

ELECTRO SCIENTIFIC INDUSTRIES INC

FORM 8-K (Current report filing)

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Address	13900 NW SCIENCE PARK DR PORTLAND, OR 97229
Telephone	5036414141
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Symbol	ESIO
SIC Code	3690 - Miscellaneous Electrical Machinery, Equipment,
Industry	Electrical Components & Equipment
Sector	Industrials
Fiscal Year	03/28

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): February 8, 2017

ELECTRO SCIENTIFIC INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

OREGON

**(State or other jurisdiction
of incorporation)**

0-12853

**(Commission
File Number)**

93-0370304

**(IRS Employer
Identification No.)**

13900 NW Science Park Drive, Portland, Oregon

(Address of principal executive offices)

97229

(Zip Code)

Registrant's telephone number, including area code: (503) 641-4141

No Change

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
 - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
 - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
 - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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Item 2.05 Costs Associated with Exit or Disposal Activities

On February 8, 2017, the Board of Directors of Electro Scientific Industries, Inc. (ESI) approved a restructuring plan to improve its business effectiveness and streamline its operations. The company announced that it is reorganizing its management team from a business unit to a functional structure, relocating sales, service and operations leadership positions to Asia, closing its facilities in Montreal, Canada, and Napa, California, and downsizing its Sunnyvale, California facility, and making other select reductions across the company. We expect the actions defined under this plan will be largely completed by the end of June 2017, except facilities charges which may extend beyond that time.

This plan is expected to result in ESI recording restructuring and other non-recurring charges in the aggregate amount of approximately \$6.5 to \$8.5 million, comprised primarily of approximately \$3.5 to \$4.0 million of severance and employee-related costs, approximately \$1.5 to \$2.0 million of accelerated depreciation for assets that will not be used going forward and approximately \$1.5 to \$2.5 million of facility exits and lease termination costs. ESI expects approximately \$5.0 to \$6.5 million of the charges will result in future cash expenditures. Of these amounts, ESI expects restructuring and other related charges of around \$5 million to be incurred in the fourth quarter of the current fiscal year.

Item 2.06 Material Impairments

In connection with the restructuring plan described in Item 2.05 above, ESI concluded that an impairment charge will be required with respect to certain equipment, leasehold improvements and other assets located at the facilities that are to be closed or relocated. ESI has estimated the non-cash charge related to this impairment will be approximately \$1.5 and \$2.0 million. These amounts are included in the charges described in Item 2.05 above.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers

On February 9, 2017, in connection with the restructuring plan described in Item 2.05 above, ESI removed Robert DeBakker as Senior Vice President of Operations effective immediately. Mr. DeBakker has been offered a separation agreement pursuant to which he will remain an employee on a consultative basis until June 10, 2017 at his current salary, receive severance equal to \$313,910, with salary paid during the consultative period counting toward such severance, and receive medical and dental benefits through June 2017. Outstanding stock awards will vest in accordance with their terms until his employment terminates.

Item 7.01 Regulation FD Disclosure.

On February 10, 2017, ESI issued a press release relating the restructuring described in Section 2.05 above. The press release is filed herewith as Exhibit 99.1.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits: The following materials are filed as exhibits to this Current Report on Form 8-K.

99.1 Press release dated February 10, 2017

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: February 10, 2017

Electro Scientific Industries, Inc.

By: /s/ Paul Oldham

Name: Paul Oldham

Title: Senior Vice President of Administration, Chief Financial Officer and Corporate Secretary



Designed for Brilliance. Engineered for Production.

Brian Smith
ESI
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ESI Announces Corporate Restructuring

Actions aimed to improve execution and streamline the cost structure

PORTLAND, Ore. - February 10, 2017 - Electro Scientific Industries, Inc. (Nasdaq: ESIO), an innovator in laser-based manufacturing solutions for the micro-machining industry, today announced a corporate reorganization that is designed to better position ESI for the future. The objective is to simplify the structure, improve execution, and increase consistency of earnings.

The company announced that it is reorganizing its management team from a business unit to a functional structure, relocating sales, service and operations leadership positions to Asia, closing its facilities in Montreal, Canada, and Napa, California, downsizing its Sunnyvale, California facility, and making other select reductions across the company. The actions are expected to be largely completed by the end of June 2017.

The financial impact of the actions is expected to reduce the company's cost structure by \$10 to \$12 million on an annualized basis and lower its non-GAAP EBITDA breakeven point to approximately \$35 million of quarterly revenue once the actions are fully implemented. The company expects pre-tax charges of \$6.5 to \$8.5 million, of which approximately \$5 million is expected to be recorded in the fourth quarter of fiscal 2017.

"We are streamlining our organization and reengineering business processes to transform the way our company gets things done," stated Michael Burger, CEO of ESI. "Our top corporate priorities are to drive adoption of our new products, improve execution and deliver more consistent earnings over time. The new organizational structure should allow us to lower our breakeven revenue level while being more efficient and effective in addressing the long-term needs of our customers within our targeted markets."

As part of this restructuring the company has also created a success model, targeting an adjusted gross margin of 44% and adjusted EBITDA of 8% on an annual basis. The company expects to achieve these levels of performance over the next 8-10 quarters.

The company will hold a conference call today at 11:00 a.m. ET, hosted by CEO Michael Burger and CFO Paul Oldham. The call can be accessed by calling 888-419-5570 (domestic participants) or 617-896-9871 (international participants). The conference ID number is 93151806. A live audio webcast can be accessed at www.esi.com.

About ESI, Inc.

ESI's integrated solutions allow industrial designers and process engineers to control the power of laser light to transform materials in ways that differentiate their consumer electronics, wearable devices, semiconductor circuits and high-precision components for market advantage. ESI's laser-based manufacturing solutions feature the micro-machining industry's highest precision and speed, and target the lowest total cost of ownership. ESI is headquartered in Portland, Oregon, with global operations and subsidiaries in Asia, Europe and North America. More information is available at www.esi.com.

Discussion of Non-GAAP Financial Measures

In this press release, we have presented financial measures which have not been determined in accordance with generally accepted accounting principles (GAAP) and are therefore non-GAAP, or adjusted, financial measures. Non-GAAP financial measures exclude the impact of purchase accounting, equity compensation, restructuring, integration costs, inventory write-down and other items. We believe that this presentation of non-GAAP financial measures allows investors to assess the company's operating performance by comparing it to prior periods on a more consistent basis. 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.

Forward-Looking Statements

This press release includes forward-looking statements about cost savings, restructuring charges, breakeven levels, our new model, financial returns, revenue growth, new products and the markets we serve. These forward-looking statements are based on information available to us on the date of this release and we assume no obligation to update these forward-looking statements for any reason. Actual results may differ materially from those in the forward-looking statements. Risks and uncertainties that may affect the forward-looking statements include: the risk that cost savings and efficiencies from the restructuring are lower than anticipated; the risk that restructuring charges are greater than anticipated and the timing of the charges is different than anticipated; the risk that factors beyond our cost structure negatively impact our expected breakeven point and our ability to achieve our new model; the risk that the restructuring negatively impacts our organization, new product development and relationships with customers; the risk that anticipated growth opportunities may be smaller than anticipated or may not be realized; risks related to the relative strength and volatility of the electronics industry-which is dependent on many factors, including component prices, global and regional economic strength and political stability, timing of consumer product introductions and overall demand for electronic devices (such as semiconductors, printed circuit boards, displays, LEDs, capacitors and other components) used in wireless telecommunications equipment, computers and consumer and automotive electronics; the health of the financial markets and availability of credit for end customers and related effect on the global economy; the volatility associated with the industries we serve which includes the relative level of capacity and demand, and financial strength of the manufacturers; the ability of the company to respond promptly to customer requirements; the risk that the company may not be able to ship products on the schedule required by customers, whether as a result of production delays, supply delays, or otherwise; the ability of the company to develop, manufacture and successfully deliver new products and enhancements; the company's ability to hire and retain key employees; the risk that competing or alternative technologies could reduce demand for our products; the risk that we may not be successful in penetrating new or adjacent markets; the risk that our new products may not gain acceptance in the marketplace; the risk that new products may not be introduced to the market in the anticipated time frame or at all; foreign currency fluctuations.