

**Electro Scientific Industries,
Inc.**

Company▲

ESIO
Ticker▲Q3 2014 Earnings Call
Event Type▲Feb. 4, 2014
Date▲**— PARTICIPANTS****Corporate Participants**

Brian Smith – Director-Investor Relations, Electro Scientific Industries, Inc.

Nicholas Konidaris – President, Chief Executive Officer & Director, Electro Scientific Industries, Inc.

Paul Oldham – Chief Financial Officer, Vice President of Administration and Corporate Secretary, Electro Scientific Industries, Inc.

Other Participants

Jim A. Ricchiuti – Analyst, Needham & Co. LLC

Jairam Nathan – Analyst, Sidoti & Co. LLC

Tom R. Diffely – Analyst, D. A. Davidson & Co.

Mark S. Miller – Analyst, Noble Financial Capital Markets

David Duley – Analyst, Steelhead Securities

— MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the ESI Fiscal 2014 Quarter Three Earnings Conference Call. My name is Chris, 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, Chris, 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 call will cover our fiscal third quarter of 2014 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 margin, 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, February 4, 2014, and which could change in the future. This call is the property of ESI.

Now I will turn the call over to Nick.

**Electro Scientific Industries,
Inc.**

Company▲

ESIO
Ticker▲Q3 2014 Earnings Call
Event Type▲Feb. 4, 2014
Date▲**Nicholas Konidaris, President, Chief Executive Officer & Director**

Thank you, Brian. Good afternoon, and welcome to our third quarter conference call. This was a strong quarter in terms of our strategic initiatives. We made progress in semiconductor wafer processing and glass cutting; we added several new customers, who are component suppliers to the consumer electronics device manufacturers; and we announced that we received a multi-unit order from a leading consumer electronics device manufacturer.

Financially, it was a challenging quarter for ESI, as orders and revenues were seasonally lower, especially in the microfabrication business. Our team responded well, driving down manufacturing and operating costs to deliver strong gross margins and bottom line results very near our expected rates.

Revenues for the quarter were \$38.3 million. Non-GAAP loss per share was \$0.10. Paul will go into more detail around the financials in a moment.

Now I'll discuss each of our business groups. The Interconnect & Microfabrication Group had revenue of \$25.4 million. Orders declined from last quarter, largely due to the timing of advanced microfabrication orders, as we're between design cycles for new consumer electronic product launches. However, we remain fully engaged with our key customers and see many opportunities in the funnel.

In addition, we introduced new capability for high precision adaptive cutting and received a multi-unit order from a new large device manufacturer. It represents the start of what we hope to be a strong partnership with this global leader in consumer electronics devices.

Orders for flex circuit via drilling products grew over 20% from last quarter, reflecting the success of our new Model 5335 via drilling system and penetration of new accounts. Looking forward, we expect some near-term weakness in this market as customers, especially in Korea, have sold recently out of capacity. However, we believe that in the long-term, flexible circuitry and the need for high density, high accuracy drilling capacity will continue to grow as consumer electronic devices become smaller and more functional.

Within glass cutting, we continue to make progress in qualifying our DiamondBlaze system for cutting next-generation strengthened glass. We expect to ship our first production systems for both Gen 4.5 and Gen 6 to touch panel manufacturers in the next 30 days.

We're encouraged that Dell recently announced it was adopting an early generation of Corning NBT glass in its newest products. We believe that this is the beginning of a trend towards [ph] single and strengthened (4:35) glass and that our DiamondBlaze solution will provide the best cost of ownership for high speed, high yield singulation.

Turning to our semiconductor business. Revenues were \$8.5 million, down about 20% from last quarter, a quarter which showed excellent sales from our acquired Semiconductor Systems business. In Q3, demand was not quite as strong, as a couple customers pushed out orders into the fourth quarter due to overcapacity.

This quarter, we made advancements in qualifying our technology development tool at a leading semiconductor manufacturer, and we see multiple new opportunities in 3D packaging applications. We believe that processing next-generation semiconductor wafer with thinner dimensions and new materials could drive significant growth for ESI in the future.

Turning now to our Components Group. Revenues were \$4.4 million, down sequentially from the strong revenues recorded last quarter. Orders were also low, as our customers absorbed capacity

**Electro Scientific Industries,
Inc.**

Company▲

ESIO
Ticker▲Q3 2014 Earnings Call
Event Type▲Feb. 4, 2014
Date▲

delivered earlier in the year. While the overall MLCC market remains in overcapacity, pockets of demand for new capacity will be driven by next-generation capacitors with smaller form factors and higher capacitance.

Turning now to the outlook for the company. Despite near-term seasonal and cyclical weakness, we're executing on our strategy of investing in advanced laser microfabrication, next-generation glass singulation, and semiconductor 3D packaging applications. Our growth initiatives are on track, even if not immediate in their realization. The entire ESI team is committed to growing our company in the exciting and growing laser microfabrication equipment market.

On the fourth quarter of fiscal 2014, we expect revenues to be around \$40 million, and non-GAAP EPS is expected to be a loss of \$0.09 to \$0.14.

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

Paul Oldham, Chief Financial Officer, Vice President of Administration and Corporate Secretary

Thank you, Nick. Good afternoon, everyone. The following information includes results from our third quarter of fiscal 2014, which ended December 28. 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, impairment charges, and other items.

Now turning to the operating results for the third quarter. Orders were \$36 million, down from \$46 million last quarter, but up from \$26 million a year ago. Orders decreased from Q2 in all product groups due mainly to fewer design wins for advanced microfabrication equipment, timing of service contracts, and absorption of capacity for component test systems.

Shipments were \$37 million, and backlog decreased slightly to also \$37 million. Our book-to-bill ratio was 0.95 to 1. Revenue for the quarter was \$38.3 million, down from \$59.6 million last quarter, but up slightly from last year.

All three business groups showed sequential sales declines. Interconnect & Microfabrication was down due primarily to seasonally lower advanced microfabrication orders. In addition, we saw some delays in flex shipments as customers assess capacity in advance of new product launches, especially in Korea. Semiconductor revenue declined following a strong quarter in Q2 on lower orders and timing of acceptance for a system in Japan. Components revenue was lower as customers absorbed capacity from strong sales of our 3510A in Q2.

GAAP gross margin was 43% and included \$608,000 of purchase accounting and \$184,000 in equity compensation. On a non-GAAP basis, gross margin was 44.6% compared to 43.2% last quarter as favorable product mix and lower manufacturing costs and other costs more than offset the impact of lower sales volume. Looking forward to next quarter, we expect non-GAAP gross margin to decrease modestly on a more normalized product mix and other costs of sales.

GAAP operating expenses were \$20.9 million, which includes \$1.1 million of equity compensation and \$126,000 of purchase accounting. In addition, we incurred \$310,000 of acquisition and integration costs to complete the integration of our Semi Systems business. Also, GAAP operating expenses were reduced by a \$1.3 million gain from the sale of one of our buildings on our Portland campus.

Non-GAAP operating expenses in Q3 were \$20.6 million, a \$1.5 million decrease from Q2 due mainly to lower variable expenses and diligent control of discretionary expenses. Looking forward to next quarter, we expect non-GAAP expenses to be roughly flat.

**Electro Scientific Industries,
Inc.**
Company▲

ESIO
Ticker▲

Q3 2014 Earnings Call
Event Type▲

Feb. 4, 2014
Date▲

On a GAAP basis, operating loss was \$4.6 million compared to income of \$0.7 million last quarter. Non-GAAP operating loss was \$3.5 million or roughly 9% of sales compared to income of \$3.7 million in the prior quarter. The sequential decrease reflects lower sales.

Income tax expense on a GAAP basis for the quarter was \$141,000. On a non-GAAP basis, the tax benefit was only \$327,000 or 10% compared to approximately 28% benefit we had estimated, reflecting the lower projected income levels for the fiscal year.

For fiscal year 2014, we expect to pay a relatively fixed amount of tax based on foreign income. As a result, we do not anticipate any meaningful tax benefit or expense for the fourth quarter. Beyond that, annual tax expense should be relatively flat. So as revenues grow in future years, we would expect a corresponding decrease in the tax rate.

On a GAAP basis, third quarter net loss was \$4.6 million or \$0.15 per share compared to a loss of \$0.09 per share last quarter. On a non-GAAP basis, net loss was \$3.1 million or \$0.10 per share, down from net income of \$2.6 million or \$0.09 per diluted share last quarter.

Turning now to our balance sheet. Cash and investments were \$129 million at quarter-end. During the quarter, we used \$800,000 of operating cash. Also, during the quarter, we paid \$2.4 million related to our normal quarterly dividend at \$0.08 per share. Lastly, we generated \$3.6 million in cash from the sale of excess property in Portland.

For the quarter, inventories decreased by \$1.6 million. Inventory turns were approximately 1.3 times. Accounts receivable decreased by \$7.2 million to \$27 million. DSO rose to 66 days due to lower sales in the quarter. Capital expenditures were \$3.1 million, reflecting the completion of the facility move and system conversion in our acquired Semi Systems business. Depreciation and amortization excluding purchase accounting was \$2.1million.

In summary, revenues and earnings in the near-term are being impacted by timing of advanced microfabrication orders, capacity utilization, and technology adoption. However, looking forward, we believe our investments and new customers and applications in advanced microfabrication, glass singulation, and semiconductor 3D packaging provide promising growth opportunities.

Given current order and backlog levels, we expect Q4 revenues to be around \$40 million. Non-GAAP loss per share is expected to be \$0.09 to \$0.14, reflecting lower gross margins and tax impact.

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

Nicholas Konidaris, President, Chief Executive Officer & Director

To summarize, the transformation of ESI continues, and our strategic initiatives are progressing well. Although our near-term outlook is challenging, our pursuit of new revenue opportunities within consumer electronics and semiconductor 3D packaging should expand our market and drive profitable growth.

This concludes our prepared remarks. And now we're ready for your questions. Chris?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] All right, so it does look like we have a call – or a question coming in. Your first question comes from the line of Jim Ricchiuti with Needham & Co.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Hi, thanks. Good afternoon. I wonder if you could elaborate on the order that you announced at the end of January and talk a little bit about it. I don't know if you've given an average selling price, this is basically a modified version of an existing tool that you have. And if you can talk a little bit about whether there is a – what the potential looks like for follow-on business. Thank you.

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Yeah. Jim, as you know, we do not name names of customers, but we're very excited about developing a strong relationship with this device manufacturer. This application is an adaptive cutting process, involves the esiFIT technology that we announced last year. It utilizes a modified version of one of our platforms. And basically, it allows – in addition to the processing of the part, allows inspection before the laser machining process so that you can adjust the laser cutting in real-time.

This is the first order we received from this major device manufacturer. And looking forward, we cannot size the opportunity at this stage. However, we think this is a great win strategically. And it is early right now to size the opportunity, but that's how these relationships start with these big customers, and I hope we'll be able later on in the course of the year to give a better estimate about the size of the opportunity.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Nick, can you give a sense as to what the ASP is on this particular version of the tool?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: It is in the neighborhood of \$0.5 million.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Okay. And I guess, when I hear you characterize the order of the device, the customer as a device manufacturer, should we assume that this is going to the part of the semiconductor portion of the segment? Or is it going to be in microfabrication?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: It's a boxtop microfabrication [indiscernible] (16:30) people who produce a complete consumer electronics device.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Got it. Okay, thanks. I'll jump back in the queue. Thank you.

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Okay.

Operator: All right. So it looks like your next question comes from the line of Jairam Nathan with Sidoti. Please proceed.

<Q – Jairam Nathan – Sidoti & Co. LLC>: Yeah. Hi, thanks for taking my question. Nick, you talked about a altered seasonality, given the new products – timing of the new products on the consumer side. Can you just remind us like – so it used to be that December and March were the strong order quarters. Does that still remain, or is there a change in that?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: [indiscernible] (17:15) were the strong quarters [indiscernible] (17:21-17:42)

**Electro Scientific Industries,
Inc.**

Company▲

ESIO
Ticker▲Q3 2014 Earnings Call
Event Type▲Feb. 4, 2014
Date▲

<Q – Jairam Nathan – Sidoti & Co. LLC>: So you said March and the June quarters are the strongest? I'm sorry. You're breaking up.

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: The March and the June are the strongest. And [indiscernible] (17:52) June is typically stronger than the March [ph] quarter. (17:54)

<Q – Jairam Nathan – Sidoti & Co. LLC>: Okay. And now the – coming back to the previous question, the order, was that in the bookings number for December, or will it come in the March quarter?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: This was in...

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Yeah. Jairam, that was partially in the [audio gap] (18:23)

<Q – Jairam Nathan – Sidoti & Co. LLC>: Hello?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Yeah. Partially, this was in the December quarter and the rest is in March quarter.

<Q – Jairam Nathan – Sidoti & Co. LLC>: Oh, okay. Just hold on a second. I'm sorry. And lastly, what is the delivery timeline on this order?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Excuse me, what [ph] exactly? (18:45)

<Q – Jairam Nathan – Sidoti & Co. LLC>: The time – delivery, when would it...

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: The delivery time in this order is by the end of March of this year.

<Q – Jairam Nathan – Sidoti & Co. LLC>: End of March. All of – it's a multi-unit, so it starts in March?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: It – no, no. All the units will be delivered by March of this year.

<Q – Jairam Nathan – Sidoti & Co. LLC>: Oh, okay, okay. Thank you. Thank you, that's – I'll get back in the queue.

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Okay.

Operator: All right. So it looks like you have another question. Your next question comes from the line of Tom Diffely with D. A. Davidson. Please proceed.

<Q – Tom Diffely – D. A. Davidson & Co.>: Yeah, good afternoon. Wanted to talk a bit about the glass cutting business. So you said that you expect a couple of systems [ph] is likely (19:35) to ship in the next 30 days, is that correct?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Correct.

<Q – Tom Diffely – D. A. Davidson & Co.>: And these are systems that were initially [ph] slated (19:40) for the fourth quarter, just pushed out because of kind of broader economic concerns?

**Electro Scientific Industries,
Inc.**

Company▲

ESIO
Ticker▲Q3 2014 Earnings Call
Event Type▲Feb. 4, 2014
Date▲

<A – Nick Konidaris – Electro Scientific Industries, Inc.> It's not because of economic concerns. It was because we had to finish something. These are the first high volume production, one is 10.5, the other is 10.6. But it has nothing to do with broad economic concerns. And these systems are going to go to touch panel manufacturers. We think that these systems are going to assist in the adoption. They're not going to bring, but they're going to assist in the adoption of the OGS Gorilla type glass. And we are very excited because they're going to be full high volume production systems.

<Q – Tom Diffely – D. A. Davidson & Co.> So is this just for a single line side of the glass manufacturers, or is this enough for the factory itself? I'm trying – wonder if this is just an initial order that potentially could be followed on by some pretty large production orders if it works well.

<A – Nick Konidaris – Electro Scientific Industries, Inc.> As the adoption increases and the demand increases, it creates additional equipment orders similar to those.

<Q – Tom Diffely – D. A. Davidson & Co.> Okay. And then moving on to the flex drilling side, you said that orders were up 20% in the quarter. Do you still view flex drilling as a growth driver for this year? Or do you think it's just one of those kind of stable market that's a seasonal market [ph] where we see (21:34) the seasonal fluctuation right now?

<A – Nick Konidaris – Electro Scientific Industries, Inc.> This overall is a growth driver for us in the year. It has a little bit of seasonality because, as you know, most of the component business, and we view that as one of the component that goes into consumer electronics, is being affected by the timing of introduction of new consumer electronic devices. We do see at this point in time weakness that we believe is in Korea, primarily in Korea, which is related to absorption of capacity. And other than that is a base growing business for ESI.

<Q – Tom Diffely – D. A. Davidson & Co.> Okay. So when you see a new launching phone in Korea, say, or some other regional large phone, is it driven by new launches, new technology, or just more overall unit capacity?

<A – Nick Konidaris – Electro Scientific Industries, Inc.> It is driven by both. But basically, what happens as new products get introduced, new launches take place. What happens, the production of those new launches is added to whatever production takes place of previous launches, and that creates the additional demand. Ultimately, it is an issue of needing more flex. But what happens is that you have on one side the increasing quantity of demand for consumer devices, then as we get smaller, you have an increasing need of having more flex circuitry per consumer device. So that combination is what really drives the growth, the increase in consumer devices and more flex circuits per consumer device. [indiscernible] (23:50)

<Q – Tom Diffely – D. A. Davidson & Co.> Okay. And then just on advanced packaging, do you expect advanced packaging to be a meaningful driver at some point over the next or this current calendar year as for both your wafer dicing and also some drilling applications?

<A – Nick Konidaris – Electro Scientific Industries, Inc.> We expect that to be a meaningful driver in calendar 2015. There is a chance that there's going to be some interception that can be translated into revenue this year. But we are planning for that in calendar 2015, fiscal year 2016 in our case.

We like very much the program. We are involved with a major semiconductor manufacturer. We have completed our technology development tool. We expect to be able to ship that later in the quarter. And we expect that this thing is going to be an enabling tool for dicing of very complex wafers with this low-K field as the nodes go to 40-nano, 10-nano, and so forth.

**Electro Scientific Industries,
Inc.**

Company▲

ESIO
Ticker▲Q3 2014 Earnings Call
Event Type▲Feb. 4, 2014
Date▲

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay, thanks. And then, Paul, on the operating expense side, it looks like this year falls the same pattern where the March quarter is typically a little bit higher in OpEx, and then goes just up and down with revenue beyond there.

<A – Paul Oldham – Electro Scientific Industries, Inc.>: We would expect our March quarter to be about flat with the December quarter on a non-GAAP basis. On a GAAP basis, it's probably – stock comp would be a little lower than it is in prior quarters. What we see, Tom, is on the GAAP side, our first quarter, our June quarter, tends to be a higher expense quarter because of the timing of the recognition of stock comp expense. But otherwise, in general, we expect our expense run rate to be roughly flat and varying quarter-to-quarter, mostly based on just timing of projects and varying a little bit with volume for variable type costs.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay, great. And then finally, on the tax side, you said that taxes in the fourth quarter would be essentially zero and that fiscal 2015 would be the same kind of overall level as fiscal 2014 just evenly distributed throughout the four quarters?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: That's right.

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

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Yup.

Operator: All right. So it looks like your next question comes from the line of Mark Miller with Global (sic) [Noble] (26:36) Capital Markets. Please proceed.

<Q – Mark Miller – Noble Financial Capital Markets>: You mentioned you saw some order push-outs, so I was wondering if you could quantify that. And did you see any order cancellations for the quarter?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: We don't see any order cancellations. We saw order push-outs. As I said earlier, there is weakness because of absorption of capacity in Korea, especially as we are in between product launches.

<Q – Mark Miller – Noble Financial Capital Markets>: Okay. Coherent reported a few days ago that they were also seeing issues with overcapacity in advanced packaging market, and they estimated, in their advanced packaging market, it would take several quarters for this to clear up. I'm just wondering what your visibility looks like there.

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: It's – well, let me define what I mean by advanced packaging. Advanced packaging for us is singulating latest generation of semiconductor wafers that have new materials, they are in the 14 to 16 node and below, or dicing very thin wafers, or doing some processing in the process. Out of these applications, the most immediate for us, but again – the most immediate for us is the scribing of this thin film – these wafers that have this thin film that have the latest wafers. And as we're saying earlier, the volume production for those, we expect to be in calendar 2015. So there's no overcapacity. This is totally a technology play, has nothing to do with capacity.

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Yup. But for us, for our micromachining business – for advanced micromachining and the components for flex and MLCC, that's where we're seeing a little bit of overcapacity, as Nick mentioned, in Korea. But we wouldn't expect that to take several quarters to resolve. That should resolve, we think, fairly quickly.

<Q – Mark Miller – Noble Financial Capital Markets>: I'm just wondering, could you give the quarter ending backlog again?

**Electro Scientific Industries,
Inc.**

Company▲

ESIO
Ticker▲Q3 2014 Earnings Call
Event Type▲Feb. 4, 2014
Date▲

<A – Paul Oldham – Electro Scientific Industries, Inc.>: \$37 million.

<Q – Mark Miller – Noble Financial Capital Markets>: \$37 million, 3, 7, okay. Thank you very much.

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Thank you, Mark.

Operator: All right. So it looks like your next question comes from the line of David Duley with Steelhead. Please proceed.

<Q – Dave Duley – Steelhead Securities>: Thanks for taking my question. I missed the book-to-bill number, could you just repeat that?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: 0.95.

<Q – Dave Duley – Steelhead Securities>: Okay, thank you. And how would you expect the segments of your business to act in the March quarter?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Well, let me give you – from a point of view of segments, let me give you just a market overview, without being specific. But I would say that the advanced microfabrication, it's really waiting for – it's between product releases, and we think that overall, as a market, this is growing. And as we said earlier, the March quarter and the June quarter are the quarters where we see most of the activity in bookings. So we expect that to happen during this March quarter.

As far as flex is concerned, we said that this is a growth, stable business for us. Again, that benefits as new consumer devices get introduced. There is some weakness because of capacity absorption reasons in Korea, but other than that, this is something that, in the March quarter, has to be at the level that we saw in this December quarter, maybe a bit higher.

The MLCC, I think that, for reasons that are not exactly clear, to tell you the truth, I think that continues to have a weak demand. As we have expected that that would respond a little bit more positive with consumer electronics product launches. This is not happening. But we have checked whether we're losing any share in this business, and this is not the case.

As far as the semiconductor, and semiconductor for us primarily is the products that we acquired from the acquisition of the Systems business from GSI. We saw that the demand weakened a little bit this December quarter, and we expect more or less a similar pattern in Q1.

The other most strategic opportunities like thin film scribing, [indiscernible] (32:12) this is not – we don't expect any orders during this March quarter. The glass, we are all anxious to see the adoption take place. I will not say that we're excepting orders this March quarter. That should happen later in this calendar year.

And the new opportunity with a new device manufacturer in consumer electronics, we may have an outside chance of additional orders this quarter.

<Q – Dave Duley – Steelhead Securities>: Okay. And the key reason that you missed the revenue targets during the December quarter was...

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: The key reason we missed the revenue targets in December quarter basically relates to...

**Electro Scientific Industries,
Inc.**

Company▲

ESIO
Ticker▲Q3 2014 Earnings Call
Event Type▲Feb. 4, 2014
Date▲

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Yeah. So the key reasons, David, is we saw – we knew this would be a seasonally low quarter for Q3 and Q4. But in fact, the lull and the pause in between design activity was deeper than we anticipated in advanced microfabrication. And also, we saw the beginnings of this sort of overcapacity, particularly in Korea, where we saw a couple of system push-outs this quarter, leading us to what we think may be a little bit softer Q4 for flex. Those are the two big reasons. There's always some ins and outs in the quarter, but those are the two big reasons.

<Q – Dave Duley – Steelhead Securities>: So I guess, the summary seems like your biggest customer launched a couple of phones [indiscernible] (33:57) budget, adding new capacity for that.

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Well, it's – I mean, it's not...

<Q – Dave Duley – Steelhead Securities>: But you've been waiting for the orders for a couple of quarters, right?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Yeah. But the point I want to make sure is that we missed it. It's our fault, but it's not really that there is any big reason I can point. We are waiting for orders for a couple of quarters, but basically the orders are going to come in the March and the June quarter.

<Q – Dave Duley – Steelhead Securities>: Okay, thanks.

Operator: All right. So it looks like you have another question. Your next question comes from the line of Jim Ricchiuti with Needham & Co. Please proceed.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Yes. I think we understand – I understand the activity that you see in the consumer electronics market typically comes in the March and June quarters. But I was wondering if you can characterize how you would compare the visibility that you have in that market versus prior years. What can you say about that just in terms of helping us understand what potentially the type of ramp we might expect over the next couple of quarters?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Yeah. I would – this is a market that is basically characterized by a design win mentality. And I say that because it is difficult to forecast design win mentality because, a, you've got to be design win; and, b, you've got to – after you get design win, you know how big is that opportunity with more certainty.

But I can tell you in very, very clear terms that at this point in time, we are not busy with a number of opportunities. In fact, we see more opportunities than we can handle. And we're focusing on those that the most promising opportunities for us. So we feel good that the opportunities are real, that we see budgets in terms of customers, customer budgets that are growing. And we see through the activity and the systems that [ph] we're having in the field, (36:38) trying to qualify those to win the design in, but all of those are very real. And I think it all depends on how well we're going to execute it.

<Q – Jim Ricchiuti – Needham & Co. LLC>: And this level of activity that you're alluding to, this relatively high level of activity, does it extend to your traditional customers in consumer electronics? Or is it also a function of the newer customers? I'm trying to get...

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Well, it makes sense to traditional, mainly. And of course, we're excited with newer customers.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Okay. That's helpful. Thank you.

**Electro Scientific Industries,
Inc.**
Company▲

ESIO
Ticker▲

Q3 2014 Earnings Call
Event Type▲

Feb. 4, 2014
Date▲

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Okay.

Operator: All right. So there are no further questions at this time. [Operator Instructions] All right. Well, Brian and Nick, it looks like there are no further questions at this time.

Nicholas Konidaris, President, Chief Executive Officer & Director

Okay. Thank you very much for joining us. You are welcome to call Paul, Brian, or me if you have further questions. This concludes our call. Thank you for your interest in ESI.

Operator: All right. So ladies and gentlemen, that concludes today's conference. Thank you all for your participation. You may now disconnect. And, everyone, have a great day.

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