Form of Stock Appreciation Rights Agreement between the Company and Nicholas Konidaris, dated as of May 12, 2011. Incorporated by reference to Exhibit 10.42 of the 2012 10-K.
- 10.32* Form of Performance-Based Restricted Stock Units Award Agreements (for awards made on or after August 8, 2012).
- 10.33 Voting Agreement, dated as of December 8, 2008, among Electro Scientific Industries, Inc. and The D3 Family Fund, L.P., The D3 Family Bulldog Fund, L.P., The D3 Family Canadian Fund, L.P., The DIII Offshore Fund, L.P., Nierenberg Investment Management Company, Inc., Nierenberg Investment Management Offshore, Inc. and David Nierenberg. Incorporated by reference to Exhibit 10 of the Company’s Current Report on form 8-K filed December 9, 2008.
- 21 Subsidiaries of the Company
- 23 Consent of Independent Registered Public Accounting Firm
- 24.1 Power of Attorney for Frederick Ball
- 24.2 Power of Attorney for Richard J. Faubert
- 24.3 Power of Attorney for Edward C. Grady
- 24.4 Power of Attorney for Barry L. Harmon
- 24.5 Power of Attorney for David Nierenberg
- 24.6 Power of Attorney for Jon D. Tompkins
- 24.7 Power of Attorney for Robert R. Walker
- 31.1 Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities and Exchange Act of 1934, and otherwise are not subject to liability under those sections.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: June 12, 2013

ELECTRO SCIENTIFIC INDUSTRIES, INC.

By: /s/ NICHOLAS KONIDARIS
Nicholas Konidaris
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on June 12, 2013.

<u>Signature</u>	<u>Title</u>
/s/ NICHOLAS KONIDARIS Nicholas Konidaris	President, Chief Executive Officer and Director (Principal Executive Officer)
/s/ PAUL OLDHAM Paul Oldham	Vice President of Administration, Chief Financial Officer and Corporate Secretary (Principal Financial Officer)
/s/ KERRY MUSTOE Kerry Mustoe	Vice President, Corporate Controller, and Chief Accounting Officer (Principal Accounting Officer)
*FREDERICK A. BALL Frederick Ball	Director
*RICHARD J. FAUBERT Richard J. Faubert	Director
*EDWARD C. GRADY Edward C. Grady	Director
*BARRY L. HARMON Barry L. Harmon	Director
*DAVID NIERENBERG David Nierenberg	Director
*JON D. TOMPKINS Jon D. Tompkins	Chairman of the Board
*ROBERT R. WALKER Robert R. Walker	Director

* By: /s/ PAUL OLDHAM
Paul Oldham, Attorney-in-fact

EXECUTIVE STAFF

Nick Konidaris

President, Chief Executive Officer & Director

Paul Oldham

Vice President of Administration,
Chief Financial Officer & Corporate Secretary

Robert DeBakker

Vice President, Operations

Kerry Mustoe

Vice President, Corporate Controller &
Chief Accounting Officer

Sidney Wong

Vice President, Customer Operations

Michael Darwin

Vice President & General Manager,
Microfabrication Test & Inspection Division

Jonathan Sabol

Vice President & General Manager,
Semiconductor and LED Division

Tullio Panarello

General Manager, Laser Business Division

Stefano Concina

Vice President, Business Development

Tracey Jerijervi

Senior Director, Human Resources

Bob Hainsey

Senior Director, Research & Development

BOARD OF DIRECTORS

Jon D. Tompkins

Chairman of the Board, ESI
Retired Chief Executive Officer, KLA-Tencor

Frederick A. Ball

Senior Vice President and Chief Financial Officer, Marketo

Richard J. Faubert

Retired President & Chief Executive Officer, AmberWave, Inc.

Edward C. Grady

Executive Chairman & Chief Executive Officer, REEL Solar, Inc.

Barry L. Harmon

Chief Financial Officer of glassybaby LLC

Nick Konidaris

President & Chief Executive Officer, ESI

David Nierenberg

Founder & President,
Nierenberg Investment Management Company, Inc.

Robert R. Walker

Retired Chief Financial Officer, Agilent Technologies, Inc.

Reconciliation of GAAP to Non-GAAP Financial Results

	2013	2012
GAAP operating (loss) income	\$ (15.1)	\$ 1.2
Purchase accounting expenses	2.4	1.7
Share-based compensation	8.1	11.5
Restructuring expenses	2.6	3.8
Legal settlement (proceeds) costs	(15.3)	0.6
Inventory writeoff charges	20.9	2.0
Other non-recurring charges	3.0	1.2
Non-GAAP operating income	<u>\$ 6.6</u>	<u>\$ 21.8</u>
GAAP net (loss) income	\$ (54.7)	\$ 4.9
Operating adjustments	21.7	20.6
Gain on sale of previously impaired ARS	--	(2.7)
Tax effects of Non-GAAP adjustments	39.4	(7.0)
Non-GAAP net income	<u>\$ 6.4</u>	<u>\$ 15.8</u>
Non-GAAP net income per share	<u>\$ 0.21</u>	<u>\$ 0.54</u>
GAAP net (loss) income per share	<u>\$ (1.86)</u>	<u>\$ 0.17</u>

Discussion of Non-GAAP Financial Measures

In this letter, we have presented financial measures which have not been determined in accordance with generally accepted accounting principles (GAAP) and are therefore non-GAAP financial measures. Non-GAAP financial measures exclude the impact of purchase accounting, share-based compensation, restructuring and other items. We believe this presentation of non-GAAP financial measures allows investors to better assess the company's operating performance by comparing to prior periods on a more consistent basis. We have included a reconciliation of various non-GAAP financial measures to those measures reported in accordance with GAAP. Because our calculation of non-GAAP financial measures may differ from similar measures used by other companies, investors should be careful when comparing our non-GAAP financial measures to those of other companies.

See "Risk Factors" on pages 8–18 of our attached Annual Report on Form 10-K for information regarding factors that may affect future results.

2013 ANNUAL REPORT

STOCK LISTING

NASDAQ: ESIO (Common)

INVESTOR INQUIRIES

ESI's financial and investor relations information can be accessed at:

<http://www.investors.esi.com>

Additional questions should be addressed to:

Brian Smith

Director, Investor Relations

Electro Scientific Industries, Inc.

13900 NW Science Park Drive

Portland, OR 97229-5497

503.672.5760

smithb@esi.com

SHAREHOLDER INQUIRIES

Computershare Shareowner Services LLC

480 Washington Boulevard

Jersey City, NJ 07310-1900

877.812.4238 - Toll-Free

201.680.6578 - Outside the U.S.

800.231.5469 - TDD (Hearing Impaired)

201.680.6610 - TDD International

www.cpushareownerservices.com

ANNUAL MEETING

2:30 p.m. Pacific Time

Thursday, August 8, 2013

STOCK TRANSFER AGENT AND REGISTRAR

Computershare Shareowner Services LLC

480 Washington Boulevard

Jersey City, NJ 07310-1900



ESI World Headquarters

13900 NW Science Park Drive

Portland, OR 97229-5497

800.331.4708 - Toll-Free

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