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CORPORATE PARTICIPANTS

Brian Smith *Electro Scientific Industries, Inc. - Director of IR*

Michael D. Burger *Electro Scientific Industries, Inc. - CEO, President and Director*

Paul R. Oldham *Electro Scientific Industries, Inc. - CFO, SVP of Administration and Corporate Secretary*

CONFERENCE CALL PARTICIPANTS

David Duley

Jaeson Schmidt *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

John Dennis Delafield *Delafield Hambrecht, Inc. - Chairman of the Board, CEO, President, and Portfolio Manager*

Thomas Robert Diffely *D.A. Davidson & Co., Research Division - SVP and Senior Research Analyst*

PRESENTATION

Operator

Greetings, ladies and gentlemen, and welcome to the ESI Fiscal 2017 Quarter 4 Earnings Call. My name is Sheena, and I will be your operator for today. (Operator Instructions)

I would now like to turn the conference over to Brian Smith. Please proceed.

Brian Smith - *Electro Scientific Industries, Inc. - Director of IR*

Thank you, Sheena. And good afternoon, everyone. My name is Brian Smith, Director of Investor Relations for ESI. With me today are Michael Burger, our CEO; and Paul Oldham, our Chief Financial Officer. This call will cover our fiscal fourth quarter 2017 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 statement. These statements are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These statements are subject to 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 these forward-looking statements. This call also contains time-sensitive information that we believe to be accurate as of today, May 9, 2017, and which could change in the future. This call is the property of ESI.

Now I'll turn the call over to Michael.

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

Thank you, Brian. Good afternoon, and welcome to our call. Our fourth quarter was a strong one with revenues growing 48% from last quarter, reaching a level consistent with last year. The combination of higher adjusted gross margins and diligent expense control allowed ESI to generate solid adjusted EBITDA and earnings. Orders nearly doubled from last quarter to $82.3 million driven primarily by our flex business. However, we experienced improvement in all of our markets, PCB, semiconductor, component test, industrial machining, with orders improving over Q3 and over the same quarter a year ago.

We mentioned last quarter that we were seeing a strong demand cycle in flex drilling, just as we had a year ago at this time. However, demand is being driven by increases in projected unit demand for smart mobile devices that require more flex circuits per device. These circuits are utilizing new materials and have higher via density used in applications such as OLED display, enhanced battery management and increased sensor technologies. We believe these factors will continue to drive overall growth in flex market over the next several years.

Demand was more broad based than in the same quarter a year ago with several new customers and no single customer making up the majority of orders. Clearly, we benefited from the seasonal order strengthen in the March quarter, which we do not expect to be repeated in Q1. However, we are encouraged by the broader customer base in Q4 and the general market momentum, which is stronger than a year ago.

While we expect our order rate to be seasonally lower over the next several quarters, we are working to defend and strengthen our competitive position in the flex drilling market, as we also drive new products into adjacent markets. Progress has been made in driving new product adoption with the recent order for our new Ultrus wafer scribing tool and a multi-unit order in Q1 from a new customer for our nViant HDI via drilling platform.

While we're encouraged with this activity, it is still too early in the adoption cycle to call these products successful and ready for broader adoption.

As you will recall, we announced in February, our intentions to restructure ESI. There were 2 components to this restructuring. The first was to lower our expense base in order to reduce our quarterly revenue breakeven to a more sustainable level, which will increase the consistency of earnings over time. Also, we identified the need to improve our execution across many aspects of our business. In order to accomplish both of these goals, we announced a reorganization of ESI into a functional organizational structure with the new management team. I am very pleased with the initial results. We now have in place proven leaders in our global manufacturing, sales, engineering and marketing organizations. This team has identified the specific cost reduction actions that will enable us to meet our announced expense and revenue breakeven targets in the time frame that we outlined in February.

In addition, we are going through the process of prioritizing our investments to ensure we are funding the best opportunities for growth. While this impacts revenue over -- while this may impact revenue over the next few quarters, we believe the outcome will be a more diversified and sustainable growth portfolio over time.

In conjunction with the reorganization, we also announced an annual success model that we will use to guide and gauge our progress. The success model is intended to be a target that's attainable within the next 8 to 10 quarters. The first metric in this model is adjusted gross margin, with our initial target set at 44%. The second metric is adjusted EBITDA with an initial target of 8%. Once we have achieved our success model, on an annual basis, we will then set new higher targets for the future.

With that I'll turn the call over to Paul for an overview of our financial results.

Paul R. Oldham - *Electro Scientific Industries, Inc. - CFO, SVP of Administration and Corporate Secretary*

Thank you, Michael, and good afternoon, everyone. The following information includes results from our fourth quarter and fiscal year 2017, which ended April 1. To improve comparability, we are also providing earnings per share and related income statement results on a non-GAAP or adjusted basis, excluding the impact of purchase accounting, equity compensation, restructuring, asset impairment and other item.

Before I begin, I would like to comment on the status of our reorganization efforts. In addition to the management changes Michael mentioned, we have closed our sites in Montréal, Sunnyvale and Napa; initiated the headcount reductions required to achieve our cost model; begun the efforts to refocus and prioritize our investment; and reorganized the company into a more functional streamline structure. As a result, we expect to report our business going forward in a single segment. We will continue to provide revenue information on our key market, which will be printed circuit board, or PCB, which includes our flex HDI and packaging products; semiconductor, which includes all wafer-based products; component test, which includes our traditional MLCC products and tooling; and what we will now call industrial machining, which includes our traditional lower-cost machining and inspection tools; but also reflects a broader market focus including not just consumer electronics, but also automotive, aerospace, medical and display end market, where we believe we can bring differentiated products to the market over time.

In conjunction with these business changes, we have recorded total charges this quarter of $18.1 million. This includes $6.6 million of restructuring cost and operating expense, of which $3.9 million is labor related and $2.7 million of asset impairments and lease obligations related to facility closures. In addition, we impaired inventory related to discontinued products of $1.7 million.

Finally, as part of our initial portfolio reprioritization process, we are moving away from some of the lower-cost commodity systems that we were planning to manufacture at Topwin. As a result, we recognized impairment for goodwill and intangible asset of approximately $9.8 million related to our Topwin acquisition. Of the total onetime charges this quarter, approximately $13 million is noncash related.

Looking forward, we expect an additional $1 million to $2 million of restructuring and $3.5 million to $4.5 million of inventory and asset impairments to be recognized in Q1 as we conclude our program reviews and detailed action plans. While difficult, we believe these actions position us with a much more sustainable cost structure going forward and will enable us to protect the downside and seasonally lower quarters and improve our profitability as we grow.

Now moving on to the operating results for the quarter. Bookings were $82.3 million, up 87% from last quarter and up 48% from a year ago. This represented our highest bookings in more than 5 years and was driven by strength across all our major product. Bookings were particularly strong in flex, which were more than double last quarter's level and over 10% higher from last year's Q4. Demand in our semiconductor products is well above last year and last quarter due to strengthened wafer mark and trim as well as a few orders for legacy memory repair tools.

In addition, as Michael mentioned, we received an order for our new semiconductor scribe tool and see opportunity to begin to get broader adoption over the next several quarters.

Component test product demand also increased from last quarter and last year on strong system demand, as we are seeing modest capacity additions in this market driven by mobile and IoT growth, especially in China. Demands for what we now call our industrial machining products grew both year-over-year and sequentially, driven by orders for our new Garnet platform. As we have mentioned, this is a project-oriented market, and recently our wins have been more modest in size.

Our service business also had a good quarter, with orders growth both year-over-year and sequentially on strong contract renewals and time and material business. Shipments were $54.4 million and backlog of $69.5 million is at its highest level in over 4 years. Our book-to-bill ratio was 1.5:1.

Revenue for the quarter was $49.9 million, down 3% from last year's fourth quarter but up 48% sequentially. Systems revenue grew by nearly $15 million sequentially, although it was down year-over-year, while service revenue grew compared to last quarter and last year.

GAAP gross margin was 36.5% and included about $550,000 of purchase accounting and equity compensation in cost of sales. It also included approximately $4 million of noncash charges related to the inventory and intangible asset impairments I mentioned earlier.

On a non-GAAP basis, gross margin was 45.7%, compared to 42.7% a year ago on similar volume. The improvement was due to favorable product mix, lean improvements and the material cost reduction. Margins were up from last quarter's, 34.5% on additionally higher volume and relatively lower cost.

Looking forward to next quarter, we expect adjusted gross margin to be roughly flat on higher volume, offset by less favorable mix and timing of other cost of sales.

GAAP operating expense were $36.3 million and included $2.1 million of equity compensation and purchase accounting. It also included $6.6 million of restructuring charges and a noncash charge of $7.4 million to impair the goodwill associated with our Topwin acquisition, as I mentioned earlier.

On a non-GAAP basis, operating expenses were $20.1 million, above last quarter on higher variable costs and new product expenses and above a year ago due to the Visicon acquisition.

Looking forward, we expect adjusted operating expenses to increase next quarter on variable costs associated with higher revenues and profits and then to decline as our restructuring initiatives take effect. We expect to achieve most of the cost reductions in our second quarter and be fully at our new operating model by the end of Q3.

On a GAAP basis, operating loss was $18.1 million. Non-GAAP operating income was $2.7 million or 5.4% of sales compared to income of $3.3 million a year ago. Adjusted EBITDA was $4.6 million or 9.2% of sales. Income tax represented a small benefit on both the GAAP and non-GAAP basis, largely a result of credits related to expiration of the statute of limitations on uncertain tax positions. We expect Q1 tax expense to normalize back to around $300,000 to $400,000 per quarter.

GAAP net loss was $17.9 million or $0.54 per share. This compares to net income of $0.06 per diluted share last year. The variance is due to the restructuring-related charges and impairments taken in Q4 of this year. Adjusted net income was $2.9 million or $0.09 per diluted share compared to income of $3.4 million or $0.11 per diluted share last year.

Turning now to the balance sheet. Total cash and investments were $66.5 million at quarter end, up from $54.3 million last year. Of this amount, $62.4 million reflects unrestricted cash and current investment. The increase in cash was due to the proceeds from the $14 million in long-term debt secured by our corporate headquarters facility that we announced in January.

From an operating cash perspective, we used only $1.1 million in operating cash during the quarter despite significantly higher sequential revenues. For the year, operating cash usage was just $800,000. Accounts receivable increased by $12.9 million to $40.5 million. DSO was flat at roughly 75 days. Inventories remained flat sequentially at $58.9 million despite higher planned shipments in Q1. Inventory turns were approximately 2.2x. Accounts payable and accrued liabilities increased by $12.6 million related to the timing of inventory purchases and restructuring liabilities. DPO was 76 days. Capital expenditures were $631,000, below our target model of 2% to 3% of sales. Depreciation and amortization, excluding purchase accounting, was $2.1 million.

As we look forward, we are starting fiscal 2018 with our highest backlog in several years, a plan to lower our expense base and a stronger market environment than 1 year ago. However, we are still subject to low visibility, seasonality in our markets and do not expect business to continue at this quarter's levels. As such, our focus this year is on delivering a more sustainable business model that will protect the downside and deliver upside on revenue growth. We are refining and focusing our investments on new products that, although they may still take some time, will enable us to grow profitably and deliver more consistent earnings over time.

For Q1, we expect revenue to be in the low $60 million range and non-GAAP earnings per diluted share to be between $0.15 and $0.20. Given the dynamics in the market, we are not providing specific guidance for the fiscal year.

This concludes our prepared remarks. At this time, we would be pleased to take your questions. Sheena?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Tom, your line is open.

Thomas Robert Diffely - *D.A. Davidson & Co., Research Division - SVP and Senior Research Analyst*

I guess, not a bad order level in the year. So on the orders themselves, what are the delivery timing of the order backlog that you have right now or should I say backlog?

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

Yes, it's largely loaded Q1 with some spillage -- minimal spillage into Q2.

Thomas Robert Diffely - *D.A. Davidson & Co., Research Division - SVP and Senior Research Analyst*

Okay. And then when you look at the actual breakdown of the backlog. You said that it was up across the board, and flex was the biggest portion. Were any other components or product types unusually meaningful during the quarter?

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

No. Our component test business has actually been really strong most of the year, and not just in systems, but also in some of the tooling, which we think is kind of indicative to some of this growth that we're seeing in the RF space. So doing small-sized capacitors and testing small-sized capacitors is one of the major functions. And as you know, these really tiny chips are being used in a lot of wireless devices. And so we've seen that be relatively steady and actually very healthy not just in the quarter, but throughout the year.

Thomas Robert Diffely - *D.A. Davidson & Co., Research Division - SVP and Senior Research Analyst*

Okay. And then on the flex side, you mentioned that the customers -- you're seeing a broadening of the customer base. Are you seeing new customers come to the market? Or is it just you're gaining share among the existing customers?

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

I think a bit of both. I think we're gaining share, and I think we've got some customers that have not either traditionally been in the flex space, they've been in the interconnect space but perhaps not flex, and/or they're new to ESI. But with our share, there's -- which we estimate in the high 70s to low 80%, we've seen most of them. So seeing new customers in the space is really healthy, I think, for the company.

Thomas Robert Diffely - *D.A. Davidson & Co., Research Division - SVP and Senior Research Analyst*

Okay. And then from a geographic point of view, is it Asia centric at this point?

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

Yes, primarily Asia.

Thomas Robert Diffely - *D.A. Davidson & Co., Research Division - SVP and Senior Research Analyst*

Okay. And then finally on the flex side, is there some type of measuring stick, like utilization rates, that you use in that industry to see kind of where the supply-demand equation is?

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

We do track utilization. And I think we've said maybe a couple of conference calls again -- ago that we thought that utilization was very, very high. And actually, I think that's actually trickled through, with utilizations high and then increased demand for phones, it drives capacity, which is really what we sell machines for. So yes, I think utilization was really very high, and that's what's driven, I think, the additional capacity needs.

Thomas Robert Diffely - *D.A. Davidson & Co., Research Division - SVP and Senior Research Analyst*

Okay, great. And then finally, Paul, when you look at the service business, on the GAAP reports, it looks like you had a huge margin. Wonder if there was onetimers in the service margin. And what is driving the strength in service right now?

Paul R. Oldham - *Electro Scientific Industries, Inc. - CFO, SVP of Administration and Corporate Secretary*

Yes. I think it's largely kind of a mix of our contract revenue, which was quite good this quarter relative to the cost of that, and that can kind of ebb and flow quarter-to-quarter. And there was also a good mix of laser repair, which tends to be better margin as well.

Thomas Robert Diffely - *D.A. Davidson & Co., Research Division - SVP and Senior Research Analyst*

Okay. And those are service contracts for the laser repair businesses?

Paul R. Oldham - *Electro Scientific Industries, Inc. - CFO, SVP of Administration and Corporate Secretary*

No, service contracts in general. If you look at the activity that underlies those, there will be periods of times where there's a lot of activity that support those contracts and times when there's less. It just happened to be a good quarters mix-wise for us. And then separately, we had a good mix of laser repair in this quarter.

Operator

Your next question comes from the line of Jaeson Schmidt.

Jaeson Schmidt - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Just wanted to start in the industrial machining market. I know you guys are looking to expand outside the consumer space. Just wondering how traction is going there on -- what you're seeing from a customer feedback standpoint.

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

We're actually -- we're really encouraged. We've gotten a lot of really good feedback. The consumer market, as you know, is a very fast paced and ramps very, very quickly. And a couple of the markets that we're seeing some initial traction on are going to take a little bit longer, but I think the answer to your question is very encouraging.

Jaeson Schmidt - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Okay. That's helpful. And then just following up on a previous question. In the PCB market, any changes in the competitive landscape that you're seeing?

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

No, actually not. The 2 big guys are still there. There's a couple guys kind of biting at their ankles. We're one of them. As we've mentioned on the script that we've -- we're beginning to see some nice traction on our nViant tool, which is aimed at that space. Still early days, but the 2 big guys are still the dominant players today.

Jaeson Schmidt - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Okay. And I know a big part of kind of the growth going forward will be tied to these new products. How should we think about these new products comprising a certain percentage of your revenue looking towards the end of this year? Are there any goalposts you can provide to help us out there?

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

Well, we haven't actually given forward guidance on any of the new product set. I think we're looking at markets -- for example, the HDI space, which we estimate to be several hundred thousand perhaps, $250 million to $400 million annually. And I think we would consider ourselves very successful if we had a 10% market share at the end of a 3-year period. I think that's kind of the only goalpost that we've talked about externally. Obviously, internally, we've got more metrics than you can check stick at, and we track all of it. But publicly, we've really stated that I think a 10% market share in a 3-year period would be success.

Jaeson Schmidt - *Lake Street Capital Markets, LLC, Research Division - Senior Research Analyst*

Okay. No, that's helpful. And then just last one for me and I'll jump back in the queue. Paul, how should we think about CapEx this year?

Paul R. Oldham - *Electro Scientific Industries, Inc. - CFO, SVP of Administration and Corporate Secretary*

I think CapEx are going to run sort of -- this quarter was a little low, but I think in this range of the last 2 quarters, in sort of the $0.5 million to $1 million per quarter is the right range. It will be a little under our 2% to 3% model. And there could be some timing between quarters, but I think that range is a reasonable range.

Operator

Your next question come from the line of David Duley with Steelhead Securities.

David Duley

I was wondering, did you recognize any revenue during the quarter from the nViant or the IC packaging, drilling products?

Paul R. Oldham - *Electro Scientific Industries, Inc. - CFO, SVP of Administration and Corporate Secretary*

Yes, we did not. We did ship the bulk of the order we discussed in December during the quarter but was not recognized, the revenue, on those products at this point.

David Duley

And would you expect that to hit in the June quarter?

Paul R. Oldham - *Electro Scientific Industries, Inc. - CFO, SVP of Administration and Corporate Secretary*

Yes, I would say that would be consistent with the timing we expect to see.

David Duley

Okay. And then as far the order number, I'm not quite sure, was there any of these 2 new products for these big markets in the order number during the quarter?

Paul R. Oldham - *Electro Scientific Industries, Inc. - CFO, SVP of Administration and Corporate Secretary*

Not really. No. I mean, this was largely our existing products. We did, as Michael mentioned, had an order for the Ultrus tool, which is a semiconductor scribing tool. But the order that we -- the next order we received in nViant happened early in Q1.

David Duley

Okay. And then you mentioned, I guess, inside your micro -- or in your micromachining bucker going forward, I know you retermed it, but that's what I'm still calling it. But there's going to be some kind of new markets. I think medical and automotive were brought up. Could you just talk about what the opportunities are there in those kind of end markets and if you've got revenue stream in those markets yet?

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

We've not seen revenue yet. But I think the way to really describe the differences -- as you know, a lot of the consumer business that we were doing is really cosmetic in nature. And while it's large business and very fast paced, it really -- it ends up kind of living and dying with the model of the device that was actually operated on. What we're focusing on is really functionally changing devices. So versus cosmetic, actually, doing some functional machining. And so applications in the automotive space, aerospace, medical, where we actually provide a machining function very similar that has been done with the old tool and die machines now being executed with the lasers is really the focus. And we're finding that there's a number of industries that are actually converting from kind of the old standard way of doing machining to laser based, and that's really where we've seen some traction. So we're pretty excited by it. But we've not actually -- we've not called success there yet nor have we seen revenue from the industrial side of that business yet.

David Duley

Okay. And then, I guess, final one from me -- or actually, I just had 2 questions. The breakeven after you're done with all of the cost cutting, I know you've mentioned that before, if you could just remind us what that was. And then you mentioned this kind of Topwin write-down. That was something that you purchased not too long ago. Could you just kind of explain why you're writing it down, and what the circumstances are would be appreciated?

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

I'll take the Topwin answer and then Paul can talk about the restructuring. So we have -- as we mentioned in our script, we're spending a lot of time looking at our product portfolio. And the Topwin product portfolio is primarily a very low-end-focused machine set. And as a result, we believe that long term, it's probably not going to fit in our product portfolio, and that's actually what drove the write-down.

David Duley

And so at this stage, you've basically written the whole thing, I guess, then?

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

Well, I think while we're writing the goodwill down, we are investing in the facility there. And we now have the capability of manufacturing in China, which we will utilize, for sure. And so what we've written down is really the goodwill on the Topwin acquisition, but the facility itself still is under ESI control, and we will continue to invest there as needed. But really, the goodwill is around the acquisition and the purchase of the business.

Paul R. Oldham - *Electro Scientific Industries, Inc. - CFO, SVP of Administration and Corporate Secretary*

Okay. So related to the model, the model we discussed, David, was that we'd like to have a baseline model where we can break even on a non-GAAP income -- operating income level of about $40 million, which is an EBITDA -- an adjusted EBITDA breakeven of $35 million. And that's really the target is to be at a mid-$30 million -- mid-30s of revenue and still not burn cash, if you will. So we think about it as an adjusted EBITDA target at $35 million. That's the equivalent. Since we've talked about as an income breakeven in the past, we kind of provide both of those numbers.

Operator

Your next question comes from the line of Tom Diffely with D.A. Davidson.

Thomas Robert Diffely - *D.A. Davidson & Co., Research Division - SVP and Senior Research Analyst*

Just to follow up on the last Topwin question. I was curious, are you able to leverage the sales and service from Topwin still with the new product lineup? Or is it going to be a different market altogether?

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

No, we are leveraging the personnel at Topwin. We have a selling organization that's really focused kind of on the local market there. And there are some skills at Topwin that we will be leveraging.

Operator

Your next question comes from the line of John Delafield with DHI.

John Dennis Delafield - *Delafield Hambrecht, Inc. - Chairman of the Board, CEO, President, and Portfolio Manager*

So on the general restructuring item, have the manufacturing operations that was [just in the] Singapore gone there?

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

Yes. We're in the process of transferring -- the products that were being manufactured here in Portland will be manufactured in Singapore. That takes a bit of time, but we are definitely in the process.

John Dennis Delafield - *Delafield Hambrecht, Inc. - Chairman of the Board, CEO, President, and Portfolio Manager*

Yes. And that won't disrupt any of these orders that we're trying to fill in the second -- or first fiscal quarter?

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

No. Luckily, the vast majority of where we're seeing demand is actually in products that are already being manufactured at Singapore with the one exception, which is the Ultrus, the new tool that we've talked about, which is still being manufactured kind of an engineering, [MPI] perspective here. That will also transfer to Singapore. But no, we're very fortunate in that the bulk of the backlog is already set up to be manufactured in Singapore, including all of our laser set.

John Dennis Delafield - *Delafield Hambrecht, Inc. - Chairman of the Board, CEO, President, and Portfolio Manager*

Okay. And have you consolidated the inspection business and the other facilities that you were planning to close and relocate? Or is that in progress?

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

We have. No, I'm really excited. I think we're out of the bulk of the facilities that we've talked about. When I say out of, I mean, people have been transferred. The bulk of the folks that we needed from Napa are here, and operations have already moved. But we're still dealing with leases and we've got some equipment that we're still moving around. But we're functionally out of those facilities, and I'm very pleased at the speed at which that happened.

John Dennis Delafield - *Delafield Hambrecht, Inc. - Chairman of the Board, CEO, President, and Portfolio Manager*

Okay. Is the inspection business and the ability to integrate that in some of the laser systems less, the same or more intriguing than you thought 3 months ago?

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

I actually think it's more intriguing, I think, particularly as these -- the via sizes continue to drop. The HDI guys actually use inspection as a secondary step. And we're pretty excited about the ability of actually inculcating that into our current system. So it's a competency that we've not really fully explored or really, I guess, leveraged is the right word other than in the medical business that we bought with Visicon. But our engineering team, Mr. Harris and group are diligently working to figure out how do we actually create a differentiated value. So that, coupled with this industrial micromachining business where inspection is a big part of it already, I think we've got a winner there. I really do. And we've retained some of the key technology guys through the Napa integration.

John Dennis Delafield - *Delafield Hambrecht, Inc. - Chairman of the Board, CEO, President, and Portfolio Manager*

Okay. Will you take any of the -- Paul, will you take any of the cash that you generate through these strong quarters and pay down the facility? Or you just -- what do you do with that cash you just accumulated?

Paul R. Oldham - *Electro Scientific Industries, Inc. - CFO, SVP of Administration and Corporate Secretary*

Yes. I think, at this point, we put the facility in place for a really long-term security, and we would anticipate that cash we would generate we would use first to fund some of this restructuring activity; but secondly, to grow the business. And by grow the business, I don't mean acquisitions. I'm talking about making sure we've got the appropriate funding to continue to have the flexibility to grow within the markets that we're in.

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

Yes. I think you know the -- yes, go ahead, J.D. No, no, that's fine. Go ahead.

John Dennis Delafield - *Delafield Hambrecht, Inc. - Chairman of the Board, CEO, President, and Portfolio Manager*

Okay. I was just going to ask if -- are there any key hires that you have (inaudible)?

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

No, I'm proud to say we are -- at least at my staff level, we are a full boat. And I will say that each of my guys are now looking at their staffs. And yes, there are some holes here, I think, we need to fill. But at a senior executive perspective, I've got a full staff.

Operator

At this time, there are no more questions in queue. I will now turn the call back over to Michael Burger.

Michael D. Burger - *Electro Scientific Industries, Inc. - CEO, President and Director*

Well, I appreciate everybody being on the call today. As you can tell, we're excited with the progress that we're making, and we're anxious to give you another update next quarter. So appreciate your interest. Thank you.

Operator

Ladies and gentlemen, that concludes today's conference. Thank you for your participation. You may now disconnect. Have a wonderful day.