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PARTICIPANTS

Corporate Participants

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

Other Participants

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

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the ESI Fiscal 2012 Fourth Quarter Earnings Conference Call. My name is Shanelle, 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 Mr. Brian Smith. Please proceed.

Brian Smith, Director-Investor Relations

Thank you, Shanelle, 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 fourth quarter and full-year 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, May 10, 2012, and which could change in the future. This call is the property of ESI.

And now, I would like to turn the call over to our CEO, Nick Konidaris.

Nick Konidaris, President and Chief Executive Officer

Thank you, Brian. Good afternoon and welcome to our fourth quarter conference call. Our fourth quarter results were consistent with our expectations. We introduced new microfabrication products and capability, made progress on our growth initiatives and took actions to improve our operational efficiency. Although several of our markets continue in overcapacity, we saw a strong growth in orders for flex interconnect related to smartphones and tablets and we won a new microfabrication application.

Revenues for the quarter were $45 million. Non-GAAP loss per share was $0.06. Paul will go into more detail around the financials in a moment. We generated $70 million of orders, up 55% from Q3. The higher order level came on the back of our interconnect and microfabrication business. Flex interconnect products once again had record bookings, and we received a large order for our new model 5950 microfabrication system. Orders for our DRAM, LED and component test products remained at trough levels, as those markets continue to have excess capacity.

Now, let me go through each business in turn. The Interconnect and Microfabrication Group had revenue of $32 million, down slightly from last quarter on lower shipments. Orders in this group more than doubled from Q3. The flex interconnect business continues to set records, as our model 5330xi remains the performance leader in flex via drilling. The market is being driven by demand for smartphones and tablets, which use an increasing amount of flex interconnect in advanced designs.

During the quarter, we also made technology breakthroughs that will allow us to retain that performance leadership position. In advanced microfabrication, we introduced two new products, one of which resulted in a large order. The model 5950 is a lower-cost microfabrication system, and with it, we secured a new design win. This system expands the universe of microfabrication opportunities ESI can address to multiple customers and new applications.

Another market expansion opportunity is the esiFIT technology we announced in Q4, which enhances the performance of our model 5900 by performing in-line inspection of incoming parts and subsequently adjusting the laser cutting path in real-time. We expect to use this technology to penetrate new microfabrication applications in the new future.

Turning to our Semiconductor business, revenues were $8 million, about flat with last quarter. The situation in the DRAM markets remains the same as we described last quarter, with capacity utilization among our customers remaining low and DRAM pricing pressuring their profitability. Looking forward, forecasts are for DRAM pricing to slowly improve, but capital spending in 2012 to be well below 2011 levels. We're cautious in our expectations over the next few quarters, given the uncertainty in the industry.

Also, memory customers are becoming very adept at utilizing existing capacity and finding new ways to address technology challenges. We'll continue to qualify our model 9900 silicon wafer processing system with key customers, enabling their transition to three-dimensional packaging. The evaluations are going well and we see opportunities to address multiple applications in both 3D packaging as well as silicon LED wafer processing.

Our LED sapphire wafer scribing products had a slow demand quarter, as the LED markets remained in its oversupply condition. Utilization, however, is beginning to increase, especially for general purpose lighting. LED manufacturers are investing heavily in technologies to boost light output. We believe our 2600 high brightness scriber will prove to be the best solution for these technologies and are working to move the system from process development to production at multiple customers.

Our Components Group generated $6 million of revenues in the quarter, slightly below last quarter. Orders in Q4 were at trough levels, but customer activity began to pick up later in the quarter, driven by the demand for the new smallest size capacitors used primarily in smartphones and tablets. Our new model 3510 provides the industry's best throughput and yield for these ultra-small devices. In LED test, the overall market continues to be in overcapacity. During this time, we're working to qualify our new 3800 with additional customers in order to participate in the next round of investment, driven by general lighting applications.

Finally, this quarter, we took several actions to improve our operating efficiency, focus our resources and further our globalization strategy. This included consolidation of facilities, streamlining our product portfolio and reducing resources as Singapore has become our primary manufacturing site. These actions allow us to operate more efficiently and continue to invest for growth.

Overall, the fiscal year of 2012 we just completed was a tale of two halves. In the first half, strong markets and a healthy macro-environment drove excellent revenue growth. In the second half, we felt the effect of a more uncertain economic environment and overcapacity in several of our markets. On the bright side, our interconnect and microfabrication business remained robust, we delivered higher non-GAAP operating income on slightly lower revenues, and we introduced compelling new products and made progress on our growth initiatives.

Turning now to the outlook for ESI, as we enter our fiscal 2013, the utilization is expected to improve slowly over the next several quarters. During this coming year, we will build on the strong performance in interconnect and microfabrication, focus on qualifying our new products with customers and launch new growth initiatives. The actions we took have made ESI leaner and more focused on addressing the most promising applications for growth. Looking now to the first quarter, we expect revenues in the mid-to-high $50 million range. Non-GAAP EPS is expected to be $0.02 to $0.04.

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

Paul Oldham, CFO, Secretary & Vice President-Administration

Thank you, Nick, and good afternoon, everyone. The following information includes results from our fourth quarter of fiscal 2012, which ended March 31. 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 and non-recurring items.

For the fourth quarter, we generated $70 million of orders, compared to $45 million last quarter and $73 million a year ago. Sequentially, we saw growth in flex via drilling, which had another record quarter, and advanced microfabrication, which as Nick mentioned included a design win for our new 5950 low-cost micromachining system. This was a good win for us in a very competitive environment for a high volume application.

Orders in DRAM repair, LED scribing and component test remained at trough levels with continued overcapacity in those markets. Shipments were $50 million, and backlog increased by nearly $20 million to $69 million. Our book-to-bill ratio was 1.4 to 1, and deferred revenue increased by $2.4 million.

Revenue for the fourth quarter was $45 million, down from $50 million last quarter, but consistent with our expectations. The decline was primarily related to lower sequential revenues from our microfabrication products.

Gross margin was 37% on a GAAP basis, including $550,000 in cost of goods sold for purchase accounting and equity compensation. Also included in cost of goods sold was approximately $2 million of non-recurring charges related to our globalization initiative and inventory write-downs primarily associated with discontinued products.

On a non-GAAP basis, gross margin was 42.6%, down about 100 basis points from last quarter on the lower sales volume. Non-GAAP gross margins were above our target model for this revenue level, the result of both good product mix and actions we took to lower our manufacturing costs. Gross margins in the first quarter, however, are expected to be around 40%, on a product mix heavily weighted towards incremental high-volume business.

GAAP operating expenses were $27.3 million, up $2 million from last quarter. The increase was driven primarily by restructuring and non-recurring charges of $4.1 million. These charges included $1.2 million in severance and employee-related costs, $2.7 million in accelerated depreciation and write-down of assets largely associated with consolidating facilities in the U.S. and China, and $200,000 of engineering inventory associated with discontinued programs. These actions are part of our plan to improve efficiency, focus our resources, and implement our globalization plans.

In addition, GAAP operating expenses included approximately $1.8 million in stock compensation and purchase accounting, down $450,000 from last quarter. Looking forward, stock compensation is expected to increase to approximately $4.5 million in Q1, reflecting the immediate expense recognition of annual grants to the board and CEO. However, for the year, we expect total compensation to be flat to down versus last fiscal year.

Excluding these items, non-GAAP operating expenses in Q4 were $21.5 million, down nearly $800,000 from last quarter, largely related to the cost reduction actions we've taken. Looking forward, we expect non-GAAP expenses in Q1 to be about flat with Q4 on higher revenues.

On a GAAP basis, operating loss was $10.5 million compared to a $4.1-million loss last quarter, reflecting the $6.1 million in total restructuring and non-recurring costs. Of the total non-recurring items, approximately $1.2 million results in cash expenditures, with the balance being non-cash charges.

Non-GAAP operating loss was $2.1 million compared to a loss of $500,000 in the prior quarter on lower sales and gross margin.

Income tax for the quarter was a benefit of $2.8 million, an effective rate of approximately 26%. The non-GAAP tax benefit was $200,000. The unfavorable tax rate we saw this quarter was a result of the loss of manufacturing credits due to lower U.S. income.

On a GAAP basis, fourth quarter net loss was $7.7 million or $0.26 per share. On a non-GAAP basis, net loss was $1.9 million or $0.06 per share.

Turning now to the balance sheet, cash and investments including restricted cash were $222 million, a decrease of $6 million from last quarter. Cash used in operations was $2.6 million. In addition, during the quarter, we paid a dividend of $0.08 per share or approximately $2.3 million.

For the quarter, inventories decreased by $5 million, with turns at 1.6 times. Accounts receivable increased by $7 million, as DSO increased to a more normalized 66 days based on timing of shipments and customer mix.

Capital expenditures were $740,000. And depreciation and amortization, excluding purchase accounting but including the accelerated depreciation in the non-recurring charges, was $4.4 million.

Looking forward, some of our markets continue to be impacted by overcapacity and economic uncertainty. Although we expect gradual improvement in utilization and capital spending in the DRAM, LED and component markets over the next fiscal year, it is difficult to know when we will see meaningful increases in capacity. As a result, we expect revenues this year to continue to be driven by technology buys, design wins and timing of market recovery. For Q1, we expect revenues in the mid-to-high $50 million range. Non-GAAP EPS is expected to be $0.02 to $0.04.

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

Nick Konidaris, President and Chief Executive Officer

To summarize, our interconnect and microfabrication business had a very strong quarter, which is helping offset weakness in the other markets we serve. We remain committed to our growth strategy and initiatives. As our markets recover, we expect to drive strong growth in revenues and earnings.

This concludes our prepared remarks. We are ready now for your questions. Shanelle?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Jim Ricchiuti of Needham & Company. Please proceed.

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

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

<Q – Jim Ricchiuti – Needham & Co. LLC>: I wonder if you could say what percent of your orders came out of the interconnect and microfabrication area?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: The majority did. As you know, DRAM, LED and MLCC continue to be in overcapacity. So we would talk about that as probably more than 80%.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Great, okay. And I wonder if you could talk a little bit more about this new microfabrication application to the extent you can. First off, can you size the order that you alluded to and was it with an existing customer?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: This was with an existing customer. We are very excited about the order. It is a new application. It is an application that we believe is applicable to other customers also. It is in a market that we have not participated before, an application we never participated before. And it was a major design win and we're very excited about that. Unfortunately, I cannot talk about the details of the order.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Okay. And Paul, just looking at the gross margin guidance that you're giving, which I think – I believe you said it was going to be in the 40% area. Is that correct?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: That's right, about 40% on a non-GAAP basis.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Right. Now, just looking at the revenue levels that you're talking about, it would seem that the margins would be higher. Is there a mix issue and maybe you could talk a little bit about where you see the gross margins going?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: The model that we have remains intact and it's not changed. The margins are a bit down vis-à-vis the volume primarily because there is a heavier weighting mix issue with new incremental application that, as I said earlier, we're very excited about; the good news is the major design win for us.

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Yeah, so that's right, Jim. The major impact to margins is the mix that Nick talked about. And from time-to-time, we'll have some changes in our mix like this. But as Nick said, we're very excited about this win. It allows us to move into some new areas and leverage investments we made already and drive incremental gross profit.

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

Operator: Your next question comes from David Duley, Steelhead Securities.

<Q – David Duley – Steelhead Securities LLC>: Yeah, just a quick question for me. Could you just talk about -your orders are up a little bit stronger than your revenue guidance, so why there is kind of a delay in recognizing some of these orders?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Yeah, I think it's just a function of timing of shipments and when they will be at the customer's site.

<Q – David Duley – Steelhead Securities LLC>: Okay, so some of them just are longer lead-time orders.

<A – Paul Oldham – Electro Scientific Industries, Inc.>: There's delivery schedules for all of the orders that bring with – that come in, and that has an impact on it. Also service contracts and things that we might book will show as orders, but of course come over time. And we did have good orders in our service business this quarter.

<Q – David Duley – Steelhead Securities LLC>: Yeah, the contract business [ph] looked very healthy for (19:38) the quarter.

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: From the management point of view – yeah, we don't see any delay of any sort. Basically it's standard lead time, given an order, and timing of shipment.

<Q – David Duley – Steelhead Securities LLC>: Okay. And I guess from listening to your comment, is you have a new application in micromachining. But it's at a lower gross margin rate, and that's what impacting the margins in the current – in the June quarter?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: That's right, and I would be careful how I characterize that. This is a new application, major order, incremental opportunity for us. And from time to time, we're going to be doing the best we can to really take these kind of orders because they are incremental to our overall business model.

<Q – David Duley – Steelhead Securities LLC>: Okay. And final question from me is, I think you mentioned that you had an impact to gross margins and part of it was in inventory write-downs. Could you just talk about – I missed the numbers. What was the magnitude of that, and which segment or products were – was the write-down associated with? Thank you.

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Yeah, in our GAAP gross margins, there was an inventory write-down of almost $2 million, and it was largely associated with some discontinued products, these would be legacy products that we haven't sold for a couple of years.

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

Operator: Your next question comes from the line of Mark Miller, Noble Financial.

<Q – Mark Miller – Noble Financial Capital Markets>: Just on that last question, this $2-million write-down, that was included in the $2.7-million figure you gave previously for accelerated depreciation. I think you also threw in write-downs on that.

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Yeah, there's really three components to the one-time or non-recurring charges. The total's $6.1 million. About $2 million of that is in cost of goods sold, and that's primarily the inventory write-down. There's about $4 million that's in operating expense that shows up on the face of the P&L in the restructuring line and the disposal of assets. And that's where the accelerated depreciation shows up, as well as the severance shows up in the restructuring line. That's a subset of the restructuring number.

<Q – Mark Miller – Noble Financial Capital Markets>: I wanted to talk about the LED space. There seems to be some conflicting signals. Some of the stocks of the major equipment suppliers like Veeco have rebounded – in fact, rebounded sharply, even though I think management of neither firm said they saw an inflection. But there seems to be some impression with investors that there is an inflection coming. I'm just wondering if you have any insights. Is this a year away, six months away, or just too hard to tell right now?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: The timing I think would be hard to tell. We don't have any better visibility than other managements. But to the extent that we really see that there is an inflection, as you call it, to take place, we see that. We see increased activity, and all of that is centered around general illumination.

<Q – Mark Miller – Noble Financial Capital Markets>: You mentioned about the fab utilizations coming up. They had been running 65%, 70%. Where do you think they're at now on average?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: On average, I would say they're improved, and I think they would be in the 70s to low 80s.

<Q – Mark Miller – Noble Financial Capital Markets>: Okay. All right, thank you.

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

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

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

<Q – Tom Diffely – D. A. Davidson & Co.>: Yeah, good afternoon. Maybe another question on the new application win that you had. The margin structure, how it's a little bit less than your corporate average on the new product, is that due to the fact that it's a new product ramping, or is it just the less expensive cost of this to serve new markets?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: As we said before, this is a high volume opportunity totally new to us, incremental to our business structure and model. And for all of these above reasons, we said that this is a good business for us because it has opportunities for further business down the road with improved margins and higher volumes.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. So really nice margin dollar adder?

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

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

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Yeah, margin dollar adder. That's exactly right.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. So does that mean that your traditional applications in the micromachining, you could still expect some – maybe some lumpy orders over the next few quarters as well?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Yeah. The micromachining business from everything we know is going to continue to be lumpy. And the reason that it is lumpy is because it is driven by new product introductions that don't happen every day – happen every – two or three times a year.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. And would you expect an expansion of your customer base in that space this year?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: We are working towards expansion of our customer base. It's difficult to assess. The answer is yes; the answer is yes. There will be expansion definitely in customer base in the smart electronics space or customers who provide components in smart electronics.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. And then on the DRAM market, you talked about how the pricing's getting better, some of the fundamental drivers are starting to get better over the last few months, and utilization rates are still low. Are utilization rates getting better, or do you see them kind of troughing and still at trough levels or at low levels and not actually increasing over the last few months to weeks?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: We think that utilization is getting better; that's the general impression we're having. It's very difficult to assess whether the total install base that is being used is being reduced because of the conditioning of older product. But the general tone is that things are improving. And I think the potential for further consolidation in the industry, that provides another opportunity for people to try to take positions in terms of market share.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. And you don't see any risk at this point from Elpida on accounts receivable?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: No, we don't have any risk there, Tom.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. And then finally, when you look out longer term a year or two down the road, how do you view the mix of your business between the three main segments that you serve?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Well, we have been running for the last few years on a mix basis that basically has the Interconnect and Microfabrication Group continually increasing. We think that in the short-term, that is going to be the case. But as the new initiatives that we're having in Semiconductor and LED take place, there is going to be some rebalancing of that mix, but there is no question that Interconnect and Micromachining are going to be very, very strong. In Interconnect and Micromachining, I just want to highlight a little bit the Interconnect side. We had a record quarter. This business continually grows and is driven by the smart electronics, smart consumer devices market, especially the advanced designs that utilize more interconnects.

<Q – Tom Diffely – D. A. Davidson & Co.>: Okay. Thanks for your time.

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

Operator: Your next question comes from the line of Jim Ricchiuti, Needham & Company.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Nick, was it a record bookings quarter for Interconnect?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: The answer is yes.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Okay. And I wonder if you could comment on the implications with respect to the reports we're seeing that Micron might purchase the Elpida assets.

Do you see that as having much of an impact on you? I know that market has changed quite a bit, but just given the fact that Micron isn't a customer?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Well, in the short-term, I think that from a macro view depending on, of course, what's going to happen. But in the short-term, a couple of years plus, we think that this is good because it offers further consolidation in the industry and a new way of balancing supply and demand. In the long-term, given that, Micron is not a customer, because they utilize different technology and memory repair, it may have some effects. It's difficult for us to assess at this point in time. And – but at the same time, with the onset of the new initiatives that we have in the Semiconductor area, we think that that consolidation makes it even easier for us to really focus on evaluations and further wins down the road.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Okay. And just – I have a follow-up question concerning the microfabrication order, the large order that you've discussed. Can you say how much of that order ships in the next quarter? Obviously, it's impacting your gross margins. Would that continue into the September quarter as well?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Yeah. Jim, the majority of the order does ship in Q1. So it's certainly impacting the first quarter margin mix. The following quarters would be a function of if there is follow-on order or other activity committees, but the majority of this order ships in the first quarter.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Okay. And it does sound like you feel reasonably optimistic that there is the potential for follow-on orders for this application.

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Yeah, we're working very hard. We're extremely focused and I would say that we're all focused to do the best we can for the opportunities we have in front of us. We have leadership products, performance, cost of ownership and so forth.

<Q – Jim Ricchiuti – Needham & Co. LLC>: And this is a high volume application, Nick, is this something where you might potentially see follow-on orders for shipments as early as the September quarter?

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

<Q – Jim Ricchiuti – Needham & Co. LLC>: Okay. Last question, just wondered looking at your R&D expense, how should we think about R&D expense in the coming year, fiscal 2013?

<A – Paul Oldham – Electro Scientific Industries, Inc.>: Looking at R&D, as part, it's come down somewhat in the last quarter, and based on the actions that we're taking, it will come down modestly again; that's consistent with our total expenses coming down. But certainly we continue to invest in what we see as the critical programs for growth and have focused our resources around those.

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Historically, we have said that we want to be in the 15% of revenue, of course that fluctuates based on the revenue base. That thinking remains in place and we want to take the opportunity of the lower activity in the second half of last year to – and any weakness in the markets we have to really advance our market share position. This is the time to do it. So we are – the expense in absolute sense may have come down, but relatively speaking we invest heavily in R&D.

<Q – Jim Ricchiuti – Needham & Co. LLC>: Okay, thanks very much.

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

Operator: [Operator Instructions] Your next question comes from the line of Mark Miller, Noble Financial.

<Q – Mark Miller – Noble Financial Capital Markets>: I just wanted to get a – looking little ahead in the future, Windows 8 is coming. Is that going to help you feel revived, some of the DRAM work, and then opportunities for you?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: I didn't – I didn't get the entire question. But as far as DRAM is concerned, of course improved utilization in DRAM is going to be good news for us.

<Q – Mark Miller – Noble Financial Capital Markets>: Well, in particular...

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: If that was your question. I missed your question.

<Q – Mark Miller – Noble Financial Capital Markets>: I'm sorry. It was on the implication of the rollout of Windows 8, and is there...

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Windows 8, okay, Windows 8, yeah. Well, the whole thing depends on whether a new operating system drives utilization requirement for more memory. Clearly what we see right now is that the money's being made and the opportunities that we see would be in the mobile DRAM.

I do not know, as I speak, the relationship of Windows 8 with mobile DRAM. If that is strong, that will be good news for mobile DRAM. If that's not strong, I really don't have any comments right now. I need to think about that.

<Q – Mark Miller – Noble Financial Capital Markets>: Just back to the LED space again, the systems you've introduced, I mean, it doesn't really matter if the LEDs are basically for general lighting or for backlighting or for display. The concern being there is the ramp of OLED displays. Samsung's making a big push on OLED TVs. They're buying equipment from a number of companies, some of which I cover. And there's a concern that that market would erode – starting to erode, but your systems I don't believe are really focused on any single type market really.

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: No, I think what you say is exactly right and a lot of Samsung's products use OLED displays and they're the leaders in OLED displays. But our focus right now in terms of LED is in the general lighting. That's the main focus we have. And to that extent, for several years, everything that we see all the investments that we hear, inputs from customers and from various consultants is that this segment of the LED is a growing segment in a steady mode at least through 2020.

And all of that is driven by commercial buildings that utilize LED lighting. It's driven by new architectural requirements in institutional buildings, by replacement of lighting in households. And of course, a number of infrastructure opportunities like highways, public transportation and so forth that use these LEDs. This is a growing market.

The good thing about it is that it's considered to be a more steadily growing market and would behave very differently than the backlighting LED for LCD displays that – it's not a market we're addressing right now, OLEDs and LCDs. LCDs are going to be affected by OLEDs, but the backlighting units are really not a growing market. This is not what we're addressing right now.

<Q – Mark Miller – Noble Financial Capital Markets>: One of the things that happened that caused the capacity issues in the LED market was the number of LEDs that were used in TV backlighting significantly fell. It fell more quickly than people thought. And there's some feeling now that we're seeing – the LEDs seem to be coming out to be more efficient that the number of LEDs, say in a 60-watt light bulb, might also come down more quickly. I think some people estimate anywhere from 15 to 20. It depends on the manufacturer of the LED – of the actual chips they use in a 60-watt light bulb. Do you have any feelings that where that's going – are we going to see now in the years ahead that the number of LEDs in a standard light bulb is going to drop significantly? Do you have any feeling for that?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: Well, definitely in backlighting units, the number of LEDs to illuminate an LCD went down. And without that LCD growth, this thing became a bubble, as you know.

But in general, I think the way to think is that you need to have a discrete number of bulbs. And then within those bulbs, you're going to – that is not going to change because, if you replace, you've got to replace whatever – it's the number that you've got to replace. And if it is new, the trend right now is not towards putting in a room, commercial or architectural or residential, fewer lighting spots. It's to put more lighting spots.

Now whether within a bulb you're going to have a lesser number of chips, my feeling is that you're going to have a lesser number of chips.

<Q – Mark Miller – Noble Financial Capital Markets>: So do you have any feeling, is it going to go from 20 to 10, or any feeling on that?

<A – Nick Konidaris – Electro Scientific Industries, Inc.>: I really don't have any feeling, but I think the trended is towards lesser because, as LEDs become more efficient with advanced technology, you get the same luminance with fewer number of chips.

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

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

Operator: And ladies and gentlemen, that concludes the Q&A session. I'd now like to turn the call back over to Mr. Nick Konidaris. Please proceed.

Nick Konidaris, President and Chief Executive Officer

In summary, we completed a challenging but productive quarter. We met our financial projections. We focused our resources and lowered the expense burden we carry. The markets of semiconductor LED and component test maybe cyclical, but they represent attractive growth opportunities for ESI. We'll continue to deliver industry-leading performance and service to our customers and drive growth as our markets recover. 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. Thanks for your interest in ESI.

Operator: Ladies and gentlemen, that concludes the presentation. Thank you for your participation. You may now disconnect. Have a great day.

