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, Corporate Secretary & Vice President-Administration, Electro Scientific Industries, Inc.

Other Participants

Jim A. Ricchiuti – Analyst, Needham & Co. LLC
Mark S. Miller – Analyst, Noble Financial Capital Markets
Dave A. Duley – Analyst, Steelhead Securities LLC
Tom R. Diffely – Analyst, D. A. Davidson & Co.

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the ESI Fiscal 2013 Q4 Earnings Call. My name is Whitley, 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 call is being recorded for replay purposes.

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

Brian Smith, Director-Investor Relations

Thank you, Whitley, 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 2013 fourth 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 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, May 7, 2013, and which could change in the future. This call is the property of ESI.

Now, I'll turn the call over to Nick.

Nicholas Konidaris, President, Chief Executive Officer & Director

Thank you, Brian. Good afternoon and welcome to our fourth quarter conference call. We grew orders and revenues versus the prior quarter, as our transformation to focus on consumer electronics continues. On a non-GAAP basis, we also improved our gross margin, operating profit and EPS.

Demand related to our consumer electronics business improved. Our flex interconnect business rebounded after several slow quarters and we received our first orders for the DiamondBlaze glass cutting system. In our advanced microfabrication business, orders for new design wins pushed out one quarter. We expect to see orders beginning in Q1 fiscal year 2014. Incidentally, during our fourth quarter, a DRAM customer ordered several memory repair systems for capacity driven by mobile DRAM.

Revenues for the quarter were $39.6 million. Non-GAAP loss per share was $0.03. Paul will go into more detail around the financials in a moment. Now, I'll discuss each of our businesses.

The Interconnect & Microfabrication Group had revenue of $23 million, down about 25% from last quarter. For the fiscal year, revenues grew 2%, with both advanced microfabrication and flex circuit drilling showing modest gains over record levels last year.

Orders within Interconnect & Microfabrication Group rebounded. Orders for advanced microfabrication products grew modestly in the quarter and were up 40% for the fiscal year. The funnel of activity continues to be brisk and we expect orders from new design wins beginning in Q1 fiscal year 2014.

We're working hard to secure more new design wins in the coming fiscal year and we see the potential to grow this business again over fiscal year 2013 levels. The pace of design and feature innovation at our customers continues to quicken and we continually prove ourselves to be a unique partner in our ability to keep up with them and enable their success.

Orders for flex via drilling products increased to more normalized levels in the quarter. The via drilling market for flex circuits had been depressed for several quarters, following a massive built-up in capacity last spring.

In our fourth quarter of last fiscal year, we shipped nearly a year's worth of orders, which took the next three quarters to up sell. With capacity utilization returning to its normal high level, flex circuit manufacturers begun to order more capacity from ESI. In addition, our New Model 5335 with our proprietary Third Dynamics technology and industry-leading cost of ownership and accuracy is gaining traction in the market.

As I mentioned earlier, we shipped the multi-unit order for our new DiamondBlaze system for rapidly cutting next-generation strengthened glass. The orders were for systems capable of handling panel sizes from gen 3.5 through gen 6.

With smartphones, tablets and now touchscreen laptop computers, the demand for touch panel glass is expected to grow dramatically. As the market absorbs the latest generation of strengthened glass technologies, demand for our DiamondBlaze products will grow.

Turning to our Semiconductor business, at $8.7 million, revenues were more than double from last quarter. We mentioned in our last call that you might see the occasional capacity add in memory repair and that is still the case. We're prepared to serve our customers' need for new capacity, but do not expect to see meaningful revenue in this business.

After the quarter closed, we announced that we had entered into an agreement to acquire the Semiconductor Systems business from GSI Group. This business produces industry-leading wafer marking, wafer trimming and circuit trimming laser systems. The deal closed this past Friday, May 3. We are very excited to add this product to our portfolio and to welcome the GSI System's team to the ESI family.

Our Components Group generated $7.9 million of revenues, nearly double their level from last quarter. On the order side, demand was below last quarter, but reflecting a slow ceramic capacitor to market. Although, overall, MLCC production is still in overcapacity, we received another order for our newest Model 3510A, a technology changed or smaller form factors, higher capacitance and embedded designs, has presented ESI with opportunities to differentiate these solutions and grow market share.

Turning now to the outlook for the company, first a comment on our strategy, we're transforming ESI and our focus on capturing the expanding opportunities in consumer electronics. In addition, we're investing in emerging opportunities in 3D semiconductor, LED packaging and enabling laser technologies. This strategy is on track and we're excited about our growth prospects. As you look to our new fiscal year, we see modest improvement in many of our markets.

Our largest, market advanced laser microfabrication, continues to present us with opportunities to win new designs and receive large orders. Laser cutting of touch panel glass is emerging and looks to become a significant market for us. Flex circuits are getting back towards full capacity utilization and the MLCC market is expected to grow in 2013 compared to a decline in 2012. In semiconductor and LED, we're investing in developing singulation solutions for next generation 3D packages and LED wafers and substrates.

Lastly, our recent acquisition broadens our product portfolio and adds to ESI on both the top line and the bottom line. In the near term, business levels should be driven by technology-wise timing of design wins and modest improvements in capacity utilization. For the first quarter of fiscal 2014, we expect revenues in the mid to high $40 million, including our recent acquisition. Non-GAAP EPS is expected to be at breakeven to slightly positive.

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

Paul Oldham, Chief Financial Officer, Corporate Secretary & Vice President-Administration

Thank you, Nick, and good afternoon, everyone. The following information includes results from our fourth quarter fiscal 2013, which ended March 30. 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, restructuring charges, valuation charges and other items.

Before reviewing the operating results, I would like to take a minute to discuss the restructuring and other special charges in the quarter. In refocusing our business, we discontinued a variety of legacy products and narrowed our product development efforts. This resulted in a charge of roughly $25.7 million, which included $19.8 million to write down inventory, mostly for our memory repair products; the write-off of approximately $3.3 million of assets; and a restructuring charge of about $2.6 million, as we trimmed our product portfolio, consolidated our organization structure and reduced head count.

In total, about $3 million of these charges will result in cash outlays, most of which has already been paid out. In addition, we recorded a $47 million valuation allowance on our federal and state deferred tax assets, based on historical U.S. profitability and our projections for domestic versus foreign income in future years. As a result of these actions, we expect to be a leaner, more focused organization, better positioned to weather the troughs in our business and drive profitable growth.

As Nick mentioned, following the end of the quarter, we acquired the Semiconductor Systems business of GSI for approximately $8 million. For the remainder of the fiscal year, we expect this business to generate revenues of $20 million to $25 million and incremental EPS of $0.05 to $0.10 before transition cost and purchase accounting.

Now, turning to the operating results for the quarter. Orders were $44 million compared to $26 million last quarter and $70 million a year ago. Orders increased from Q3, primarily from a rebound in our flex interconnect business, but were down from record levels last year.

In addition, we received our first orders for our new DiamondBlaze strengthened glass cutting system and a multi-unit order for DRAM repair, driven by mobile DRAM. Shipments were $43 million and backlog increased to $33 million. Our book to bill ratio was 1.03 to 1. Deferred revenue increased $3.7 million on higher contract booking and shipment of newly-introduced system.

Revenue for the quarter was $39.6 million, up from $37.9 million last quarter. Sequential improvement in both our Semiconductor and Component Groups more than offset the decline in Interconnect & Microfabrication.

GAAP gross margin was a negative 16% and included $22.1 million of the inventory related and asset depreciation charges I mentioned earlier. Also, in cost of sales were $489,000 of purchase accounting and $263,000 in equity compensation. On a non-GAAP basis, gross margin was 42.2%, up from 39.9% last quarter, on better manufacturing efficiency. Looking forward to next quarter, we expect Non-GAAP gross margins to increase on higher volume, better mix and the additions of the GSI System business.

GAAP operating expenses were $24.7 million, which included $3.6 million of restructuring cost and asset write-offs, $1.5 million of equity compensation and $123,000 of purchase accounting. Non-GAAP operating expenses in Q4 were $19.4 million, a slight increase from Q3. Looking forward, we expect non-GAAP expenses in Q2 to be higher by $1.5 million to $2 million, as a result of the addition of the Semiconductor Systems group. On a GAAP basis, operating loss was $30.9 million compared to income of $9.4 million last quarter, which included the $15.4 million in net proceeds on the IT, legal settlement.

Non-GAAP operating loss was $2.7 million compared to a loss of $3.9 million in the prior quarter. The sequential improvement reflects the higher sales and gross margin. Income tax expense on a GAAP basis for the quarter was $35.2 million, reflecting the valuation allowance I discussed previously. The non-GAAP tax rate was a benefit of 58%, largely a result of R&D tax and other manufacturing credit for the year.

Looking forward, we will report non-GAAP tax expense on a cash basis, which will also approximate the GAAP tax rate given the valuation allowance. We expect the tax rate for both a GAAP and non-GAAP basis to be approximately 5% to 10%. On a GAAP basis, fourth quarter net loss was $65.8 million or $2.23 per share compared to income of $0.23 per diluted share last quarter. On a non-GAAP basis, the net loss was $1 million or $0.03 per share compared to a loss of $0.05 per share last quarter.

Turning now to our balance sheet, cash and investments were $157.4 million, a decrease of $13.7 million from last quarter. During the quarter, we used $10.4 million of operating cash, primarily due to an increase in accounts receivable. In addition, we paid our normal quarterly dividend of $0.08 per share on March 14.

For the quarter, inventories decreased by $17 million after the write-off of memory repair and other discontinued inventory, resulting in inventory turns of approximately 2.6 times. Underlying inventories increased approximately $3 million. Accounts receivable increased by $13 million to $32 million. DSO increased to 73 days, primarily on the timing of shipment. Capital expenditures were $1 million and depreciation and amortization, excluding purchase accounting, was $3 million.

In summary, revenues improved, but remained below our breakeven level. On a non-GAAP basis, solid gross margins and good expense controls limited our loss to $0.03 per share. Turning now to next quarter, we expect Q1 revenues to be in the mid to high $40 million range, which includes the addition of a partial quarter of the acquired Semiconductor Systems business. Non-GAAP net income is expected to be breakeven to slightly positive.

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

Nicholas Konidaris, President, Chief Executive Officer & Director

To summarize, this quarter we'll continue – we continue the transformation of ESI into a company focused on growing opportunities in laser microfabrication for smart consumer electronics. We entered new markets such as glass singulation and broadened our portfolio through the recent acquisition. We trimmed our portfolio of legacy products, refocused our product development efforts and lowered our cost structure. Our strategy to be the leading laser micro fabrication company is on track.

This concludes our prepared remarks. We are ready for your questions. Whitley? Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Jim Ricchiuti of Needham & Co. You may proceed.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Thanks, good afternoon.

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

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

<Q – Jim Ricchiuti – Needham & Co. LLC>: Couple of questions. I wonder if you can tell us how many of the DiamondBlaze systems are currently in the field right now or will ship. Sorry.

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: In the field, there is one right now and the order was three systems.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Okay. And Nick, are these – how many customers for the three that orders that you received?

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

<Q – Jim Ricchiuti – Needham & Co. LLC>: One customer. Can you give us a sense as to how this has the potential to roll out over the next couple of quarters? Will this customer be evaluating it over a period or do you expect a ramp from this customer?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Yeah, this is not an evaluation order. This is an outright order of three systems. This customer is motivated to designing this new tempered glass into the OEM – into products by the OEMs. So, OEMs are the people who make the transponders, the tablets, phones, laptops and so forth. And these systems are going to be used to basically accelerate the penetration of the new glass into the final products of the OEM designers. And this is a business that, as the design wins take place, we think, is going to be in the $40 million to $50 million per year business. And the way to see this order is not that this is evaluation, it's not evaluation, it's outright order, but is – should order to accelerate the acceptance of the new highly – of the new tempered glass.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Would you anticipate other production orders from this customer in the current quarter?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: We would anticipate production orders from the TPMs, which are the transponder manufacturers.

<Q – Jim Ricchiuti – Needham & Co. LLC>: In the current quarter?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: No. I would not say in the current quarter, but starting – the current quarter, but definitely this year – definitely in the second – in the first half of this year.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Okay. And with respect to the improvement you saw in flex interconnects, was that primarily coming out of Korea?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: It's – I'm not sure that was primarily, but I definitely can say that Korea was a very big part.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Okay. And Paul, can you say what the backlog that you get from the Semiconductor business from GSIG?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Hi, it's about $3 million to $4 million.

<Q – Jim Ricchiuti – Needham & Co. LLC>: $3 million to $4 million. And I may have missed it, did you give your year-end backlog?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: We did. It was $33 million.

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

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

Operator: Your next question comes from the line of Mark Miller, Noble Financial Capital Markets. You may proceed.

<Q – Mark Miller – Noble Financial Capital Markets>: Good afternoon Nick and Paul. I'd just like -

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

<Q – Mark Miller – Noble Financial Capital Markets>: Hi. I'd like to just to ask some questions about quoting activity. It seems like this quarter was certainly an uptick from last quarter. Are we seeing momentum into the current quarter? Also, you mentioned you got some orders for DRAM memory repair from mobile customers and DRAM prices have really been very strong this quarter. We are hearing talk about capacity adds possibly later this year, next year, what's your take on that?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Yeah. On the second part, the take that we have on the memory repair, these are basically driven by mobile DRAM. And if that business continues strong, we're going to see – occasionally, we're going to see orders for memory repair. In terms of the first question in terms of order activity, the general comment I would say is that our customers who are involved in consumer electronics that includes flex, as an example, clearly will see tremendous activity there, a rebounding on the activity. We also see in parts of the business that still remain in overcapacity, DRAM, LED and MLCC, we see an improvement of the climate for all of this three businesses. Definitely, we see that in MLCC and definitely we see that in LED.

<Q – Mark Miller – Noble Financial Capital Markets>: A couple of firms reported at corporate firms, they were reported by some uncertainty by certain chip manufacturers over what Apple's going to do with its future chip orders both in quantity and where they're going. You mentioned you had some order push out, so I'm just wondering do you feel any effects of that, it seemed to hit one firm especially hard because of this.

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Yeah. We didn't see push outs, and I don't think we said push outs. So, that does not apply to us. What I referred to is that orders for design wins were delayed by a quarter, but I'd expect to start seeing them starting this quarter, Q1 fiscal year 2014.

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

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

Operator: Your next question comes from the line of Dave Duley, you may proceed, of Steelhead.

<Q – Dave Duley – Steelhead Securities LLC>: Yeah. A couple of questions from me. When you look at your guidance, I guess, let's call it $45 million to $49 million versus the $40 million you just did, how should we think about the pieces? I guess, I'm trying to figure out what you think the contribution from GSI is in this partial quarter? And outside of that, where will the growth come – where will the balance of the growth come from?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Yeah. The way to think about it, David, is we talked about GSI providing $20 million to $25 million for the remaining of the year. So, you can kind of think about that roughly across 11 months. And I think you can get a kind of fair representation about what we'd expect for the quarter. That would put our base business sort of in the low-$40 million range. That's the way to kind of think about it.

<Q – Dave Duley – Steelhead Securities LLC>: And so, you have just a couple million – $3 million or $4 million worth of growth in the base business. Is that coming from recognizing the glass cutter or the Diamond, I'm sorry?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: No, it's really coming from the strength in the flex market that we saw in the fourth quarter from the orders.

<Q – Dave Duley – Steelhead Securities LLC>: Okay. And I guess it's somewhat ironic the quarter in which you written off most of your memory repair inventory, you've not received to orders. How – if you've written off the inventory, how will that impact gross margins going forward? Will that be a positive impact in the upcoming quarters or how should we think about that?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Well, the way to think about it is that we try to assess what we thought was the potential business in this area going forward and what we really wrote off was the excess of that. So, as Nick mentioned, we still expect from time-to-time an incremental orders here and there. And so, that's contemplated, because we do indeed to continue to support our customers. But we don't expect that overall business to be very meaningful. If we saw a meaningful uptick, that might be different. But based on our expectation we'd expect sort of normal margin on whatever handful of units we might receive in the future some orders.

<Q – Dave Duley – Steelhead Securities LLC>: Okay. And then, as far the inventory write-down, was that all in the memory repair business, or did you write down inventory for other product? I think you mentioned other products, but I was just trying to make sure I understood what you're trying to tell us.

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Okay. Certainly, the majority of it was memory, but we also in narrowing our focus had a number of kind of older products that we've been carrying along and we've essentially discontinued those in order to focus more on the core areas.

<Q – Dave Duley – Steelhead Securities LLC>: Okay. I guess that's it from – no, one final question from me is, how should we think – now that you've rolled GSI in, going forward, what is the new breakeven and what expense levels are you assuming and margin levels are you assuming?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Yean. So, we've talked about lowering our breakeven to the $40 million to $45 million level with some recent actions that we've taken. Simple way to think of it is our breakeven now is probably in the mid to high $40 million range, so maybe $45 million to $50 million, to keep it simple, including the GSI Group. But of course, GSI will add revenues as well. From an operating expense perspective, they'll add something like $1.5 million to $2 million per quarter.

<Q – Dave Duley – Steelhead Securities LLC>: Okay. Thank you.

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

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

<Q – Tom Diffely – D. A. Davidson & Co.>: Yeah. Good afternoon. So, maybe just one more then on GSI. The relative margin structure, was it similar to what you currently have?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Probably slightly better.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. And then Paul, when you look at the deal there or the less popular products that were cut, is there any revenue impact from those?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: No. Not meaningful.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. So, the biggest piece was memory repair that you're just basically cash cowing in that sense?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Effectively, we're trying to assess what's the real market need going forward and size kind of the remaining inventory to that. And of course, I can say that we'll support the customers, but there's no new investment in memory repair.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. All right. And then, just when you look at the semi business the uptick in the quarter, was that for – the uptick, was that part of that DRAM system itself or is that purely just orders in the quarter that's going to happen, turn to revenue later this year?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: That's primarily the memory repair.

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Yeah. And it was orders and revenue in the quarter.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. All right. And then, I guess kind of on a longer-term basis, is there deferred revenue as far as the GSI business where it ramps through the years as opposed to being in full force once we get to a full quarter of it?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: There is not a lot of deferred revenue on the GSI business. These are pretty standard products. They've been a leader in the markets for a while. So, there wouldn't be a growing balance, if you will, of deferred revenue. And I think the way to think about, in general, this quarter will be lower by virtue of the fact that it's two months in the quarter instead of three months.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. And so, then just turning back and look at main business, it sound like you thought that from what you were saying that the Interconnect business and micromachining business you would expect to grow this year on a year-over-year basis?

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

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

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: And that business – basically the – that business that way we're viewing is the – first of all, it's Interconnect. That's part of the Interconnect and micromachining and that includes – in addition to Interconnect, includes all the consumer electronics, which deals with large closures and other components inside the smart mobile device.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. And you expect to see some of the – kind of the normal seasonality there with your second and your third quarter are a little bit bigger than the first and fourth quarters?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: I think that it's – the history says that there is a seasonality based on major events in the year, presentation and all of that stuff. It remains to be seen. But regardless, the fact of the market is that our pipeline is full that we're constantly presented with new opportunities. We see a lot of technology being developed in new consumer devices and we're going to start seeing orders from this quarter.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. And then, as far as the GSI business goes, that's all in your Semiconductor Group, or is some of it spill out to the other groups?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: No, it will be – we'll reflect it all in our Semiconductor Group.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. And then just, I guess, following on the GSI business, how much – or what kind of impact do you think that's going to have on the equity compensation or the purchase accounting portion of your GAAP results?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: It will be nominal.

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

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

Operator: Your next question comes from the line of Jim Ricchiuti of Needham & Co. You may proceed.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Paul, can you say what your largest customer represented in fiscal 2013 revenues?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: We haven't disclosed that yet. We typically will talk about that in our 10-K.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Okay. And with respect to the pickup in the flex market, is there – Nick, is there some digestion here, or would you anticipate this business now to be at a – more in a recovery mode, where you'll see a more consistent order pattern?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Our expectation is that's going to be in the recovery mode with more consistent pattern, which is going to be a growing pattern in comparison to past years.

<Q – Jim Ricchiuti – Needham & Co. LLC>: What drives that? What is it that at this point that you see is different about the demand for the flex product mine this year versus say last year? Was it just there was over-investment last year, or is there some market – are there some market drivers that give you the confidence that it's going to be more consistent this year?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Well, first of all, the market driver is the smaller and smarter electronics that in order to connect a camera to the computer going to have a flex, as an example. So, that's the standard driver. But what happened a year ago last spring we basically got a year's worth of orders and that was not justified by any market data, it was just everyone was taking position against upcoming opportunities that, as you know, are lumpy and it took some time to digest that capacity. If that were to happen again in the future, we may see another quarter where the demand may exceed – may even exceed one year's typical demand. But so far we don't see that coming.

<Q – Jim Ricchiuti – Needham & Co. LLC>: But you do see orders – follow-on orders this quarter regularly?

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

<Q – Jim Ricchiuti – Needham & Co. LLC>: And with respect on the advanced microfabrication orders being pushed out that you anticipate coming in this quarter, can you say whether this is geared more for capacity additions or is it for new designs? Is there anything you can say about how you see this next tranche of orders that you might see?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: I would say that they're primarily new designs.

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

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

Operator: Your next question call – Your next question comes from the line of Tom Diffely of D. A. Davidson. You may proceed.

<Q – Tom Diffely – D. A. Davidson & Co.>: Thanks. Yeah. Just one more question on the DiamondBlaze, you talked about one in the field and three new orders, what is the average or how many systems would you expect to have for the average FPD fab going forward, if they were going to use the next-generation glass?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Well, depending on the generation, we expect few units per touch panel manufacturer, all of those amounting to something in the neighborhood of 50 installed base, plus or minus.

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

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: But this is for particular glass generation and particular set of design wins. New design wins get added to that and – or new glasses get introduced, our capacity is going to be more defined accordingly.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. And what's your sense of the current adoption rate for Concore or these next-generation glasses? Is it fairly rapid or is it going to take some time?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: This is our first experience with this adoption rate and I really don't have a historical perspective to give you a sense. But I can tell you that we're extremely busy along with a lot of other people trying to accelerate that adoption.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. And then Paul, when you look at the tax rate of 5% to 10%, is that just for a limited period of time when we use up NOLs, or is that – we think it's going to be around for a few years?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: We think it's in the three-plus-year range.

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

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

Operator: There are no further questions in the queue. I will now turn your conference back over to Mr. Nick Konidaris. You may proceed.

Nicholas Konidaris, President, Chief Executive Officer & Director

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.