PARTICIPANTS

Corporate Participants

Brian Smith – Director-Investor Relations
Nicholas Konidaris – President, Chief Executive Officer & Director
Paul Oldham – CFO, Secretary & Vice President-Administration

Other Participants

David Duley – Analyst, Steelhead Securities LLC
Tom Diffely – Vice President & Senior Research Analyst, D. A. Davidson & Co.
Jim Ricchiuti – Senior Analyst, Needham & Co. LLC
Mark S. Miller MBA – Senior Research Analyst, Noble Financial Capital Markets

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the ESI Fiscal 2012 Q1 Earnings Conference Call. My name is Tasinya and I'll be your operator for today. At this time, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. [Operator Instructions] As a reminder, this conference is being recorded for replay purposes.

I would now like to turn the conference over to your host for today, Mr. Brian Smith, please proceed.

Brian Smith, Director-Investor Relations

Thank you, Tasinya, and good afternoon, everyone. My name is Brian Smith, Director of Investor Relations for ESI. With me today are Nick Konidaris, our CEO; and Paul Oldham, our Chief Financial Officer. This conference call will cover our fiscal 2012 first quarter results.

Before we go into the details of the call, I would like to remind you that some of what we say on this call will include forward-looking statements concerning customer orders, shipments, revenue, gross margins, expenses and earnings. These statements are subject to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995.

These statements include a number of risks and uncertainties that are discussed in more detail in today's press release and our filings with the SEC. Actual results may differ materially from those forward-looking statements. This call also contains time-sensitive information that we believe to be accurate as of today, July 26, 2011 and which could change in the future. This call is the property of ESI.

Now, I will turn the call over to our CEO, Nick Konidaris.

Nicholas Konidaris, President, Chief Executive Officer & Director

Thank you, Brian. Good afternoon and welcome to our first quarter conference call.

Our first quarter represented a great start to the year with solid revenue growth, strong profitability and our highest order level, since 2004. The quarter's results were driven by continued success in our micromachining business and solid demand for our semiconductor products.

In addition, we're continuing to make progress on our new product initiatives, in LED, where all groups in the company recently introduced new systems and in 3D semiconductor packaging. We believe these product initiatives will help drive growth in the future.

Revenues for the quarter were $77 million, up 8% from Q4. Non-GAAP earnings per share were $0.27, our highest level since 2008. Paul will go into more detail around the financials in a moment.

Orders grew 36% sequentially to nearly $100 million and up 54% year-over-year. The increase was driven by record orders in both our Flex Interconnect and advanced micromachining business, where we received a large upside order. In addition, we sustained for our semiconductor memory repair products driven by demand for mobile DRAM. Orders for our component test products declined slightly as customers have shown capacity installed in the last two quarters.

Let me now go through each business in turn. Revenues in our Semiconductor business were $18 million. Revenue growth was driven by increased sales of LED scribing and solid business levels in the DRAM market. Orders increased sequentially with strong growth in memory repair driven by near-term capacity needs largely due to the growth in mobile DRAM.

Looking forward, the drivers in the DRAM market continue to be relatively healthy, driven by mobile DRAM, corporate PC refresh and several demand for cloud and mobile computing. As a result, we expect capital spending in the short term to remain solid. However, we may see softening in the second half of our fiscal year as a result of normal capacity absorption.

Turning to our new products, we're continuing to make progress in the evaluation and qualification of our 9900 system for silicon wafer processing in advanced 3D packaging applications. In addition, we're extending the capabilities of the system beyond dicing of thin silicon wafers and are enjoying development with a major [ph] teaching (04:20) customer to drill through silicon vias, an interprocess used for interconnecting layers in 3D packaging. The recent process test for this application have yielded excellent results, showing a better cost of ownership model than the current deep reactive ion etching process.

In our LED scribing business, we formally introduced our new model 2600 high brightness LED scriber and expanded the number of customer demos and evaluations. Customers for this product are investing in technologies to increase the light output of their devices to improve efficiency and general illumination, including adding a DBR reflector and Metal Mirror layer to their LED design.

Our model 2600 is proving to be the highest throughput solution available to scribe these new designs and delivers higher light output relative to any alternative scribing method. We're very excited about the market potential of the 2600 and continue to optimize the product and processes to meet the most advanced customer requirements. Overall, while we expect the usual uneven demand levels quarter-to-quarter in our Semi group, we should realize surely revenue growth in 2012.

Our Interconnect and Micromachining Groups had a record quarter with revenue of $48 million and orders of over $60 million. The record orders in this business were driven primarily by a large order in an existing application for our advanced micromachining systems. We're continuing to win business in this space by aggressively partnering with our customers to solve their most challenging problems and we are expanding our solution set and customer base.

This quarter, we announced our new model 5390, which is designed to enable advanced electrical interconnections on LED packages. We shipped our first unit in Q1 and we expect more orders soon.

In addition, our Flex Interconnect business continued to perform extremely well in what is normally a seasonally strong quarter. Demand in this business is being driven by smaller and smarter consumer electronics devices, which use an increasing amount of Flex Interconnect.

Looking forward, demand in this business would be ramping given the large orders we have seen. However, we're continuing to see many adjacent applications and opportunities for growth.

Revenues in the Components Group were $11 million, reflecting the seasonally lower orders last quarter. Q1 orders declined slightly as customers continued to absorb capacity. Although the overall demand drivers for this business remain intact, uncertainty regarding the macroeconomic environment is causing some caution from our customers in the near term.

This month, we officially announced our new model 3800 LED package test system. It is the most advanced LED tester on the market with the highest throughput and the lowest cost of ownership. We expect to ship our first order to a leading LED manufacturer in August.

Turning now to the outlook for ESI. While the overall macroenvironment is showing increasing signs of uncertainty, our business remains strong, with near-term growth driven by our success in micromachining and strnger demand for semiconductor tools.

In addition, we believe that growth for our investment – from our investments in advanced LED manufacturing and test, 3D packaging and micromachining will help to offset the effects of potential economic weakness in the second half, where visibility is more limited.

As a result, we expect full-year revenues to be at the high end, about 15% to 25% growth range we provided in May, and the second quarter to be particularly strong as we ship the large order received in Q1.

Overall, we expect revenues in Q2 to increase to around $90 million and non-GAAP EPS between $0.35 and $0.40.

Now, I will turn the call over to Paul for a detailed discussion of our results for the first quarter.

Paul Oldham, CFO, Secretary & Vice President-Administration

Thank you, Nick, and good afternoon. The following information includes results from our first quarter of fiscal 2012, which ended July 2. To improve comparability, we are also providing earnings per share and related income statement results on a non-GAAP basis, excluding the impact of purchase accounting, equity compensation and non-recurring items, including the sale of auction rate securities and legal settlement costs.

For the first quarter, we generated $99 million of orders, compared to $73 million last quarter, and $64 million a year ago. The sequential increase was primarily a result of the large order we received in our Interconnect and Micromachining Group, record orders in our Flex Interconnect business and strong demand in our Semiconductor business, which was up over 50% sequentially. While we were excited about the overall level of business for the quarter, it does reflect the lumpiness we can see from time-to-time with large orders.

Shipments were strong at $83 million, up from $75 million in Q4, with higher interconnect and micromachining and semi shipments, partially offset by lower component test shipments.

Ending backlog increased by $16 million to $81 million resulting in a book-to-bill of 1.2 to 1. Deferred revenue increased $5.9 million due to timing of customer acceptances and higher contract service bookings. Revenue for the first quarter increased 8% sequentially to $77 million, driven primarily by the strong shipments in IMG.

Gross margin for the first quarter was 44%, including approximately $585,000 in cost of goods sold for purchase accounting and equity compensation. On a non-GAAP basis, gross margin was 45%, about the same as last quarter and consistent with our expectations. Margins were impacted this quarter by the sale of lower margin legacy products, which offset the benefit of higher volume.

GAAP operating expenses were $28.3 million, including approximately $4.6 million of stock compensation and purchase accounting amortization. Stock compensation expense increased to about $4.5 million due to accelerated expensing of annual CEO and board grants and increased estimated attainment of performance based grants.

We expect stock compensation expense to return to between $2 million to $2.5 million in Q2 and approximately $2 million per quarter for the balance of the year. In addition, we recognized approximately $550,000 in non-recurring costs related to legal proceedings. Excluding these items, non-GAAP operating expenses were $23.1 million, down about $600,000 from last quarter, largely due to good expense control.

Looking forward, we expect non-GAAP operating expenses to increase $1.5 million to $2 million in Q2, largely due to variable expenses associated with higher sales and profitability and the effective annual merit increases.

On a GAAP basis, operating income was $5.5 million, compared to $5.8 million last quarter, with higher stock compensation and legal cost offsetting the impact of higher revenues. Non-GAAP operating profit was a $11.3 million or 15% of sales, compared to $8.3 million or 12% of sales in the prior quarter. Non-GAAP operating leverage was over 50% on higher revenues and lower expenses.

Other income was $2.6 million, due mainly to a gain on the sale of auction rate securities. During the quarter, we liquidated the balance of our position in these securities for approximately $6.5 million. Excluding the gain, other income would have been slightly negative as unfavorable foreign exchange and normal bank fees offset interest income.

Income tax expense for the quarter was $2.2 million, an effective tax rate of approximately 27%. The tax rate increased from last quarter, primarily as a result of higher forecasted income for fiscal year 2012 compared to 2011. The non-GAAP tax rate was 30%, roughly consistent with our long-term expectation.

On a GAAP basis, first quarter net income was $5.9 million or $0.20 per diluted share. On a non-GAAP basis, net income was $7.9 million or $0.27 per diluted share, compared to net income of $6.5 million or $0.22 per diluted share in the prior quarter.

Turning now to our balance sheet, cash and investments including restricted cash were $199 million, down $5.4 million from last quarter. Cash flow from operations was a use of $10.9 million consistent with our expectations. The use of cash was largely due to investments in working capital related to increased shipments late in the first quarter and expected shipments in early Q2 and the payment of annual incentive compensation earned last year.

In addition, during the quarter, we paid the judgment in the Dooley arbitration as we decided not to appeal this decision further. For the quarter, inventories increased almost $7 million, but turns improved to 2.5 times.

Accounts receivable increased $16 million on higher shipments. DSO increased to 72 days primarily due to timing of shipments in the latter half of the quarter. Capital expenditures were $1.9 million, and depreciation and amortization excluding purchase accounting was $2.7 million.

Finally, during the quarter, the Taiwan District Court found in our favor in the IP infringement suit with All Ring Technologies and awarded us damages of $24 million. In order to enforce the judgment, ESI was required to post an additional letter of credit of approximately $10 million, which is secured on our balance sheet by restricted cash. This brings our total restricted cash balance to about $22 million. All Ring has posted a cash bond of $24 million against the judgment and is appealing the ruling.

Looking forward, the macroenvironment is showing signs of uncertainty, resulting in caution in some of our markets. However, our near-term business is strong driven by growth in micromachining and solid activity in semiconductor. In addition, we should begin to see the benefits of our new products later in the fiscal year.

As a result, we expect revenues in Q2 in the $90 million range, which reflects upside from the shipment of the large order we received last quarter. For the year, we now expect revenues at the high end of our growth projections of 15% to 25%.

Gross margins for Q2 will improve slightly on higher volume, resulting an operating income in the high teens. As a result, the non-GAAP earnings are expected to be between $0.35 and 0.40 per share.

Now I'll turn the call back to Nick for a brief summary.

Nicholas Konidaris, President, Chief Executive Officer & Director

To summarize, we had a very strong start to the fiscal year with solid revenue growth, excellent profitability and good upside in orders driven by another large micromachining win. While there is uncertainly and risk in the macroenvironment, our near-term business is strong. And as we continue to execute our strategy to expand in adjacent markets, such as advanced LED scribing, LED package test and 3D semiconductor packaging, we should see additional opportunities for growth.

This concludes our prepared remarks. We're ready for your questions. Tasinya?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The first question comes from the line of David Duley from Steelhead. Please proceed.

<Q – David Duley – Steelhead Securities LLC>: Hello. Congratulations on a nice quarter and guidance.

<A – Paul Oldham – CFO, Secretary & Vice President-Administration>: Thanks, David.

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: Thanks, David.

<Q – David Duley – Steelhead Securities LLC>: I have a question on the order number that you just reported. It sounds – I think you mentioned it was driven by strength in your micromachining business and the DRAM sector, correct?

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: Correct, yes.

<Q – David Duley – Steelhead Securities LLC>: And, so I guess that kind of means that we haven't seen a lot of ordering yet for the assortment of new products, is that how should we – we should look at that, that ordering is yet to come?

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: That's right. We have, I think we have guided consistent in the last few quarters that we're going to see our revenues from our new initiatives in the second half of the fiscal year.

<Q – David Duley – Steelhead Securities LLC>: Okay.

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: Second half of the fiscal year.

<Q – David Duley – Steelhead Securities LLC>: Okay. So, of this upcoming fiscal year for you guys is one we should really see the kicking in the orders of on the assortment of LED products and the TSD stuff for the IC industry?

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: Yeah, we should see, we should see revenues in this current fiscal year, fiscal year '12 in the second half.

<A – Paul Oldham – CFO, Secretary & Vice President-Administration>: I think, you're right, David. The big growth from those will be in our next fiscal year.

<Q – David Duley – Steelhead Securities LLC>: Okay.

<A – Paul Oldham – CFO, Secretary & Vice President-Administration>: Revenues this year, but they'd be -

<Q – David Duley – Steelhead Securities LLC>: Yeah, and I'm just trying to figure out the timing of when you start to collect the orders for all those products?

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: The timing starts from about this quarter moving forward.

<Q – David Duley – Steelhead Securities LLC>: Okay. And Paul, one for you I just noticed that the accounts receivable balance was up sequentially on dollar basis and from 55 to 71 days, I think, is that because of back in shipments or did you or what was the reason behind that?

<A – Paul Oldham – CFO, Secretary & Vice President-Administration>: That's exactly right. It's really a majority of our shipments occurred in the last half of the quarter. And so that bumped the DSO number up. If you look underneath that our collections actually improved during the quarter.

<Q – David Duley – Steelhead Securities LLC>: Okay. And just a question on the All Ring thing, you don't collect your cash until there is an appeal and how long would you think, since you kind of won the settlement, now we have to go through the appeal, if you win the appeal, how long is it before you collect the $24 million?

<A – Paul Oldham – CFO, Secretary & Vice President-Administration>: Well, once the appeals are exhausted then since there is a bond posted now for that judgment that collection would be almost immediately.

<Q – David Duley – Steelhead Securities LLC>: Okay. And final thing for me, can you talk a little bit about the gross margin profile going forward and the target model, how are we going to get to 20% operating profits?

<A – Paul Oldham – CFO, Secretary & Vice President-Administration>: Okay, it's a good question, David. This quarter gross margins would be expected to be a little lower than our model would suggest, but if you look at our total margins at the operating level, they're approaching our model with expected results in the high teens and that's consistent with leveraging our fixed cost against these large volume opportunities that come up from time to time.

Now, our underlying margins in our model are solid and we continue to focus on making improvements there and that will be driven by initiatives around new products, globalization, productivity improvements and material cost reduction. So, we'll continue to make progress in closing that gap on gross margins as we look forward.

<Q – David Duley – Steelhead Securities LLC>: So, we might get to the 20% operating profit a slightly different way than we might have thought in the past, i.e. gross margins may not hit 50%, but you can still hit the 20% operating profit without the 50% gross margin, is that what I'm hearing you say?

<A – Paul Oldham – CFO, Secretary & Vice President-Administration>: That's right, depending on the mix of business.

<Q – David Duley – Steelhead Securities LLC>: Okay. Well, good, congratulations and hopefully we can continue to do it going forward. And my name is Dave Duley, I didn't get a settlement.

<A – Paul Oldham – CFO, Secretary & Vice President-Administration>: We feel sorry for you, Dave.

<Q – David Duley – Steelhead Securities LLC>: Thanks.

<A – Paul Oldham – CFO, Secretary & Vice President-Administration>: Thanks for the clarifications.

Operator: Your next question comes from the line of Tom Diffely from D. A. Davidson. Please proceed.

<Q – Tom Diffely – D. A. Davidson & Co.>: Yeah, good afternoon. I was hoping to focus a bit on the micromachining where a lot of the upside is coming from on a near-term basis. Is there some way to, I guess, better model that going forward? Is there seasonality in that space or is it really just some random lumpiness that's tough to forecast ahead of time?

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: It's a good question, Tom. The thing that is fair to say on our part is that, we're working to expand the number of applications so that when the opportunities arrive, we can take advantage of these opportunities. But the nature of the opportunities until such time that we diversify extensively the customer base, it's going to be lumpy, and I'm not sure how you can forecast the lumpiness. However, I think it's fair to think and to assume that the micromachining is going to remain for significant period in the company the largest and the fastest growing group of the company.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. And when you look at the micromachining versus the Flex part of the business, is that the same customer or is it the Flex [indiscernible] (22:23) -

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: The Flex is in the excess of 70 customers.

<Q – Tom Diffely – D. A. Davidson & Co.>: Great, okay. Yeah, I guess I was thinking that maybe there would be a little stronger seasonality in the summertime as lot of these are consumer driven products that you would expect to be a little stronger in the fall and Christmas time period and Chinese New Year.

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: That applies for flex. The seasonality for micromachining follows the seasonality of consumer electronics.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay.

<A – Paul Oldham – CFO, Secretary & Vice President-Administration>: And introductions of new technologies -

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: That's what I mean. Yeah.

<A – Paul Oldham – CFO, Secretary & Vice President-Administration>: Yeah.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. And then on the semiconductor side, the business you had for the mobile DRAM, are you still kind of waiting for the largest historical customer to come back in that space in the -

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: This is a – as you know the tone in the market is a little bit cautious and this is a very – this is a customer that because of historical prejudice this has a very large install base of memory repair products and is extremely inventive in extending the life and usability of these products.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay, Are you getting the sense that the utilization rates of those products have gone up in recent quarters and might be getting closer to a period where there have been more capacity?

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: We are not planning for that right now, but I think the statement that, that's if the business continues to grow, the customer is going to run out of options from the point of utilizing the full installed base is a correct statement.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. And from your tool point of view, does it matter if it's mobile DRAM versus PC DRAM?

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: No, it's doesn't. Just that we are highlighting mobile DRAM because that's the driver. However, there is a small important factor that mobile DRAM has more, more fuses, more links and therefore the same wafer requires more time for processing and therefore that then drives higher demand for repair tools.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. And then now you've mentioned a little bit about advanced packaging some via drilling tools, which end markets are those best suited for?

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: These are – well, one market right now is LED market, that would replace by doing vias in the dielectric that basically covers the active part of the LED and then plating, electroplating this vias, you create an alternative packaging scheme to the wire bonding.

And as you know the LEDs, one of the attractions of LEDs is that they have a very high expected life, but the weak link in LEDs life is the packaging scheme, the interface to the external wall. This new packaging, which basically it's creating a metal [ph] post (25:43) where we put the vias is much more rigid, allows for more current to flow into the LED. More current means making more bright and it's much more robust. It's a package that has been tested in other industries since – again as I say very robust.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. And then -

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: So that's one application, but there is other applications. The generic concept of that would be you have a sandwich of materials and you do a via that penetrates one or two layers and stops at the next layer.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. Yeah, I was just wondering if we have applications like stacking NAND chips for instance, at what point does it make sense to use a laser versus more of a semiconductor processes for making the vias?

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: Yeah, the semiconductor – the laser is more of a direct writing tool. The semiconductor process, I assume, you assume then for graphic process.

<Q – Tom Diffely – D. A. Davidson & Co.>: Yeah.

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: That's much more, let's call it mass writing. And so when you have smaller vias per wafer and fewer wafers to deal based on a particular device type, then the direct writing process becomes more economic.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. And then Paul, if you look at the model are taxes in the normal range going forward?

<A – Paul Oldham – CFO, Secretary & Vice President-Administration>: That's what we'd expect, yes.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay, and what was your free cash flow during the quarter?

<A – Paul Oldham – CFO, Secretary & Vice President-Administration>: Free cash flow was down about $5 million.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. All right, well, thank you very much.

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: Thank you.

Operator: Your next question comes from the line Jim Ricchiuti from Needham and Company. Please proceed.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Thank you. Good afternoon.

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: Good afternoon, Jim.

<Q – Jim Ricchiuti – Needham & Co. LLC>: I have a follow-up too as well on the micromachining business and the large order that you've talked about. I wonder if you can comment in terms of the visibility that you normally have into this customer, I mean, how much visibility do you typically see? Is this an order that you were anticipating? Did it come along fairly quickly through the quarter?

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: Yeah. Basically, the way we work with this customer is not atypical to the way we work with other customers. We really pushed the envelope of technology. We get involved in the early stages of a product launch, and we demonstrate feasibility on a particular process. If that demonstration is successful, then things move very, very fast. However, the demonstration is not a guaranteed demonstration. Anytime you have an opportunity, you've got to develop the process and sometimes we can develop the process within the timeframe of the cycle of a product. Sometimes we cannot demonstrate the process that is superior to whatever is the existing solution.

But do we have visibility? Well, we have extensive interaction with these and many other customers. I mean, we treat customers like kings as you know, and we try to understand their needs as best as we can, and we prepare as early as we can in terms of what we can do with our technology and we expose that. And when we get traction, things move fast.

<Q – Jim Ricchiuti – Needham & Co. LLC>: So at this point from, as we look out over say, the balance of the fiscal year, I assume you have some insight as to what the customers' requirements might be in terms of newer product development? Are there areas that you're now currently working where you potentially would see some of these potentially large multisystem orders, $1 million system orders in the – later in the fiscal year?

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: We have not only some, we have extensive insight, and we're working a very large number of applications. It's a full page of lines of applications that we're working, and we have various degrees of success in completing an acceptable process in all of them. And again, it's racing good time to really make sure that we have the process that offers superior solution to the existing process.

<Q – Jim Ricchiuti – Needham & Co. LLC>: And Nick, you alluded to on the new product front, I believe you alluded to the potential for some orders for this quarter, some orders in the current quarter for some of the new tools. Can you elaborate on that? Can you talk about which tools you think you might see orders sooner?

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: Yeah, we'll have – well, we as you know we have introduced during Semicon, three products in the LED space. We are – one product is the scriber that is based on the data we have receive from customers. We provide at this point in time, the highest throughput and the highest light output solution on the most advanced wafers today that are Sapphire with DBR and Metal Mirror.

We are working with a number of customers doing demonstrations, and it's fair to say that as these customers come to a decision of considering purchases for scribers for advanced light output, we stand an opportunity to receive an order, so that's one example. That product is in demonstration by the way since March of this year.

We produced the 5390, which comes from a different division, comes from the Micromachining division, Micromachining Group. And in fact, we already received an order and shipped that product this quarter. This is for advanced LED packaging. And we have the 3800 from the components test division. We expect as I mentioned to be shipping that product to a customer from whom we have an order in August, and we're in the process – we are testing components of other customers.

<Q – Jim Ricchiuti – Needham & Co. LLC>: So, in fact you're seeing activity among the three product lines?

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: Extensive activity, correct.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Okay. And if I could just one final question just as we – as you talked about the year, you're suggesting, clearly suggesting a deceleration in the second half of the year and I'm trying to get a sense as to how conservative. Is that, just being conservative or are you based on your interactions with customers in perhaps the Semi group, is that actually your read on the way the year is going to play out?

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: Yeah, the – I think the suggestion starts from a general observation that we see increasing uncertainty that creates risk. I mean, this is relative to events played in this country, in Europe, consensus about China, and so forth.

As far as our particular visibility in the second half, that visibility as we indicated is not good. But in the semiconductor area, when you find out that some bigger players in the capital equipment area are suggesting – are downsizing expectations, well, we need to take that into account. But don't forget that I don't believe that applies in LED. I think what you see in LED is you may see a temporary excess of capacity in terms of backlit LED for backlit LCD, LED applications. And a little bit of a delay in implementation of general illumination, but LED is really the fastest growing segment up to now.

The same thing applies in the right neighborhoods of consumer electronics and I think we are in the right neighborhoods of consumer electronics. I mean the world is full of data how some companies are breaking records in consumer electronics. So the underlying condition for the second half is relatively steady in relation to first half. And the thing that I was trying to communicate was that in the first half we enjoyed an upside. That is not the last upside that we'll enjoy, just difficult to forecast the timing and the size of the next upside.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Okay, that's very helpful. Thanks a lot and congratulations on the quarter.

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: Thank you, Jim.

Operator: Your next question comes from the line of Mark Miller from Noble Finance (sic) [Financial] (36:07) Capital. Please proceed.

<Q – Mark Miller – Noble Financial Capital Markets>: I just like to extend my congratulations on the results and your orders for the quarter.

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: Thank you, Mark.

<Q – Mark Miller – Noble Financial Capital Markets>: You're welcome. Just wondering in terms of R&D spending that it came up this quarter and you're saying OpEx will be $1.5 million to $2 million next quarter, what about the second half of the year? Is R&D going to stay at the level it was this quarter, is that going to come down?

<A – Paul Oldham – CFO, Secretary & Vice President-Administration>: We would expect R&D roughly at these levels over the next couple of quarters.

<Q – Mark Miller – Noble Financial Capital Markets>: Okay.

<A – Paul Oldham – CFO, Secretary & Vice President-Administration>: We don't think it will go up a lot; it would be roughly flat.

<Q – Mark Miller – Noble Financial Capital Markets>: It appears from your guidance also that this large order – a lot of times you see a large order and you have to take a hit somewhat on your margins, but it seems like – was that the case this quarter? It doesn't appear to be for this large micromachining order.

<A – Paul Oldham – CFO, Secretary & Vice President-Administration>: Well, I think if you look at the total results what we're seeing is good leverage on the bottom line on the operating level and that's really – when we see these large opportunities that's where often time, they will reflect the benefit.

<Q – Mark Miller – Noble Financial Capital Markets>: So, your current backlog in terms of the margins represented – there is no fundamental change with what we've been seeing recently? As far as the product mix?

<A – Paul Oldham – CFO, Secretary & Vice President-Administration>: Not fundamentally if you look at the underlying business.

<Q – Mark Miller – Noble Financial Capital Markets>: Now, I'm just wondering especially in the memory repair area, are you benefiting from share gains versus customers and in your other area, are you benefiting from new customers?

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: As you know memory repair is a highly concentrated industry and at this point in time we are – have benefited primarily from the fact that we have taken market share from our traditional competitor in that area.

<Q – Mark Miller – Noble Financial Capital Markets>: And what about new customers especially in Interconnect/Micromachining area, are there any new customers there?

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: Well, in Interconnect the answer is yes. We have new customers. I think it's very difficult to create in a short period of time new customers that are extremely high volume customers, but we do have new customers. And if you look at the 5390 that is also a new customer that we think that the customer along with the application for advanced LED packaging is going to become a good sizable business moving forward.

<Q – Mark Miller – Noble Financial Capital Markets>: And the strength you've been seeing recently Interconnect/Micromachining, I assume that's consumer related, is that mobile products, just wondering how...

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: It is consumer electronics related, absolutely right.

<Q – Mark Miller – Noble Financial Capital Markets>: Okay. Thank you very much.

<A – Nicholas Konidaris – President, Chief Executive Officer & Director>: Thanks, Mark.

<A – Paul Oldham – CFO, Secretary & Vice President-Administration>: Thanks, Mark.

Operator: I would now like to turn the call over to Nick Konidaris for closing remarks.

Nicholas Konidaris, President, Chief Executive Officer & Director

In summary, our near-term business is strong, driven primarily by our success in micromachining. We are continuing to execute our growth strategies, which should help offset potential weakness in the macroenvironment and allow us to achieve solid growth in revenue and profit this fiscal year. Thank you very much for joining us. You're welcome to call Paul, Brian or me if you have further questions. This concludes our call. Thanks for your interest in ESI.

Operator: Ladies and gentlemen that concludes today's conference. Thank you for your participation. You may now disconnect. Have a great day.