



ESI Announces Fiscal 2006 Third Quarter Results

PORTLAND, Ore.--(BUSINESS WIRE)--March 22, 2006--Electro Scientific Industries, Inc. (Nasdaq:ESIO) today announced results for its fiscal 2006 third quarter ended February 25, 2006.

Third quarter sales were \$55.9 million, up 15% compared to second quarter sales of \$48.6 million and up 14% compared to prior year third quarter sales of \$49.1 million. Operating income for the quarter was \$4.9 million, compared with operating income of \$1.8 million in the second quarter and operating income of \$2.7 million in the third quarter a year ago. Net income for the quarter was \$10.4 million, or \$0.36 per basic and \$0.35 per diluted share, compared with net income of \$3.2 million, or \$0.11 per basic and diluted share, in the second quarter and net income of \$2.0 million, or \$0.07 per basic and diluted share, in the third quarter a year ago.

Included in the third quarter 2006 results was a \$5.3 million tax benefit as described below.

Net orders for the third quarter were \$53.0 million, a decrease of 18% compared with \$64.9 million in the second quarter and an increase of 33% compared with \$39.8 million in the third quarter of 2005. Deferred revenue increased \$2.3 million from the second quarter, ending the third quarter at \$15.6 million.

"The industry environment during the quarter was generally favorable and indicative of steady growth," noted Nick Konidaris, ESI's president and chief executive officer. "This quarter's financial performance reflects stable growth trends across each of our market segments. Financially, we met our revenue and profit targets, recorded the strongest 6-month order book since the summer of 2004, grew revenue 15% sequentially, delivered a ninth consecutive quarterly operating profit -- the highest in over a year, and maintained a strong balance sheet."

Konidaris continued, "With the incremental investment in R&D over the past year, ESI has one of the strongest product portfolios in the market segments we serve. As we progress through a year with improving market conditions, we plan to leverage our leading technology to grow in both existing and new markets."

Gross margin of 45 percent during the quarter was up from 44 percent in the prior quarter. The gross margin improvement was primarily the result of favorable overhead absorption on increased production levels.

Operating expenses were \$20 million, up \$0.6 million from the prior quarter. The increase in operating expense was the result of a planned increase in research and development expense to develop next-generation products.

Other income of \$1.8 million was down from \$2.3 million in the second quarter. Other income in the second quarter included \$700 thousand in interest income from an IRS refund. Excluding the impact from the IRS refund, other income was up \$200 thousand in the third quarter due to higher interest income on investments.

The income tax benefit for the third quarter of fiscal 2006 was \$3.7 million on pre-tax income of \$6.7 million, compared to income tax expense of \$0.9 million for the second quarter of fiscal 2006. The effective tax rate in the third quarter of fiscal 2006 was a benefit of 55% compared to an expense of 22% in the second quarter of fiscal 2006. The third quarter tax benefit resulted from a \$5.3 million reduction in accrued income taxes due to the statutory closure of various tax years.

Cash and investments were \$226 million, down from \$231 million at the end of the prior quarter. Cash decreased during the quarter primarily due to an increase in accounts receivable and capital expenditures related to the ERP implementation, and was partially offset by net income for the quarter. Third quarter expenditures totaled approximately \$4 million for the project to implement a new ERP system.

Konidaris added, "In an environment of steady growth, yet cautious optimism, we believe fourth quarter shipments and revenue will continue to be in the range of \$50 million to \$60 million. We expect the gross margin percentage in the fourth quarter to be slightly lower than the third quarter due to a change in product mix. We expect operating expense to increase slightly to the range of \$20 million to \$21 million in the fourth quarter as we incur expenses related to the launch of our new ERP system. We

expect non-operating income to be approximately \$2 million. We expect the tax rate for the fourth quarter to be approximately 21%."

The company will hold a conference call today at 5:00 p.m. Eastern Time. The session will include a review of the financial results, operational performance, business outlook, and a question and answer period.

The conference call can be accessed by calling 800-374-2470 (domestic participants) or 706-634-5108 (international participants). A live audio webcast can be accessed at www.esi.com. Upon completion of the call, an audio replay will be accessible through March 29, 2006, at 800-642-1687 (domestic participants) or 706-645-9291 (international participants), with conference ID number 6715077. The audio replay will also be available on the ESI website.

Forward-Looking Statements

This press release includes forward-looking statements concerning the markets we serve, shipments and revenue, gross margins, operating expenses, non-operating income, and tax rates. Actual results may differ materially from those in the forward-looking statements. Risks and uncertainties that may affect the forward-looking statements include: the relative strength and volatility of the electronics industry -- which is dependent on many factors including component prices, global economic strength and political stability, and overall demand for electronic devices (such as capacitors, semiconductor memory devices and advanced electronic packages) used in wireless telecommunications equipment, computers and consumer and automotive electronics; the risk that customer orders may be canceled or delayed; the ability of the company to respond promptly to customer requirements; the ability of the company to develop, manufacture and successfully deliver new products and enhancements; the risk that customer acceptance of new or customized products may be delayed; the ability of the company to achieve anticipated cost reductions and savings; the company's need to continue investing in research and development; the company's ability to hire and retain key employees; the company's ability to create and sustain intellectual property protection around its products; the company's ability to utilize recorded deferred tax assets; taxes, interest or penalties resulting from tax audits; and changes in tax laws or the interpretation of such tax laws.

About ESI

Electro Scientific Industries, Inc. (ESI) is a global supplier of manufacturing equipment to increase productivity for customers in the semiconductor, passive components and electronic equipment markets. As an innovator in the electronics industry, ESI has a legacy of technology firsts and customer recognition for product excellence. The advanced electronic devices you see and use around the world today -- cell phones, personal computers, digital cameras, PDAs, even automotive electronics -- contain components that were likely manufactured with ESI equipment. The company was founded in 1944 and is headquartered in Portland, Oregon. ESI's web site is <http://www.esi.com>.

Electro Scientific Industries, Inc.
FY 2006 Results
(In thousands, except per share data)
(Unaudited)

Operating Results:	Three months ended		Nine months ended	
	Feb. 25, 2006	Feb. 26, 2005	Feb. 25, 2006	Feb. 26, 2005
Net sales	\$55,937	\$49,084	\$149,088	\$187,708
Cost of sales	31,040	27,646	83,376	96,558
Gross profit	24,897	21,438	65,712	91,150
Operating expenses:				
Selling, service and administration	11,287	12,290	33,729	40,254
Research, development and engineering	8,708	6,400	24,520	20,706
Patent infringement settlement and related legal fees	-	-	-	2,240
Total operating expenses	19,995	18,690	58,249	63,200

Operating income	4,902	2,748	7,463	27,950
Net interest income (expense)	1,957	83	5,775	(166)
Other expense, net	(158)	(161)	(465)	(485)
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Total other income (expense)	1,799	(78)	5,310	(651)
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Income before income taxes	6,701	2,670	12,773	27,299
Provision for (benefit from) income taxes	(3,656)	672	(2,119)	6,709
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Net income	\$10,357	\$ 1,998	\$ 14,892	\$ 20,590
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Net income per share - basic	\$ 0.36	\$ 0.07	\$ 0.52	\$ 0.73
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Net income per share - fully diluted	\$ 0.35	\$ 0.07	\$ 0.51	\$ 0.72
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Electro Scientific Industries, Inc.
Analysis of FY 2006 Results
(Dollars and shares in thousands)
(Unaudited)

	Three months ended		Nine months ended	
	Feb. 25, 2006	Feb. 26, 2005	Feb. 25, 2006	Feb. 26, 2005
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Sales detail:				
Semiconductor Group	\$40,515	\$29,712	\$ 93,653	\$109,383
Passive Components Group	9,179	12,479	32,261	51,061
Electronic Interconnect Group	6,243	6,893	23,174	27,264
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Total	\$55,937	\$49,084	\$149,088	\$187,708
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Gross margin %	45%	44%	44%	49%
Selling, service and administration expense %	20%	25%	23%	21%
Research, development and engineering expense %	16%	13%	16%	11%
Operating income %	9%	6%	5%	15%
Effective tax rate %	-55%	25%	-17%	25%
Average shares outstanding - basic	28,904	28,492	28,751	28,383
Average shares outstanding - fully diluted	29,256	28,600	29,022	28,533
End of period employees	601	571	601	571

Electro Scientific Industries, Inc.
FY 2006 Results
(Amounts in thousands)
(Unaudited)

Financial Position As Of:	Feb. 25, 2006	Nov. 26, 2005	May 28, 2005
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Assets			
Current assets:			

Cash and cash equivalents	\$ 94,764	\$ 93,908	\$ 61,314
Marketable securities	129,779	129,484	137,753
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Total cash and securities	224,543	223,392	199,067
Trade receivables, net	47,382	35,307	36,163
Income tax refund receivable	1,227	1,418	9,227
Inventories	61,031	59,908	59,533
Shipped systems pending acceptance	4,700	3,265	4,014
Deferred income taxes	12,442	13,107	10,930
Prepaid and other current assets	4,367	4,964	3,169
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Total current assets	355,692	341,361	322,103
Long-term marketable securities	960	7,380	19,834
Property, plant and equipment, net	42,273	38,310	32,959
Deferred income taxes, net	13,111	14,673	16,955
Other assets	17,420	16,213	11,706
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Total assets	\$429,456	\$417,937	\$403,557
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Liabilities and shareholders' equity			
Current liabilities:			
Accounts payable	\$ 9,080	\$ 11,291	\$ 3,961
Accrued liabilities	24,234	28,747	29,455
Deferred revenue	15,637	13,342	12,986
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Total current liabilities	48,951	53,380	46,402
Shareholders' equity:			
Preferred and common stock	165,248	159,943	156,367
Retained earnings	216,091	205,734	201,199
Accumulated other comprehensive loss	(834)	(1,120)	(411)
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Total shareholders' equity	380,505	364,557	357,155
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Total liabilities and shareholders' equity	\$429,456	\$417,937	\$403,557
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End of period shares outstanding	28,993	28,737	28,615
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Total cash and investments	\$225,503	\$230,772	\$218,901
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Electro Scientific Industries, Inc.
FY2006 Results
(Amounts in thousands)
(Unaudited)

Consolidated Statements of Cash Flows:	Nine months ended	
	Feb. 25, 2006	Feb. 26, 2005
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CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 14,892	\$ 20,590
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization	6,886	7,176
Tax benefit of stock options exercised	1,525	637
Provision for doubtful accounts	(167)	199

Loss on disposal of property and equipment	56	281
Deferred income taxes	2,347	6,271
Changes in operating accounts:		
(Increase) decrease in trade receivables, net	(11,796)	16,645
(Increase) decrease in income tax refund receivable	8,000	(1,642)
Increase in inventories	(685)	(11,781)
(Increase) decrease in shipped systems pending acceptance	(686)	3,059
Increase in prepaid and other current assets	(1,229)	(1,346)
Increase (decrease) in accounts payable and accrued liabilities	579	(18,407)
Increase (decrease) in deferred revenue	2,651	(3,413)
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Net cash provided by operating activities	22,373	18,269
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CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(15,211)	(3,397)
Proceeds from sale of property and equipment	-	92
Proceeds from sale of assets held for sale	-	2,361
Change in investments, net	26,579	45,178
Increase in other assets	(6,633)	(827)
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Net cash provided by investing activities	4,735	43,407
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CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from exercise of stock options and stock plans	6,342	5,690
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Net cash provided by financing activities	6,342	5,690
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NET CHANGE IN CASH AND CASH EQUIVALENTS	\$ 33,450	\$ 67,366
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	\$ 61,314	\$ 80,358
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CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 94,764	\$147,724
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SOURCE: Electro Scientific Industries, Inc.