ELECTRO SCIENTIFIC INDUSTRIES INC
Form 10-K/A
August 11, 2003

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K/A
Amendment No. 1

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the Fiscal Year Ended June 1, 2002

Commission File Number: 0-12853

ELECTRO SCIENTIFIC INDUSTRIES, INC.

(an Oregon corporation)

93-0370304
(I.R.S. Employer Identification No.)

13900 N.W. Science Park Drive, Portland, Oregon 97229

Registrant's telephone number: (503) 641-4141

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, without par value
Preferred Stock Purchase Rights

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes |X| No |_|

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. |X|

The aggregate market value of voting stock held by nonaffiliates of the Registrant was approximately $496,195,162 as of July 31, 2002 based upon the closing sales price ($17.96) of the Registrant's Common Stock as reported by the Nasdaq Stock Market.

The number of shares outstanding of the Registrant's Common Stock at July 31, 2002 was 27,627,793 shares.

DOCUMENTS INCORPORATED BY REFERENCE:

None.

Explanatory Note

This Amendment No. 1 on Form 10-K/A amends our annual report on Form 10-K for the fiscal year ended June 1, 2002 which was filed on August 20, 2002. The amendment is a result of the restatement of our audited consolidated financial statements for the fiscal year ended June 1, 2002 (and the quarters contained therein). We have also restated our unaudited consolidated condensed financial statements for the quarterly periods ended August 31, 2002 and November 30, 2002 and have filed amendments on Form 10-Q/A for those periods. The restatement reflects adjustments to net sales, cost of sales and certain operating expenses, and the related balance sheet accounts.

We have amended each item of our annual report on Form 10-K for the fiscal year ended June 1, 2002 that has been affected by the restatement. This Amendment No. 1 does not reflect events occurring after the August 20, 2002 filing of our Form 10-K or modify or update the disclosures set forth therein in any way, except as required to reflect the effects of the restatement.

The items of our annual report on Form 10-K for the fiscal year ended June 1, 2002 that are amended and restated herein are Item 1 of Part I (for which we have only filed the subheadings that have materially changed due to the restatement), Items 6, 7 and 8 of Part II, Item 14 of Part III and Item 15 of Part IV. The remaining items originally contained in our Form 10-K for the fiscal year ended June 1, 2002 as filed with the Securities and Exchange Commission on August 20, 2002 are unchanged.

The Amendment No. 1 on Form 10-K/A should be read in conjunction with our quarterly report on Form 10-Q for the fiscal quarter ended March 1, 2003 as filed on August 11, 2003, including the materials under the subheading "Factors That May Affect Future Results" in Part I, Item 2.

ELECTRO SCIENTIFIC INDUSTRIES, INC.
FORM 10-K/A
For the Fiscal Year Ended June 1, 2002

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PART I

Item 1. Business

Customers

Our top twelve customers by revenue for fiscal 2002, listed alphabetically, were:

AVX	Kulicke & Soffa	Samsung
Canon	Kyocera	ST Micro Electronics
Infineon Technologies	NanYa Technology	Taiyo Yuden
Kemet	Promos Technologies	Walsin Technology

In fiscal years 2002, 2001 and 2000, no customer exceeded 10% of sales. Sales outside the U.S. accounted for 74.8%, 70.9% and 71.7% of our net sales for fiscal years 2002, 2001 and 2000, respectively. The most significant sales outside the U.S. were to Taiwan, Europe and Japan, which represented 24.1%, 16.2%, and 11.8% of our net sales for fiscal 2002, respectively.

Backlog

Backlog consists of written purchase orders for products, spare parts and service, which we expect to ship within twelve months. Backlog was $22.6 million at June 1, 2002 versus $55.5 million at June 2, 2001 and $160.3 million at June 3, 2000.

PART II

Item 6. Selected Financial Data

The following table should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations."

Fiscal Years Ended : (Thousands of dollars except per share data)	June 1, 2002	June 2, 2001	June 3, 2000	May 31, 1999	May 31, 1998
	(restated)				

Net sales	$162,885	$471,853	$299,419	$197,118	$252,13
Net income (loss)	(17,777)	99,933	40,860	7,528	22,34
Net income (loss) per share - basic	(0.65)	3.71	1.55	0.29	0.8
Net income (loss)per share - diluted	(0.65)	3.58	1.49	0.28	0.8
Working capital	341,529	264,644	204,800	153,139	144,84
Net property, plant and equipment	58,046	54,946	36,017	33,462	30,37
Total assets	526,272	407,073	291,641	221,823	209,13
Long-term debt	145,897	-	-	-	
Shareholders' equity	$355,759	$363,049	$256,141	$201,261	$188,09

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Electro Scientific Industries, Inc. and its subsidiaries ("ESI") provide high technology manufacturing equipment to the global electronics market. Our customers are primarily manufacturers of semiconductors, passive electronic components and electronic interconnect devices. Our equipment enables these manufacturers to reduce production costs, increase yields and improve the quality of their products. The components and devices manufactured by our customers are used in a wide variety of end-use products in the computer, communications and automotive industries.

We believe that we are the leading supplier of advanced laser systems used to improve the production yield of semiconductor devices; high-speed test and termination equipment used in the high-volume production of multi-layer ceramic capacitors (MLCCs) and other passive electronic components; and advanced laser systems used to fine tune electronic components and circuitry. Additionally, we produce a family of laser drilling systems for production of high-density interconnect (HDI) circuit boards and advanced electronic packaging, as well as inspection systems and original equipment manufacturer (OEM) machine vision products.

Restatement

In March 2003 our Audit Committee commenced an internal investigation of certain accounting matters. The investigation involved the review of (1) the circumstances surrounding the reversal of an accrual for employee benefits, (2) unsupported accounting adjustments and clerical errors primarily relating to inventory and cost of goods sold, and (3) certain other areas where potential accounting errors could have occurred, including revenue recognition. As a result of the investigation, we determined that the unaudited consolidated condensed financial statements for the three months ended August 31, 2002 and November 30, 2002 and the audited consolidated financial statements for the year ended June 1, 2002 (and the quarters contained therein) required restatement.

For the fiscal year ended June 1, 2002, we restated our consolidated financial statements to correct improper accounting entries primarily related to revenue recognition. The aggregate impact of these adjustments, and related tax effects, was to increase our net loss for the fiscal year ended June 1, 2002 from $16.0 million to $17.8 million and to increase our basic and diluted net loss per share from $0.58 to $0.65.

A summary of the impact of the adjustments on our previously issued audited consolidated statement of operations for the fiscal year ended June 1, 2002 and audited consolidated balance sheet as of June 1, 2002 is presented in Note 1 to our notes to consolidated financial statements contained elsewhere in this amended report.

Fiscal Year Ended June 1, 2002 Compared to Fiscal Year Ended June 2, 2001

Net sales for fiscal 2002 were $162.9 million, which was 65.5% or $309.0 million lower than for fiscal 2001. The decrease was due to lower unit sales across all of our product lines. For fiscal 2002, semiconductor yield improvement systems represented the largest percentage of net sales at 41.4%. For fiscal 2001 electronic component systems represented the largest percentage of net sales at 45.4%.

Gross margin for fiscal 2002 was 40.6%, down from 55.8% in the prior fiscal year. This decrease in gross margin as a percentage of net sales was due primarily to non-recurring charges of $12.5 million related to inventory write-offs, which was reflected in cost of sales, in addition to decreased capacity utilization resulting from lower unit volume and product mix.

Selling, service and administrative expenses were $60.9 million, a decrease of $20.9 million, or 25.5%, from fiscal 2001. The decrease in fiscal 2002 was primarily due to decreases in our selling, marketing and administrative headcount and lower costs of incentive and benefits programs. Selling, service and administrative expenses increased as a percentage of sales from 17.3% to 37.4%, primarily due to lower net sales in fiscal 2002.

Future operating results are highly dependent on our ability to maintain a competitive advantage in the products and services we provide. To protect this advantage we continue to make investments in research and development. Research, development and engineering expenses for fiscal 2002 decreased to $35.1 million from $51.3 million in the prior year. The decrease in fiscal 2002 was primarily due to decreases in research, development and engineering headcount and lower project costs. We continue to invest in a significant number of development projects that we see as important to our future. As a percentage of net sales, research, development and engineering expenses increased from 10.9% for fiscal 2001 to 21.6% for 2002. The increase as a percentage of net sales was due to lower net sales in fiscal 2002.

In order to better align our operating expenses with anticipated revenues, we implemented a restructuring plan in the first quarter of fiscal 2002. The restructuring plan consisted of reducing our work force and vacating several buildings. This reorganization resulted in restructuring charges to operating expenses of $7.0 million for fiscal 2002. The major components of the restructuring charge of $7.0 million were $4.6 million in employee severance and other employee expenses, $1.9 million in lease termination and other facility consolidation costs and $0.5 million in other expenses, net. We also recorded a $3.1 million inventory write-off related to discontinuing the manufacturing of certain products. This inventory write down was reflected in costs of sales.

As part of our fundamental review of our strategy and product lines, in the fourth quarter of fiscal 2002 we decided to exit the mechanical drill business. Non-recurring charges of $11.2 million were incurred in relation to this strategic decision. The major components of these restructuring charges were $9.4 million of inventory related writedowns recorded as part of cost of goods sold, $1.4 million of intangible asset writedowns and fixed asset writedowns of $0.4 million recorded as non-recurring operating expense.

Interest income was $8.8 million for fiscal 2002, a decrease of $1.0 million from fiscal 2001. The decrease is primarily due to lower interest rates. Interest expense was $3.7 million for fiscal 2002, an increase of $3.7 million from fiscal 2001. The increase was related to our sale of $150 million aggregate principal amount of 4 1/4% convertible subordinated notes during fiscal 2002.

In fiscal 2002, we recorded an income tax benefit of $16.5 million compared to income tax expense of $50.0 million in fiscal 2001. The income tax benefit related to the fiscal 2002 operating loss and the cumulative impact of a historical research and development credit of $4.6 million.

Net loss for the year ended June 1, 2002 was $17.8 million, or $0.65 per basic and diluted share. Net income for the year ended June 2, 2001 was $99.9 million, or $3.71 per basic share and $3.58 per diluted share.

Fiscal Year Ended June 2, 2001 Compared to Fiscal Year Ended June 3, 2000

Net sales for fiscal 2001 were $471.9 million, which was 57.6% or $172.4 million higher than for fiscal 2000. The increase was due to higher sales of electronic component systems, semiconductor yield improvement systems and circuit fine tuning systems. These increases were partially offset by slightly lower sales of vision and inspection systems. Advanced electronic packaging equipment sales remained relatively flat. For both fiscal 2001 and 2000, electronic component systems represented the largest percentage of revenues at 45.4% and 37.9%, respectively.

Gross margin for fiscal 2001 was 55.8%, up from 51.9% in the prior fiscal year. This increase in gross margin as a percentage of net sales was due primarily to increased capacity utilization resulting from higher unit volume, as well as faster growth of higher margin product revenue.

Selling, service and administrative expenses were $81.8 million, an increase of $18.7 million or 29.6% from fiscal 2000. The increase in fiscal 2001 was primarily due to increases in our selling and marketing infrastructure and higher costs of incentive and benefit programs. Selling, service and administrative expenses decreased as a percentage of sales from 21.1% to 17.3%, primarily due to higher net sales.

Our future operating results depend to a considerable extent on our ability to maintain a competitive advantage in the products and services we provide. We continue to make substantial investments in our research and development efforts. Accordingly, research, development and engineering expenses for fiscal 2001 increased to $51.3 million from $35.1 million for the prior year. As a percentage of sales, research, development and engineering expenses decreased from 11.7% for fiscal 2000 to 10.9% for fiscal 2001. The decrease as a percentage of net sales was due to higher net sales for fiscal 2001.

Non-recurring operating income consisted of a $13.9 million gain in connection with the GSI Lumonics litigation award net of $2.5 million of legal fees and other expenses directly related to the award settlement.

Interest income rose to $9.8 million, an increase of $7.1 million from fiscal 2000. The increase is due to increased cash and related investments as a result of a significant increase in earnings as well as $1.4 million of interest received related to the GSI Lumonics litigation award.

The effective tax rate of 33.3% for fiscal 2001 is higher than the fiscal 2000 effective rate as a result of relatively lower foreign sales corporation benefit on significantly higher earnings and a lower utilization of net operating losses in fiscal 2001. The lower effective tax rate as compared to the statutory federal tax rate is largely a result of the benefit of our foreign sales corporation.

Net income for the year ended June 2, 2001 was $99.9 million, or $3.71 per basic share and $3.58 per diluted share. Net income for the year ended June 3, 2000 was $40.9 million, or $1.55 per basic share and $1.49 per diluted share. Fiscal 2001 net income includes $8.4 million related to the non-recurring GSI litigation award settlement.

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Financial Condition and Liquidity

Our principal sources of liquidity at June 1, 2002 consisted of: existing cash, cash equivalents and marketable securities of $283.9 million, accounts receivable of $55.8 million, and a $20.0 million line of credit, under which no amount was outstanding at June 1, 2002. Refer to Note 5 to our consolidated financial statements for further discussion of the line of credit. At June 1, 2002, we had long-term debt of $145.9 and a current ratio of 14.9:1. Working capital increased to $341.5 million at June 1, 2002 from $264.6 million at June 2, 2001. We may acquire or invest in complementary businesses, product lines or technologies. These acquisitions or investments may require additional debt or equity capital to fund such activities.

The following is a summary of our cash flow activities:

	June 1, 2002	June 2, 2001	June 3, 2000
		(in thousands)	
	(restated)		
Cash flows provided by (used in):			
Operating activities	$ (62)	$ 89,161	$ 72,583
Investing activities (1)	(192,663)	(60,510)	(54,148)
Financing activities	153,638	4,995	8,648
Increase (decrease) in cash and cash equivalents (2)	$ (39,087)	$ 33,646	$ 27,083

(1) Includes net purchase of marketable securities of $178.0 million, $30.3 million and $38.8 million during fiscal 2002, 2001 and 2000, respectively.

(2) Total cash, marketable securities and restricted investments increased from $163.1 million on June 2, 2001 to $302.3 on June 1, 2002 and from $98.4

million on June 3, 2000 to $163.1 million on June 2, 2001.

Operating Activities: Operating cash flows were approximately $(0.1) million in fiscal 2002, as compared to $89.2 million in fiscal 2001. This decrease resulted from a net loss for fiscal 2002, which was offset by net changes in operating accounts.

The increase in income taxes receivable is due to refunds expected from current year loss carryback claims and the recovery of prior year research and development credits. The decrease in current liabilities resulted in a use of $22.9 million of cash.

The decrease in trade receivables provided $29.5 million of cash. The decrease in inventory provided $7.7 million of cash as a result of decreased sales reducing the need for larger inventories. Decreases in work-in-process and finished goods were directly related to decreased sales. The decrease in current liabilities provided $22.9 million of cash due to lower compensation accruals, which resulted from lower volume of business and decreased profitability.

Investing Activities: Net cash of $192.7 million was used in investing activities. We made net purchases of marketable securities of $178.0 million and property, plant and equipment purchases in the amount of $15.3 million to upgrade computing and manufacturing capabilities, and to renovate office and manufacturing space and to improve their utilization.

Financing Activities: Net cash of $153.6 million was provided by financing activities in fiscal 2002. Net proceeds of $145.5 million were generated by our sale of $150 million aggregate principal amount of 4 1/4% convertible subordinated notes due 2006. $8.1 million was generated by stock option exercises and sales under the employee stock purchase plan.

Capital Commitments: We have committed approximately $6.3 million for construction of a 62,000 square foot corporate headquarters building located on the Portland, Oregon campus. We expect that the facility will be completed in September 2002.

Critical Accounting Policies and Estimates

The preparation of our financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses. Our estimates are based on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. These estimates form the basis for judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Pursuant to December 2001 Securities and Exchange Commission guidance to all registrants, we have prepared the following discussion of critical accounting policies. Refer to the notes to our consolidated financial statements, Summary of Significant Accounting Policies, for additional information.

Our critical accounting policies include the following:

-- Revenue recognition;
-- Inventory write-downs;
-- Product warranty reserves, and
-- Allowance for doubtful accounts.

Revenue Recognition

We recognize systems, spare parts and other product revenue when the product has been delivered, risk of loss has passed to the customer and collection of the resulting receivable is highly probable. We design, market and sell our products as standard configurations. Accordingly, customer acceptance provisions are based on seller-specified criteria, which we demonstrate prior to shipment. Revenue on new products is deferred until we have established a record of customer acceptance on these new products. When customer-specified objective criteria exist, revenue is deferred until customer acceptance. Revenue associated with service or maintenance contracts is recognized ratably over the life of the contract, which is generally one year.

Inventory Write-downs

We regularly evaluate the value of our inventory based on a combination of factors including the following: forecasted sales or usage, historical usage rates, estimated service period, product end of life dates, estimated current and future market values, service inventory requirements and new product introductions, as well as other factors. Purchasing requirements and alternative uses for the inventory are explored within these processes to mitigate inventory exposure. Raw materials with quantities in excess of forecasted usage are reviewed at least monthly for obsolescence by our engineering and operating personnel. Raw material obsolescence write-downs are typically caused by engineering change orders or product end of life adjustments in the market. Finished goods are reviewed at least monthly by product marketing and operating personnel to determine if inventory carrying costs exceed market selling prices. We record write-downs for inventory based on the above factors and take into account worldwide quantities and demand into our analysis. If circumstances related to our inventories change, our estimates of the value of inventory could materially change.

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Product Warranty Reserves

We evaluate our obligations related to product warranties quarterly. We offer a standard one-year warranty to our customers. We track historical system reliability on an individual system basis. Costs include labor to repair the system and replacement parts for defective items, as well as other costs incidental to warranty repairs. Any cost recoveries from warranties offered to us by our suppliers covering defective components are also considered. This data is then used to calculate the accrual based on actual sales for each system and remaining warranty periods. If circumstances change or if a dramatic change in warranty related incidents occurs, our estimate of the warranty accrual could change significantly.

Allowance for Doubtful Accounts

Credit limits are established through a process of reviewing the financial history and stability of each customer. Where appropriate, we obtain credit rating reports and financial statements of the customer to initiate and modify their credit limits. On certain foreign sales, we require letters of credit. We regularly evaluate the collectibility of our trade receivable balances based on a combination of factors. When a customer's account becomes past due, we initiate dialogue with the customer to determine the cause. If it is determined that the customer will be unable to meet its financial obligation to us, such as in the case of a bankruptcy filing, deterioration in the customer's operating results or financial position or other material events impacting their business, we record a specific reserve for bad debt to reduce the related receivable to the amount we expect to recover given all information presently available. If

circumstances related to specific customers change, our estimates of the recoverability of receivables could materially change.

Item 8. Financial Statements and Supplementary Data

ELECTRO SCIENTIFIC INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(In thousands)

	June 1, 2002	June 2, 2001
ASSETS	(restated)	
Current assets:		
Cash and cash equivalents	$29,435	$68,522
Marketable securities	181,019	68,735
Restricted securities	6,353	-
Total cash and securities	216,807	137,257
Trade receivables, less allowance for doubtful accounts of $1,437 at 2002 and $1,524 at 2001	55,810	86,508
Income tax refund receivable	14,402	-
Inventories:		
Finished goods	20,961	20,288
Work-in-process	1,942	14,183
Raw materials and purchased parts	41,013	38,855
Total inventories	63,916	73,326
Shipped systems pending acceptance	2,007	-
Deferred income taxes	8,243	9,580
Other current assets	4,960	1,997
Total current assets	366,145	308,668
Long-term marketable securities	73,445	25,849
Long-term restricted securities	12,047	-
Property, plant and equipment, at cost	95,656	94,553
Less-accumulated depreciation	(37,610)	(39,607)
Net property, plant and equipment	58,046	54,946
Deferred income taxes	80	656
Other assets	16,509	16,954
Total assets	$526,272	$407,073
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$3,246	$7,048
Accrued liabilities:		
Payroll related	7,888	25,669
Commissions	121	1,221
Warranty	2,183	4,216
Income taxes payable	-	1,602
Interest payable	2,845	-
Other	3,025	2,883

Total accrued liabilities	16,062	35,591
Deferred revenue	5,308	1,385
Total current liabilities	24,616	44,024
Convertible subordinated notes	145,897	-
Total liabilities	170,513	44,024
Commitments and contingencies (see notes 9 and 11)		
Shareholders' equity:		
Preferred stock, without par value; 1,000 shares authorized; no shares issued	-	-
Common stock, without par value; 100,000 shares authorized; 27,619 and 27,101 shares issued and outstanding at June 1, 2002 and June 2, 2001, respectively	136,370	125,997
Retained earnings	219,561	237,338
Accumulated other comprehensive loss	(172)	(286)
Total shareholders' equity	355,759	363,049
Total liabilities and shareholders' equity	$526,272	$407,073

The accompanying notes are an integral part of these statements.

ELECTRO SCIENTIFIC INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the years ended June 1, 2002, June 2, 2001 and June 3, 2000
(In thousands, except per share data)

	June 1, 2002	June 2, 2001	June 3, 2000
	(restated)		
Net sales	$162,885	$471,853	$299,419
Cost of sales	84,328	208,612	143,894
Cost of sales - non-recurring	12,502	-	-
Gross margin	66,055	263,241	155,525
Operating expenses:			
Selling, service and administrative	60,910	81,772	63,091
Research, development and engineering	35,134	51,346	35,145
Non-recurring operating items	8,780	(11,394)	-
Total operating expenses	104,824	121,724	98,236

Operating income (loss)	(38,769)	141,517	57,289
Interest income	8,792	9,839	2,695
Interest expense	(3,725)	(7)	-
Other expense, net	(615)	(1,419)	(112)
Income (loss) before income taxes	(34,317)	149,930	59,872
Provision (benefit) for income taxes	(16,540)	49,997	19,012
Net income (loss)	$(17,777)	$99,933	$40,860
Net income (loss) per share - basic	$(0.65)	$3.71	$1.55
Net income (loss) per share - diluted	$(0.65)	$3.58	$1.49
Weighted average number of shares - basic	27,337	26,959	26,357
Weighted average number of shares - diluted	27,337	27,884	27,357

The accompanying notes are an integral part of these statements.

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ELECTRO SCIENTIFIC INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
For the years ended June 1, 2002 (restated), June 2, 2001 and June 3, 2000
(In thousands)

	Common Stock			Accumulated Other Comprehensive	
	Number of Shares	Amount	Retained Earnings	Income (Loss)	Total
BALANCE AT MAY 31, 1999	26,094	$107,206	$ 96,545	$ (2,490)	$ 201,26
Stock plans:					
Employee stock plans	761	8,648	-	-	8,64
Tax benefit of stock options exercised	-	4,286	-	-	4,28
Comprehensive income:					
Net income	-	-	40,860	-	40,86
Unrealized loss on securities held for sale, net of tax	-	-	-	(151)	(15
Cumulative translation adjustment, net of tax	-	-	-	1,237	1,23
Comprehensive income	-	-	-	-	41,94

BALANCE AT JUNE 3, 2000	26,855	120,140	137,405	(1,404)	256,14
Stock plans:					
Employee stock plans	246	4,995	-	-	4,99
Tax benefit of stock options exercised	-	862	-	-	86
Comprehensive income:					
Net income	-	-	99,933	-	99,93
Unrealized gain on securities held for sale, net of tax	-	-	-	804	80
Cumulative translation adjustment, net of tax	-	-	-	314	31
Comprehensive income	-	-	-	-	101,05
BALANCE AT JUNE 2, 2001	27,101	125,997	237,338	(286)	363,04
Stock plans:					
Employee stock plans	518	8,138	-	-	8,13
Tax benefit of stock options exercised	-	2,235	-	-	2,23
Comprehensive income:					
Net loss	-	-	(17,777)	-	(17,77
Unrealized gain on securities held for sale, net of tax	-	-	-	310	31
Net unrealized loss on derivative instruments, net of tax	-	-	-	(13)	(1
Cumulative translation adjustment, net of tax	-	-	-	(183)	(18
Comprehensive loss	-	-	-	-	(17,66
BALANCE AT JUNE 1, 2002 (restated)	27,619	$136,370	$219,561	$ (172)	$ 355,75

The accompanying notes are an integral part of these statements.

ELECTRO SCIENTIFIC INDUSTRIES INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended June 1, 2002, June 2, 2001 and June 3, 2000
(In thousands)

	June 1, 2002 (restated)	June 2, 2001	June 3, 2000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ (17,777)	$ 99,933	$ 40,860
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Depreciation and amortization	10,526	9,883	8,808
Provision for doubtful accounts	1,029	-	1,647
Loss on disposal and impairment of property and equipment	1,458	130	78
Deferred income taxes	1,508	(2,605)	1,409
Tax benefit of stock options			

exercised	2,235	862	4,286
Changes in operating accounts:			
(Increase) decrease in trade receivables	29,511	(15,115)	5,210
(Increase) decrease in inventories	7,741	(17,299)	(4,274)
Increase in income tax receivable	(14,402)	-	-
(Increase) decrease in other current assets	(2,962)	1,628	631
Increase in deferred revenue	3,923	717	328
Increase (decrease) in current liabilities	(22,852)	11,027	13,600
Net cash provided by (used in) operating activities	(62)	89,161	72,583
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant and equipment	(15,279)	(27,849)	(10,004)
Proceeds from sales of property, plant and equipment	633	-	132
Purchase of restricted investments	(18,179)	-	-
Purchase of securities	(574,331)	(70,304)	(66,169)
Proceeds from sales of securities and maturing securities	414,539	40,046	27,361
Increase in other assets	(46)	(2,403)	(5,468)
Net cash used in investing activities	(192,663)	(60,510)	(54,148)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from convertible subordinated notes issuance	145,500	-	-
Proceeds from exercise of stock options and stock plans	8,138	4,995	8,648
Net cash provided by financing activities	153,638	4,995	8,648
NET CHANGE IN CASH AND CASH EQUIVALENTS	(39,087)	33,646	27,083
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	68,522	34,876	7,793
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 29,435	$ 68,522	$ 34,876
SUPPLEMENTAL CASH FLOW INFORMATION			
Cash paid for interest	$ 3,725	$ 7	$ -

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except per share data and as otherwise noted)

Note 1. Business Environment

Consolidation

The accompanying consolidated financial statements include the accounts of Electro Scientific Industries, Inc. and its subsidiaries, all of which are wholly owned. We design and manufacture sophisticated products used around the world in electronics manufacturing including: laser manufacturing systems for semiconductor yield improvement, production and test equipment for the manufacture of surface mount ceramic capacitors, laser and mechanical advanced electronic packaging production systems, machine vision systems and circuit fine tuning systems. We serve the global electronics market from our headquarters in Portland, Oregon and through subsidiaries located in the United States, Europe and Asia.

Investigation and Restatements of Financial Statements

In March 2003, our Audit Committee commenced an internal investigation of the circumstances surrounding the reversal of an employee benefits accrual that occurred in the first quarter of 2003. The investigation also identified and addressed: (1) unsupported accounting adjustments and clerical errors primarily relating to inventory and cost of goods sold, and (2) certain other areas where potential accounting errors could have occurred, including revenue recognition.

Restatement of 2002 Financial Statements
We have restated our financial statements for the fiscal year ended June 1, 2002 (and the quarters contained therein) principally related to the deferral of revenue for certain transactions where customer specified acceptance criteria existed but were not properly considered in determining whether our criteria for revenue recognition had been met as of year-end. We also corrected our financial statements for other matters we identified, including: the failure to write-off fixed assets that were sold prior to year-end, but had not been removed from our books, the write-off of inventory due to a change in our accounting for defective parts being returned by customers, an unauthorized change in depreciation methods and the correction of a bank error related to amortization of bond premiums/discounts.

Restatement of Fiscal 2003 First and Second Quarters
We have also restated the financial statements for the quarters ended August 31, 2002 and November 30, 2002 related to the deferral of revenue, an unauthorized change in depreciation method and the amortization of bond premiums/discounts as described above.

For the first quarter of fiscal 2003, the financial statements have also been restated to reflect the reinstatement of an inappropriately reversed accrual for employee benefits. Other matters corrected for that quarter primarily include the following: the write-down of inventory that was double counted, the write-down of inventory due to an error in the computation of overhead, an increase in operating expenses due to improper capitalization of a period expense and an increase in warranty expense due to an unauthorized change in accounting method.

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For the second quarter of fiscal 2003, the financial statements have also been restated for other matters primarily including: the write-down of inventory due to an unauthorized change in our accounting for parts inventory at customer locations, the write-down of inventory that was double counted, an increase in accrued liabilities related to purchase commitments for excess and obsolete inventory and an increase in warranty expense due to an unsupported accounting

entry.

We have restated our net sales, cost of sales, operating expenses, tax benefit and earnings for the fiscal year ended June 1, 2002 and our related balance sheet accounts at June 1, 2002 as follows:

	Net Sales	Cost of Sales	Operating Expense	Operating Expense Special Items	Other Income	(Ben Exp
As previously reported - year ended June 1, 2002	$166,545	$97,857	$96,077	$8,780	$4,735	$(15
Revenue deferrals	(3,360)	(2,007)	-	-	-	
Increase to sales discount	(300)	-	-	-	-	
Write-off of inventory and fixed assets, net	-	645	-	-	-	
Adjustments to depreciation expense	-	335	(33)	-	-	
Adjustment to amortization of bond premium	-	-	-	-	(283)	
Tax effect of adjustments	-	-	-	-	-	(1
Total impact of adjustments	(3,660)	(1,027)	(33)	-	(283)	(1
As restated - year ended June 1, 2002	$162,885	$96,830	$96,044	$8,780	$4,452	$(16

With the recognition of the above adjustments, our net loss per share was restated to $0.65 per share for the year ended June 1, 2002 compared to the previously reported net loss per share of $0.58 per share.

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Adjustments to our balance sheet as a result of the restatements were as follows:

	Shipped Systems Pending Acceptance	Inventory	All Other Current Assets	Long-Term Assets	Total Assets
Total assets as previously reported - June 1, 2002	$ -	$ 63,690	$299,455	$162,102	$525,247
Revenue deferrals	2,007	-	-	-	2,007
Adjustments to inventory and long-term assets	-	226	-	(1,173)	(947)

Increase to sales discounts	-	-	(300)	-	(300)
Tax adjustment to other comprehensive income	-	-	-	(695)	(695)
Adjustment to amortization of bond premium	-	-	-	(107)	(107)
Tax effect of adjustments	-	-	1,067	-	1,067
Total impact of adjustments	2,007	226	767	(1,975)	1,025
Total assets as restated - June 1, 2002	$ 2,007	$ 63,916	$300,222	$160,127	$526,272

	Deferred Revenue	Other Current Liabilities	Long-Term Liabilities	Share-holders' Equity	Total Liabilitie and Equity
Total liabilities and equity as previously reported - June 1, 2002	$ 1,948	$ 19,308	$ 145,897	$358,094	$ 525,247
Revenue deferrals	3,360	-	-	-	3,360
Tax adjustment to other comprehensive income	-	-	-	(695)	(695
Adjustment to amortization of bond premium	-	-	-	176	176
Net loss effect of adjustments	-	-	-	(1,816)	(1,816
Total impact of adjustments	3,360	-	-	(2,335)	1,025
Total liabilities and equity as restated - June 1, 2002	$ 5,308	$ 19,308	$ 145,897	$355,759	$ 526,272

Information in the following notes and in the Management's Discussion and Analysis of Financial Condition and Results of Operations has been restated, as appropriate, to reflect the restatements.

Concentrations of Credit Risk

We use financial instruments that potentially subject us to concentrations of credit risk. Such instruments include cash equivalents, marketable securities available for sale, trade receivables and financial instruments used in hedging activities. We invest our cash in cash deposits, money market funds, commercial paper, certificates of deposit and readily marketable debt securities. We place our investments with high credit quality financial institutions and limit the credit exposure from any one institution or instrument. To date, the amount of losses experienced on these investments have not been material. We sell a significant portion of our products to a small number of large electronics manufacturers; 50.0% of fiscal 2002 revenue was derived from twelve customers. Our operating results could be adversely affected if the financial condition and operations of these key customers decline.

Concentrations of Other Risks

Our operations involve a number of other risks and uncertainties including but not limited to the cyclicality of the electronics market, rapidly changing technology, international operations and hedging exposures.

Note 2. Summary of Significant Accounting Policies

Principles of Consolidation

All material intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates and such differences could be material to the financial statements.

Stock Split

Our Board of Directors approved a two-for-one stock split to shareholders of record at the close of business February 23, 2000, effective February 24, 2000. All per share and shares outstanding data in the Consolidated Financial Statements and Notes to Consolidated Financial Statements have been restated to reflect the stock split.

Change in Fiscal Year End

On September 30, 1999, we elected to change our fiscal quarters to correspond with a four week, five week, four week quarter, which means each quarter will end on a Saturday. Previously, the quarters ended on the last day of the calendar month. The fiscal year now ends on the Saturday following or directly preceding May 31, whichever Saturday is closest to May 31.

Reclassifications

Certain reclassifications have been made in the accompanying consolidated financial statements for 2000 and 2001 to conform to the 2002 presentation.

Revenue Recognition

We recognize systems, spare parts and other product revenue when the product has been delivered, risk of loss has passed to the customer and collection of the resulting receivable is highly probable. We design, market and sell our products as standard configurations. Accordingly, customer acceptance provisions are based on seller-specified criteria, which we demonstrate prior to shipment. Revenue on substantially new products is deferred until we have established a record of customer acceptance on these new products. When customer-specified objective criteria exist, revenue is deferred until customer acceptance. Revenue associated with service or maintenance contracts is recognized ratably over the life of the contract, which is generally one year.

Product Warranty

We generally warrant our systems for a period of up to 12 months for material and labor to repair and service the system. A provision for the estimated cost related to warranty is recorded upon shipment.

Research and Development

Research and development costs are expensed as incurred.

Taxes on Unremitted Foreign Income

Deferred income taxes have not been provided on unremitted earnings of foreign subsidiaries, as we believe any U.S. tax on such earnings would be substantially offset by associated foreign tax credits.

Comprehensive Income

We have adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (SFAS 130). SFAS 130 establishes standards for reporting and presentation of comprehensive income and its components in financial statements. Comprehensive income includes net income and "other comprehensive income" which includes charges or credits to equity that are not the result of transactions to shareholders. Our only material components of "other comprehensive income" are cumulative foreign currency translation adjustments and unrealized gain or loss on securities available for sale and certain gains or losses on foreign currency forward contracts.

Net Income Per Share

We compute net income per share in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share" (SFAS 128). SFAS 128 requires the dual presentation of basic and diluted earnings per share and other additional disclosures. Basic earnings per share is computed by dividing net income by the weighted average number of shares outstanding. Diluted earnings per share is computed by dividing net income by the weighted average number of shares and share equivalents (shares issuable on exercise of stock options) outstanding.

Cash and Cash Equivalents

We consider all highly liquid investments with a maturity of three months or less at date of purchase to be cash equivalents. Cash and cash equivalents were $29,435 and $68,522 at June 1, 2002 and June 2, 2001, respectively.

Inventories

Inventories are principally valued at standard costs, which approximate the lower of cost (first-in, first-out) or market. Costs utilized for inventory valuation purposes include material, labor and manufacturing overhead.

Shipped Systems Pending Acceptance

Shipped systems pending acceptance relate to systems that have been ordered and shipped to the customer, but have been deferred in accordance with the Company's revenue recognition policy. Shipped systems pending acceptance are recognized as cost of sales once all criteria for revenue recognition have been met.

Depreciation and Capitalization Policies

Depreciation is determined on the straight-line method based on the following useful lives: buildings, 25 to 40 years; building improvements, 5 to 15 years; and machinery and equipment, 3 to 10 years.

Expenditures for maintenance, repairs and minor improvements are charged to expense. Major improvements and additions are capitalized. When property is sold or retired, the cost and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in other expense.

Note 3. Recent Accounting Pronouncements

Commissions Paid

Based on guidance from the Emerging Issues Task Force of the FASB in issue EITF 01-09, we reclassified commissions paid to distributors from selling expense to sales discounts in the fourth quarter of fiscal 2002. The adoption did not have a material effect on fiscal 2002, but prior year revenue and selling expense was restated to conform to fiscal 2002 presentation.

Hedging Activities

On June 3, 2001, we adopted Statement of Financial Accounting Standard No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). SFAS 133 requires all derivatives to be recorded on the balance sheet at fair value. Changes in fair value of derivatives that do not qualify, or are not effective as hedges, must be recognized currently in earnings. Upon adoption, we recorded a cumulative transition gain of $0.3 million to Other Comprehensive Income ("OCI") and an immaterial transition gain to current income. The transition adjustments reflected the fair value of forward contracts hedging non-functional currency sales that were previously held off-balance sheet and the related time value that is excluded from effectiveness testing under SFAS133. All other derivatives were recorded at fair value on the balance sheet on June 2, 2001. We are exposed to foreign currency risk through our sales and occasional purchases of product in non-functional currencies. Our policy is to hedge forecasted and actual foreign currency risk to mitigate the effect of foreign exchange market volatility on our operating results. We currently use foreign currency forward contracts that expire within 12 months to hedge forecasted sales and non-functional currency denominated receivables and payables. Derivatives hedging non-functional currency monetary assets and liabilities are recorded on the balance sheet at fair value and any change in fair value is recognized currently in earnings.

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In accordance with SFAS 133, hedges of anticipated transactions are designated and documented at inception as "cash flow hedges" and are evaluated for effectiveness, excluding time value, at least quarterly. The forward contracts designated by us to hedge anticipated sales are cash flow hedges. The critical terms of the forward contract, such as amount and timing, are matched to the forecasted sale. The effectiveness of the cash flow hedge is determined by comparing the change in value of the anticipated transaction to the change in value of the related forward contracts, excluding time value. The effective portion of the hedge is accumulated in OCI and any ineffectiveness along with the time value change in the instrument is recognized immediately in Other Income and Expense. OCI associated with the hedges of forecasted sales are reclassified to revenue upon revenue recognition. For the year ended June 1, 2002, immaterial amounts were recorded in Other Income and Expense relating to changes in time value of our hedging contracts. All amounts recorded in OCI at

June 1, 2002 will be reclassified to earnings within 12 months.

The following table sets forth the changes in OCI related to hedging during the year ended June 1, 2002:

Beginning balance, June 3, 2001	$ -
Transition adjustment	(345)
Net change in value of instruments	(22)
Reclassification to revenue ($345 from transition adjustment)	380
Ending balance, June 1, 2002	$ 13

Business Combinations, Goodwill and Other Intangible Assets

In June 2001, the Financial Accounting Standards Board issued SFAS No. 141, "Business Combinations," and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. The use of the pooling-of-interest method will be prohibited on a prospective basis only. SFAS No. 142 changes the accounting for goodwill from an amortization method to an impairment-only approach. We adopted SFAS No. 142 in the first quarter of fiscal 2002 and therefore ceased amortization of goodwill recorded in past business combinations. Total goodwill included in other assets was $1.4 million net of accumulated amortization of $1.4 million at both June 1, 2002 and June 2, 2001. Based on our impairment analysis completed in the second quarter of fiscal 2002 and required by SFAS No. 142, we concluded that we do not have an impairment of goodwill under SFAS No. 142. An additional impairment analysis was completed at the end of fiscal 2002 and we have concluded that our goodwill remains unimpaired under SFAS No. 142.

Asset Retirement Obligations

In June 2001, the Financial Accounting Standards Board issued SFAS No. 143, "Accounting for Asset Retirement Obligations," which is effective for fiscal years beginning after June 15, 2002. SFAS No. 143 addresses financial accounting and reporting for obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. SFAS No. 143 applies to legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development, and normal operation of a long-lived asset, except for certain lease obligations. We are currently evaluating the impact of SFAS No. 143, but do not expect the adoption of SFAS No. 143 to have a significant impact on our financial position or the results of our operations.

Impairment or Disposal of Long-Lived Assets

In August 2001, the Financial Accounting Standards Board issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which applies to financial statements issued for fiscal years beginning after December 15, 2001. SFAS No. 144 supersedes Financial Accounting Standards Board Statement 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," and portions of Accounting Principles Board Opinion 30, "Reporting the Results of Operations." SFAS No. 144 provides a single accounting model for long-lived assets to be disposed of and significantly

changes the criteria for classifying an asset as held-for-sale. Classification as held-for-sale is an important distinction since such assets are not depreciated and are stated at the lower of fair value less selling costs or carrying amount. SFAS No. 144 also requires expected future operating losses from discontinued operations to be displayed in the period in which the losses are incurred, rather than as of the measurement date as previously required. We are currently evaluating the impact of SFAS No. 144, but do not believe that SFAS No. 144 will have a material impact on our financial position or the results of our operations.

Note 4. Property, Plant and Equipment

Major classes of property, plant and equipment consist of the following:

	June 1, 2002 (restated)	June 2, 2001
Land	$8,057	$4,754
Buildings and improvements	33,160	33,251
Machinery and equipment	46,251	51,945
Construction in progress	8,188	4,603
	$95,656	$94,553

Note 5. Line of Credit

We have a $20.0 million short-term revolving line of credit with a domestic bank. This line expires in October 2002. At our option, the interest rate is either a fluctuating per annum one percent (1.00%) below the Prime Rate in effect from time to time, or a fixed one percent (1.00%) above LIBOR. There were no borrowings outstanding at June 1, 2002 or June 2, 2001.

Note 6. Employee Benefit Plans

We have an employee savings plan under the provisions of section 401(k) of the Internal Revenue Code. We contributed $1,406, $1,489 and $1,123 to the plan for the years ended June 1, 2002, June 2, 2001 and June 3, 2000, respectively.

Note 7. Income Taxes

We account for income taxes under the asset and liability method as defined by the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes," (SFAS 109). Under this method, deferred income taxes are recognized for the future tax consequences attributable to temporary differences between the financial statement and tax balances of existing assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under SFAS 109, the effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

The net deferred tax asset as of June 1, 2002 and June 2, 2001 consists of the following tax effects relating to temporary differences and carryforwards:

	June 1, 2002 (restated)	June 2, 2001
Deferred Tax Assets:		
Receivable and inventory valuation	$ 7,650	$ 4,029
Vacation pay	970	1,307
Warranty costs	820	1,560
Accrued commissions	83	99
Payroll related accruals	856	1,457
Other accrued liabilities	1,968	1,187
	12,347	9,639
Tax loss and credit carryforwards	4,636	3,879
Total deferred tax assets	16,983	13,518
Deferred Tax Liabilities:		
Tax in excess of book depreciation	(1,104)	(1,045)
Other deferred tax liabilities	(4,859)	(297)
Total deferred tax liabilities	(5,963)	(1,342)
Valuation allowance	(2,697)	(1,940)
Net deferred tax asset	$ 8,323	$ 10,236

At June 1, 2002, there were net operating loss carryforwards from prior years of $10,484 available for U.S. federal income tax purposes. These losses were principally acquired as part of prior acquisitions and expire on various dates through 2013. The use of these losses is subject to certain limitations caused by the change in ownership of the acquired business. Accordingly, their utilization in future periods may be restricted. Given these limitations, some of these losses may not be realizable, and accordingly, a valuation allowance has been recorded. We believe it is more likely than not that the results of future operations will generate sufficient taxable income to realize the net deferred tax asset.

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The components of income before income taxes and the provision for income taxes are as follows:

	June 1, 2002 (restated)	June 2, 2001	June 3, 2000
Income (loss) before income taxes:			
Domestic	$ (34,625)	$ 145,976	$58,300
Foreign	308	3,954	1,572
	$ (34,317)	$ 149,930	$59,872

Provision (benefit) for income taxes:			
Current:			
U.S. Federal and State	$ (20,756)	$ 49,591	$11,905
Foreign	870	2,035	1,412
	(19,886)	51,626	13,317
Deferred	1,111	(2,491)	1,409
Income tax effect of stock options exercised	2,235	862	4,286
	$ (16,540)	$ 49,997	$19,012

The tax benefit related to stock option exercises has been recorded as an increase to common stock rather than a reduction to the provision for income taxes.

A reconciliation of the provision for income taxes at the federal statutory income tax rate to the provision for income taxes as reported is as follows:

	June 1, 2002	June 2, 2001	June 3, 2000
	(restated)		
Provision computed at federal statutory rate	$ (12,016)	$ 52,475	$ 20,956
Higher than U.S. tax rates in foreign jurisdictions	570	992	822
Impact of U.S. credits	(5,100)	(387)	(1,188)
Impact of state taxes	82	3,705	1,314
Benefit of foreign sales (FSC/EIE)	-	(6,140)	(3,500)
Other, net	(76)	(648)	608
	$ (16,540)	$ 49,997	$ 19,012

The large U.S. credit in 2002 resulted from a historical study of available prior years' research and development credits. Amended tax returns were filed in 2002. Consolidated income tax payments were $3,123, $47,804 and $12,856 for the years ended June 1, 2002, June 2, 2001, and June 3, 2000, respectively.

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Note 8. Earnings Per Share

We compute net income per share in accordance with Statement of Financial Accounting Standards 128, "Earnings Per Share" (SFAS 128). All earnings per share amounts in the following table are presented to conform to the SFAS 128 requirements.

June 1, 2002	June 2, 2001	June 3, 2000

	(restated)		
Net income (loss)	$ (17,777)	$99,933	$ 40,860
Weighted average number of shares of common stock and common stock equivalents outstanding:			
Weighted average number of shares - basic	27,337	26,959	26,357
Dilutive effect of employee stock options	-	925	1,000
Weighted average number of shares - diluted	27,337	27,884	27,357
Net income per share - basic	$ (0.65)	$ 3.71	$ 1.55
Net income per share - diluted	$ (0.65)	$ 3.58	$ 1.49

For purposes of computing diluted earnings per share, weighted average common share equivalents do not include the following stock options or shares issuable upon conversion of our 4 1/4% convertible subordinated notes due 2006 because inclusion would have an anti-dilutive effect on the earnings per share calculation.

	June 1, 2002	June 2, 200
Employee stock options	4,989	1,252
4 1/4% convertible subordinated notes	3,947	-

Note 9. Commitments and Contingencies

We have limited involvement with derivative financial instruments and do not use them for trading purposes. Derivatives are used to manage defined foreign currency risks. We enter into forward exchange contracts to hedge the value of accounts receivable denominated in a foreign currency. Foreign exchange contracts have gains and losses that are recognized at the end of each fiscal period. At June 1, 2002 and June 2, 2001, we had forward exchange contracts totaling $6 and $27, respectively. In general, these contracts mature in less than one year and the counterparties are large, highly rated banks; therefore, risk of credit loss as a result of nonperformance by the banks is minimal. The use of derivatives does not have a significant effect on our financial position or the results of its operations.

We lease certain equipment, automobiles and office space under operating leases,

which are non-cancelable and expire on various dates through 2009. The aggregate minimum commitment for rentals under operating leases beyond June 1, 2002 is as follows:

2003	$ 979
2004	512
2005	311
2006	185
2007	31
Thereafter	43
Total	$2,061

Rental expense for all operating leases was $1,091 in fiscal 2002, $1,690 in fiscal 2001 and $1,314 in fiscal 2000.

We entered into an agreement that allows us to sell accounts receivable from selected customers at a discount to a financial institution. Receivable sales have the effect of increasing cash and reducing accounts receivable and days sales outstanding. Receivables sold under these provisions have terms and credit risk characteristics similar to our overall receivables portfolio. Discounting fees were recorded in interest expense and were not material for fiscal 2002. Accounts receivable sales under these agreements were $9 million for fiscal 2002. At June 1, 2002, $9 million of sold receivables remained outstanding under this agreement, compared to no amounts outstanding at June 2, 2001.

Note 10. Legal Matters

On February 14, 2001, Cognex Corporation (Cognex) filed a lawsuit in the United States District Court for the District of Massachusetts (Cognex Corporation v. Electro Scientific Industries, Inc., No. 01-10287 RCL). The lawsuit alleges that our CorrectPlace ver. 5.0 product infringes United States Patent 5,371,690, which is owned by Cognex. The patent concerns the inspection of surface mount devices that are attached to the surface of an electronic circuit board. Cognex seeks injunctive relief, damages, costs and attorneys' fees. We believe we have meritorious defenses to the action and intend to pursue them vigorously. Fact discovery is completed in the lawsuit. Additionally, certain of our customers have notified us that, in the event it is subsequently determined that their use of CorrectPlace ver. 5.0 infringes any patent, they may seek indemnification from us for damages or expenses resulting from this matter. We are not able to reliably estimate the loss, if any, related to this matter at this time.

Note 11. Capital Commitments

We have capital commitments of approximately $6.3 million for construction of a 62,000 square foot corporate headquarters building located on the Portland, Oregon campus. We expect that the facility will be completed in September 2002.

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Note 12. Marketable Securities

We classify our marketable securities, other than restricted investments as described below, as Securities Available for Sale in the accompanying Consolidated Balance Sheets. All of our marketable debt securities are invested in high credit quality securities.

During fiscal 2002, 2001 and 2000, proceeds of $414,539, $40,046 and $27,361, respectively, resulted from the sale or maturity of securities. There were no material realized gains or losses associated with these sales or maturities. Unrealized gains or losses are reported in a separate component of shareholders' equity. Information regarding our marketable securities is as follows:

	June 1, 2002	June 2, 2001
Fair market value	$ 254,464	$ 94,584
Cost:		
State and local government	25,013	32,930
Federal government	180,055	58,122
Corporate	47,649	2,494
Total	$ 252,717	$ 93,546
Maturity information:		
Less than 1 year	$ 181,019	$ 68,735
1 to 3 years	$ 73,445	$ 25,849

Note 13. Restricted Investments

Restricted investments are a required pre-funding of certain interest payments on our 4 1/4% convertible subordinated notes. These securities are held to maturity and are recorded amortized cost. Information regarding our restricted investments is as follows:

	June 1, 2002	June 2, 2001
Fair market value	$ 18,496	$ -
Amortized cost:		
Federal government	18,400	-
Total	$ 18,400	$ -
Maturity information:		
Less than 1 year	$ 6,353	$ -
1 to 3 years	$ 12,047	$ -

Note 14. Shareholder Rights Plan

We renewed our Shareholder Rights Plan in May 1999 and accordingly declared a dividend distribution of one Right for each outstanding share of Common Stock,

payable to holders of record on June 4, 1999. On March 1, 2001, we amended and restated our Rights Agreement appointing Mellon Investor Services as the Rights Agent, successor to First Chicago Trust Company of New York. Under certain conditions, each right may be exercised to purchase 1/100 of a share of Series A No Par Preferred Stock at a purchase price of $270, subject to adjustment. The Rights are not presently exercisable and will only become exercisable following the occurrence of certain specified events. Generally the Rights become exercisable after a person or group acquires or commences a tender offer that would result in beneficial ownership of 15 percent or more of our outstanding Common Stock. In addition, the Rights become exercisable if any party becomes a beneficial owner of 10 percent or more of our outstanding Common Stock and is determined by the Board of Directors to be an adverse party. If a person or group acquires 15 percent of our outstanding Common Stock or the Board of Directors declares a person to be an Adverse Person, each Right will be adjusted to entitle its holder to receive, upon exercise, Common Stock or, in certain circumstances, other assets of ours having a value equal to twice the exercise price of the Right. If, after the Rights become exercisable, we are acquired in a merger or other business combination, each Right will be adjusted to entitle its holder to receive, upon exercise, Common Stock of the acquiring company having a value equal to twice the exercise price of the Right, depending on the circumstances. The Rights expire on May 7, 2009 and may be redeemed by the Company for $0.001 per Right. The Rights do not have voting or dividend rights and until they become exercisable, have no dilutive effect on our earnings.

Note 15. Stock Plans

In September 1989, the shareholders approved the adoption of the 1989 Stock Option Plan (the "1989 Plan") pursuant to which 4,400,000 shares of our common stock, as amended in September 1998, have been reserved for issuance. In September 2000, the shareholders approved the adoption of the 2000 Stock Option Incentive Plan (the "2000 Incentive Plan"), which replaced the 1989 Plan. There are 2,000,000 shares of our common stock reserved for issuance under the 2000 Incentive Plan plus any shares remaining available for grant under the 1989 Plan or that may become available for grant under the 1989 Plan through the expiration, termination, forfeiture or cancellation of grants. Options under the 2000 Incentive Plan generally vest 25% per year over a four-year period from the date of grant, expire ten years from the date of grant, and are exercisable at prices generally not less than the fair market value at the grant date. The 2000 Incentive Plan allows for automatic annual grants to non-employee directors for 6,000 shares of Common Stock on July 31 of each year, with an option price equal to the closing market price on the date of the grant, a ten-year term and a four-year vesting schedule. The 2000 Incentive Plan allows for grants of incentive stock options, as defined in Section 422 of the Internal Revenue Code of 1986 or non-statutory stock options. Stock appreciation rights may be granted in connection with options, although no options have been granted which include stock appreciation rights.

In September 1990, the shareholders approved the adoption of the 1990 Employee Stock Purchase Plan (the "ESPP") pursuant to which 900,000 shares of our common stock, as amended in September 1998, have been reserved for issuance to participating employees. Eligible employees may elect to contribute up to 15 percent of their cash compensation during each pay period. The ESPP provides for one 12-month offering period beginning January 8 of each year. During the offering period, participants accumulate funds in an account via payroll deduction. At the end of the offering period, the purchase price is determined and the accumulated funds are used to automatically purchase shares of our

common stock. The purchase price per share is equal to 85% of the lower of the fair market value of the common stock (a) on the enrollment date of the offering period or (b) on the date of purchase.

In September 1996, the shareholders approved the 1996 Stock Incentive Plan (the "1996 Plan") pursuant to which 500,000 shares of our common stock, as amended in September 1998, have been reserved for issuance to participating employees. The 1996 Plan allows for the grants of stock bonuses, restricted stock or performance-based awards. Our restricted stock grants vest based on certain performance criteria that are tied to our stock price. During fiscal 2002, 2001 and 2000, we recorded $0, $1,372 and $2,498, respectively, of compensation expense related to restricted stock grants.

In April 2000, the Board of Directors approved the adoption of the 2000 Stock Option Plan (the "2000 Plan") pursuant to which 2,250,000 shares of our common stock, as amended in April 2001, have been reserved for issuance. The 2000 Plan allows for grants to non-officer employees of non-statutory stock options, stock bonuses or restricted stock. Options under the 2000 Plan generally vest 25% per year over a 4 year period from the date of grant, expire ten years from the date of grant, and are exercisable at prices generally not less than the fair market value at the grant date.

We account for our stock option plans and our employee stock purchase plan in accordance with the provisions of the Accounting Principles Board's Opinion No. 25 (APB 25), "Accounting For Stock Issued to Employees." In 1995, the Financial Accounting Standards Board released Statement of Financial Accounting Standard No. 123 (SFAS 123), "Accounting For Stock Based Compensation." SFAS 123 provides an alternative to APB 25. We continue to account for our employee stock plans in accordance with the provisions of APB 25. Accordingly, we have elected to provide pro forma disclosures as required by SFAS 123.

We have computed, for pro forma disclosure purposes, the per share value of all options granted under the stock option plans to be $20.94, $20.87 and $29.19 for 2002, 2001 and 2000, respectively. The pro forma value of options granted under the employee stock purchase plan is immaterial for 2002, 2001 and 2000.

These computations were made using the Black-Scholes option-pricing model, as prescribed by SFAS 123, with the following weighted average assumptions for grants in 2002, 2001 and 2000:

Year Ended:	June 1, 2002	June 2, 2001	June 3, 2000
Risk-free interest rate	4.70%	4.60%	5.50%
Expected dividend yield	0%	0%	0%
Expected life	5.6 years	5.6 years	6.0 years
Expected volatility	64.00%	87.20%	66.50%

The total value of options granted would be amortized on a pro rata basis over the vesting period of the options. Options generally vest equally over four years. If we had accounted for these plans in accordance with SFAS 123, our net income and net income per share would have decreased as reflected in the following pro forma amounts for the fiscal years ended as follows:

	June 1,	June 2,	June 3,

	2002	2001	2000
Net income (loss):	(restated)		
As reported	$ (17,777)	$ 99,933	$ 40,860
Pro forma	$ (32,519)	$ 88,390	$ 36,373
Net income (loss) per share:			
As reported - basic	$ (0.65)	$ 3.71	$ 1.55
As reported - diluted	$ (0.65)	$ 3.58	$ 1.49
Pro forma - basic	$ (1.19)	$ 3.28	$ 1.38
Pro forma - diluted	$ (1.19)	$ 3.28	$ 1.36

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The following table summarizes activity in the stock plans for the years ended June 1, 2002, June 2, 2001 and June 3, 2000.

	Fiscal Year Ended					
	June 1, 2002		June 2, 2001		June 3, 2	
	Shares	Weighted - Average Exer. Price	Shares	Weighted - Average Exer. Price	Shares	Wei Av Exer
Options outstanding at beginning of year	4,466	$30.21	3,273	$30.41	2,566	
Granted	1,425	34.48	1,460	28.41	1,593	
Exercised	387	13.74	149	13.50	685	
Canceled	515	35.43	118	34.69	201	
Options outstanding at end of year	4,989	32.17	4,466	30.21	3,273	
Exercisable at end of year	1,839	$28.45	1,433	$22.67	852	
Shares issued under the ESPP	77	$27.84	61	$24.97	62	

In addition to the options above, we had 31, 73 and 122 of restricted stock grants outstanding as of June 1, 2002, June 2, 2001 and June 3, 2000, respectively, none of which were exercisable.

The following table sets forth the exercise price range, number of shares outstanding at June 1, 2002, weighted average remaining contractual life, weighted average exercise price, number of exercisable shares and weighted average exercise price of exercisable options by groups of similar price and grant date:

Weighted-

Range of Exercise Prices	Outstanding as of June 1, 2002	Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Exercisable as of June 1, 2002	Weighted-Average Exercise Price
$4.25 - 13.56	387	3.92	$10.41	376	$10.36
14.25 - 18.88	517	6.73	18.55	385	18.46
18.91 - 26.64	472	6.91	24.37	287	23.66
26.75 - 27.00	1,074	8.84	27.00	268	27.00
27.31 - 33.53	100	8.84	31.35	11	30.07
34.48 - 34.57	1,358	9.87	34.57	1	34.48
34.63 - 52.06	117	8.24	42.83	28	43.59
52.75 - 52.75	900	7.87	52.75	450	52.75
53.25 - 61.63	64	7.60	59.28	33	59.15
	4,989	8.13	$32.17	1,839	$28.45

Note 16. Segment Reporting

We adopted Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information" (SFAS 131), effective May 31, 1999. SFAS 131, which is based on a management approach to segment reporting, establishes requirements to report selected segment information quarterly and to report annually entity-wide disclosures about products and services, major customers and the countries in which the entity holds material assets and reports revenue. An operating segment is defined as a component that engages in business activities whose operating results are reviewed by the chief operating decision maker and for which discrete financial information is available. Based on the provisions of SFAS 131, ESI operates in one segment. We manage our resources and assess our performance on an enterprise-wide basis. We provide electronic manufacturers with equipment necessary to produce key components used in wireless communications, computers, automotive electronics and many other electronic products. Our products enable these manufacturers to reduce production costs, increase yields and improve the quality of their products. These products include semiconductor yield improvement systems, electronic component manufacturing systems, advanced electronic packaging equipment, vision and inspection products and circuit fine tuning systems. Since ESI operates in one segment, all financial segment information required by SFAS 131 can be found in the consolidated financial statements.

The following data represents sales by product line for the years ended:

	June 1, 2002	June 2, 2001	June 3, 2000
	(restated)		
Semiconductor Yield Improvement Systems	$67,383	$134,690	$72,437
Electronic Component Manufacturing Systems	44,640	214,266	113,439
Advanced Electronic Packaging Systems	14,884	39,178	39,492
Vision and Inspection Systems	12,726	41,415	44,505

Circuit Fine Tuning Systems	23,252	42,304	29,546
Net Sales	$162,885	$471,853	$299,419

We have geographic operations in the United States, Europe and Asia. Transfers between geographic areas are made at prevailing market prices. Operating income is total revenue less operating expenses. In computing operating income, none of the following items have been added or deducted: interest income, other income or expense or the provision for income taxes. Identifiable assets are those assets of ours that are identified with the operations in each geographic location. Corporate assets are primarily cash and cash equivalents, marketable securities and restricted investments.

Export sales included in United States sales to unaffiliated customers for the years ended June 1, 2002, June 2, 2001 and June 3, 2000 were as follows:

	Europe	Asia	Total
June 1, 2002 (restated)	$2,833	$80,858	$83,691
June 2, 2001	$37,700	$227,900	$265,600
June 3, 2000	$13,058	$150,797	$163,855

The most significant sales outside the U.S. were to Taiwan, Europe and Japan, which represented 24.1%, 16.2% and 11.8% of our net sales for fiscal 2002, respectively. In fiscal 2002, 2001 and 2000, there were no sales to any one customer in excess of 10% of consolidated net sales.

The following data represents segment information for the years ended:

June 1, 2002 (restated)	United States	Europe	Asia	Adjustments and Eliminations	Consolidated
Sales to unaffiliated customers	$ 124,738	$ 23,554	$ 14,593	$ -	$ 162,885
Transfers between geographic areas	26,678	216	2,938	(29,832)	-
Total revenue	$ 151,416	$ 23,770	$ 17,531	$ (29,832)	$ 162,885
Operating income (loss) (1)	$ (37,711)	$ 406	$ (1,871)	$ 407	$ (38,769
Identifiable assets at June 1, 2002	$ 230,137	$ 11,033	$ 10,334	$ (27,529)	$ 223,975
Corporate assets					302,297
Total assets at June 1, 2002					$ 526,272
June 2, 2001					
Sales to unaffiliated customers	$ 402,764	$ 25,630	$ 43,459	$ -	$ 471,853
Transfers between geographic areas	48,601	1,458	5,418	(55,477)	-
Total revenue	$ 451,365	$ 27,088	$ 48,877	$ (55,477)	$ 471,853

Operating income (loss) (2)	$ 136,085	$ 131	$ 5,322	$ (21)	$ 141,517
Identifiable assets at June 2, 2001	$ 277,115	$ 6,158	$ 18,350	$ (57,656)	$ 243,967
Corporate assets					163,106
Total assets at June 2, 2001					$ 407,073
June 3, 2000					
Sales to unaffiliated customers	$ 248,737	$ 17,935	$ 32,747	$ -	$ 299,419
Transfers between geographic areas	38,944	-	287	(39,231)	-
Total revenue	$ 287,681	$ 17,935	$ 33,034	$ (39,231)	$ 299,419
Operating income (loss)	$ 55,657	$ (146)	$ 2,613	$ (835)	$ 57,289
Identifiable assets at June 3, 2000	$ 233,025	$ 7,322	$ 19,653	$ (66,757)	$ 193,243
Corporate assets					98,398
Total assets at June 3, 2000					$ 291,641

(1) Includes a non-recurring charge of $10.1 million related to the restructuring plan announced in June of 2001 and a pretax charge of $11.2 million related to exiting mechanical drill products. Also includes $0.8 million in research and development tax credit related expenses.

(2) Includes a net non-recurring operating gain of $11.4 million related to the GSI Lumonics litigation award.

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Note 17. Fiscal 2002 Non-Recurring Operating Items

In order to better align our operating expenses with anticipated revenues, we implemented a restructuring plan during June of 2001. Pursuant to this plan, we reduced our work force by 419 employees in June and August of 2001. An additional 97 employees were terminated in October. This reduction impacted all employee groups. In connection with this plan, we recorded a charge of $3.6 million in employee severance and early retirement, $0.9 million in employee relocation and $0.1 million in other employee expenses in fiscal year ended June 1, 2002.

The restructuring plan also included vacating buildings located in California, Massachusetts, Michigan, Minnesota and Texas. As a result, we recorded a charge of approximately $1.9 million for the fiscal year ended June 1, 2002, which consisted of $1.3 million for lease termination fees, $0.4 million for the write-off of certain leasehold improvements and other consolidation costs of $0.2 million. We also recorded a $3.1 million net inventory writedown related to discontinuing the manufacturing of certain products in fiscal year ended June 1, 2002. This inventory write-down was reflected in costs of sales. In the second quarter of fiscal 2002, we disposed of certain property and equipment as part of

the restructuring plan. The net gain recorded in fiscal year ended June 1, 2002, of $0.3 million consisted of the sale of equipment in conjunction with the discontinuing of certain products. At June 1, 2002 the majority of the $1.0 million remaining accrued liability was related to lease termination fees and other facility consolidation costs expected to be incurred through 2006.

In the fourth quarter of fiscal 2002 we performed a fundamental review of our strategy and product lines and decided to exit the mechanical drill business. As a result, we recorded a charge of $11.2 million for the fiscal year ended June 1, 2002. The charge consisted of $9.1 million in inventory writedowns, $1.8 million in asset writedowns, including fixed assets and intangible assets, and $0.3 million in purchase order obligation accruals.

The following table displays the amounts included as a restructuring charge for fiscal year ended June 1, 2002:

	Restructuring Plan implemented in June of 2001	Mech
Employee severance and other employee expenses	$ 4,578	
Lease termination and other facility consolidation costs	1,870	
Net asset writedowns (gains)	(308)	
Other expenses	872	
Total operating expense restructuring charge	7,012	
Net inventory writedowns (reflected in cost of sales)	3,109	
Purchase order obligations (reflected in cost of sales)	-	
Total restructuring charge	$ 10,121	

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Note 18. Fiscal 2002 Restructuring Accruals

The following table displays rollforwards of the accruals established related to the restructuring from June 2, 2001 to June 1, 2002:

	Accruals at June 2, 2001	Fiscal 2002 Net Charges	Fiscal 2002 Amount Used
Lease termination fees and other			
facility consolidation costs	$ 0	$ 1,870	$ 1,206
Purchase Order Obligations	$ 0	$ 334	$ 0

Note 19. Fiscal 2001 Non-Recurring Operating Items

In fiscal 2001, we received $13.9 million for a litigation award from GSI Lumonics. We incurred $2.5 million of legal fees and other related expenses directly in connection with the litigation award. We also were awarded $1.4 million of interest related to the GSI Lumonics litigation award. The $11.4 million net award is included in non-recurring operating items and $1.4 million is included in interest income on the income statement.

Note 20. Sale of Convertible Subordinated Notes

In December 2001 and January 2002, we sold $150 million aggregate principal amount of 4 1/4% convertible subordinated notes due 2006 in a private offering. We received proceeds, net of the initial purchaser's discount, from these sales of approximately $145.5 million. We intend to use the net proceeds of the offering for general corporate purposes, which could include possible future acquisitions. Interest is due semiannually and, along with accretion of the underwriting discounts, is recorded as interest expense in the accompanying financial statements. No principal is due until maturity in 2006. In accordance with the terms of the convertible subordinated note indenture, we were required to place $18.2 million in trust. This restricted investment was invested in treasury bills and is sufficient to satisfy the first six interest payments due under the terms of the indenture. The notes are convertible into shares of our common stock at a conversion price of $38.00 per share, subject to adjustment in certain circumstances. The notes are redeemable by us any time on or after December 21, 2004 at specified prices. We filed a registration statement for the resale of the notes and the shares of common stock issuable upon conversion of the notes.

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Note 21. Quarterly Financial Information (Unaudited)

Year ended June 1, 2002 (as previously reported)	1st Quarter	2nd Quarter	3
Net sales	$49,507	$39,606	
Gross margin (1,2,3,4)	21,453	19,669	
Net income (loss) (1,2,3,4)	(8,009)	(1,465)	
Net income (loss) per share - basic (1,2,3,4)	$(0.30)	$(0.05)	
Net income (loss) per share - diluted(1,2,3,4)	$(0.30)	$(0.05)	

Year ended June 1, 2002 (restated)	1st Quarter	2nd Quarter	3
Net sales	$48,688	$37,538	
Gross margin (1,2,3,4)	20,983	18,496	
Net income (loss) (1,2,3,4)	(8,198)	(2,311)	
Net income (loss) per share - basic (1,2,3,4)	$(0.30)	$(0.08)	
Net income (loss) per share - diluted(1,2,3,4)	$(0.30)	$(0.08)	

Year ended June 2, 2001

Net sales	$121,262	$131,755
Gross margin	67,562	75,401
Net income (5)	23,295	27,719
Net income per share - basic (5)	$0.87	$1.03
Net income per share - diluted(5)	$0.83	$1.00

The sum of the quarterly data presented in the table above may not equal annual results due to rounding. For a reconciliation of the previously reported numbers for fiscal 2002 and the restated numbers for fiscal 2002 see Note 1.

1 First quarter fiscal 2002 gross margin includes a pretax non-recurring charge of $3.5 million related to discontinuing the manufacturing of certain products, and net income and per share amounts also includes pretax non-recurring operating expenses of $4.3 million related to the restructuring plan announced in June of 2001.

2 Second quarter fiscal 2002 net income and per share amounts include pretax non-recurring operating expenses of $1.6 million related to the restructuring plan announced in June of 2001.

3 Third quarter fiscal 2002 gross margin includes a pretax non-recurring gain $0.4 million related to the subsequent sales of the inventory written off in the first quarter. Third quarter net income and per share amounts also include pretax non-recurring operating expenses of $0.7 million related to the restructuring plan announced in June of 2001. Also included is $4.6 million related to research and development tax credits and pretax professional expenses of $0.8 million directly related to receiving the credit.

4 Fourth quarter fiscal 2002 gross margin includes a pretax non-recurring charge of $9.4 million related to exiting mechanical drill products, and net income and per share amounts also include pretax non-recurring operating expenses of $1.8 million related to exiting mechanical drill products and $0.4 million related to the restructuring plan announced in June of 2001.

5 For fiscal 2001, fourth quarter net income and per share amounts include pre-tax non-recurring operating items of $11.4 million related to the litigation award from GSI Lumonics, and $1.4 million of accrued interest.

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders of
Electro Scientific Industries, Inc.:

We have audited the accompanying consolidated balance sheet of Electro Scientific Industries, Inc. (an Oregon corporation) and subsidiaries as of June 1, 2002, and the related consolidated statements of operations, shareholders' equity and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The fiscal 2001 and 2000 financial statements were audited by other auditors who have ceased operation. Those auditors expressed an unqualified opinion on those financial statements in their report dated June 29, 2001.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Electro Scientific Industries, Inc. and subsidiaries as of June 1, 2002, and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As indicated in Note 1 to these consolidated financial statements, the Company has restated its consolidated financial statements as of and for the year ended June 1, 2002.

/s/KPMG LLP
Portland, Oregon
July 3, 2002, except for Note 1 as to which the date is August 8, 2003

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OF THE REPORT PREVIOUSLY ISSUED BY
ARTHUR ANDERSEN LLP AND HAS NOT BEEN REISSUED BY THAT FIRM.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Board of Directors and Shareholders of
Electro Scientific Industries, Inc.:

We have audited the accompanying consolidated balance sheets of Electro Scientific Industries, Inc. (an Oregon corporation) and subsidiaries as of June 2, 2001 and June 3, 2000 and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended June 2, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Electro Scientific Industries, Inc. and subsidiaries as of June 2, 2001 and June 3, 2000, and the results of

their operations and their cash flows for each of the three years in the period ended June 2, 2001 in conformity with accounting principles generally accepted in the United States.

/s/ARTHUR ANDERSEN LLP
Portland, Oregon
June 29, 2001

ARTHUR ANDERSEN LLP WERE THE INDEPENDENT ACCOUNTANTS FOR ELECTRO SCIENTIFIC INDUSTRIES, INC. UNTIL MAY 7, 2002. REPRESENTATIVES OF ARTHUR ANDERSEN LLP ARE NOT AVAILABLE TO PROVIDE THE CONSENT REQUIRED FOR THE INCORPORATION BY REFERENCE OF THEIR REPORT ON THE FINANCIAL STATEMENTS OF ELECTRO SCIENTIFIC INDUSTRIES, INC. APPEARING IN THIS AMENDED ANNUAL REPORT INTO REGISTRATION STATEMENTS FILED BY ELECTRO SCIENTIFIC INDUSTRIES, INC. WITH THE SECURITIES AND EXCHANGE COMMISSION AND CURRENTLY EFFECTIVE UNDER THE SECURITIES ACT OF 1933. BECAUSE ARTHUR ANDERSEN LLP HAVE NOT CONSENTED TO THE INCORPORATION BY REFERENCE OF THEIR REPORT, INVESTORS WILL NOT BE ABLE TO RECOVER AGAINST ARTHUR ANDERSEN LLP UNDER SECTION 11 OF THE SECURITIES ACT OF 1933 FOR ANY UNTRUE STATEMENTS OF A MATERIAL FACT CONTAINED IN THE FINANCIAL STATEMENTS AUDITED BY ARTHUR ANDERSEN LLP THAT ARE CONTAINED IN THIS AMENDED REPORT OR ANY OMISSIONS TO STATE A MATERIAL FACT REQUIRED TO BE STATED THEREIN.

PART III

ITEM 14. Controls and Procedures

Immediately following the signature page of this amended annual report are certifications of our President and Chief Executive Officer and our Chief Financial Officer required by Section 302 of the Sarbanes-Oxley Act of 2002 (the "Section 302 Certification"). This portion of our amended annual report on Form 10-K/A is our disclosure of the results of our controls evaluation conducted under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, and within 90 days prior to the filing of this amended annual report referred to in paragraphs (4), (5) and (6) of the Section 302 Certification and should be read in conjunction with the Section 302 Certification for a more complete understanding of the topics presented.

In March 2003 the Audit Committee of our Board of Directors, with the assistance of outside legal counsel and forensic accountants, commenced an internal investigation of certain accounting matters. The investigation involved the review of (1) the circumstances surrounding the reversal of an accrual for employee benefits, (2) unsupported accounting adjustments and clerical errors primarily relating to inventory and cost of goods sold, and (3) certain other areas where potential accounting errors could have occurred, including revenue recognition. On July 15, 2003, we announced that the Audit Committee had completed its review of these matters. As a result of the review, we determined that the unaudited consolidated condensed financial statements for the three months ended August 31, 2002 and November 30, 2002 and the audited consolidated financial statements for the year ended June 1, 2002 required restatement.

Management has advised the Audit Committee that upon reviewing the restatement adjustments and performing an evaluation of our controls and disclosure procedures, management noted deficiencies in internal controls relating to:

1. Lack of complete sales documentation, particularly as it relates to customer specified acceptance criteria;
2. Lack of adequate job transition/cross training and poorly documented "desk" processes and procedures in the finance/accounting area;
3. Changes to accounting methodologies without notification to, or proper authorization by, accounting oversight parties (i.e., the audit committee and independent auditors); and
4. Lack of adequate tracking and monitoring of finished goods inventory that was transferred out of the inventory management information system.

The independent auditors advised the Audit Committee that these internal control deficiencies constitute reportable conditions and, collectively, a material weakness as defined in Statement of Auditing Standards No. 60. Certain of these internal control weaknesses may also constitute deficiencies in our disclosure controls.

While we, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, are in the process of implementing a more effective system of disclosure controls and procedures, we have instituted controls, procedures and other changes to ensure that information required to be disclosed in this amended annual report on Form 10-K/A has been recorded, processed, summarized and reported. The steps that we have taken to ensure that all material information about our company is accurately disclosed in this report include:

1. The appointment of an independent director to be Chairman of the Board in April 2003, who was previously the Chief Executive Officer and Chairman of the Board of KLA-Tencor Corporation;
2. The appointment of a previously independent director to be President and Chief Executive Officer in April 2003, who was previously Chief Financial Officer of Apex, Inc. and was the former Senior Vice President and Chief Financial Officer of ESI for seven years until 1998;
3. The appointment of a new Chief Financial Officer in May 2003, who was previously Chief Financial Officer of SpeedFam-IPEC, Inc. and Vice President and Corporate Controller of Novellus Systems, Inc.;
4. The engagement of outside professionals specializing in accounting and finance to assist our management in the collection, substantiation and analysis of the information contained in this report; and
5. The performance of additional procedures by us designed to ensure that these internal control deficiencies did not lead to material misstatements in our consolidated financial statements.

We have also increased by two the number of independent directors on our board by electing Richard J. Faubert, who previously served as President and Chief Executive Officer of SpeedFam-IPEC, Inc. and held senior management positions at Tektronix, Inc. and Genrad, Inc., and Frederick A. Ball, who previously served as Senior Vice President and Chief Financial Officer of Borland Software Corporation and as Vice President of Finance of KLA-Tencor Corporation.

Based in part on the steps listed above, our President and Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

In addition, in order to address further the deficiencies described above and to improve our internal disclosure and control procedures for future periods, we will:

1. Review and revise our processes and procedures for applying revenue recognition policies, including more formalized training of finance, sales, order management and other staffs;
2. Enhance accounting/finance training programs and desk processes and procedures documentation as well as retain additional full-time experienced accounting/finance personnel;
3. Provide additional management oversight and perform detailed reviews of disclosures and reporting with the assistance of outside legal counsel;
4. Account for all completed systems in the inventory management information system; and
5. Use outside resources, as necessary, to supplement our employees in the preparation of the consolidated financial statements and other reports filed or submitted under the Securities Exchange Act of 1934.

These steps will constitute significant changes in internal controls. We will continue to evaluate the effectiveness of our disclosure controls and internal controls and procedures on an ongoing basis, and will take further action as appropriate.

PART IV

ITEM 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K.

(a) Financial Statements and Schedules.
The following financial statements are included in this Annual Report on Form 10-K/A on the pages indicated.

Electro Scientific Industries, Inc. and Subsidiaries:	Page
Consolidated Balance Sheets as of June 1, 2002 (restated) and June 2, 2001	10
Consolidated Statements of Operations for the Years Ended June 1, 2002 (restated), June 2, 2001, June 3, 2000	11
Consolidated Statements of Shareholders' Equity for the Years Ended June 1, 2002 (restated), June 2, 2001, June 3, 2000	12
Consolidated Statements of Cash Flows for the Years Ended June 1, 2002 (restated), June 2, 2001, June 3, 2000	13
Notes to Consolidated Financial Statements (restated)	14
Independent Auditor's Report	37
Report of Independent Public Accountants	38

All schedules are omitted, as the required information is inapplicable or not significant.

(b) Exhibit List
This list is intended to constitute the exhibit index.

3-A. Restated Articles of Incorporation of the Company. Incorporated by reference to Exhibit 3-A of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1991.

3-B. Articles of Amendment of Third Restated Articles of Incorporation of the Company. Incorporated by reference to Exhibit 3-B of the Company's Annual Report on Form10-K for the fiscal year ended May 31, 1999.

3-C. Articles of Amendment of Third Restated Articles of Incorporation of the Company. Incorporated by reference to Exhibit 3 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended December 2, 2000.

3-D. 2001 Restated Bylaws of the Company. Incorporated by reference to Exhibit 3 of the Company's Quarterly Report on Form 10-Q for the fiscal quarter ended March 3, 2001.

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4-A. Amended and Restated Rights Agreement, dated as of March 1, 2001, between the Company and Mellon Investor Services, relating to rights issued to all holders of Company Common Stock. Incorporated by reference to Exhibit 4-A of the Company's Annual Report on Form 10-K for the fiscal year ended June 2, 2001.

10-A. ESI 1983 Stock Option Plan, as amended. Incorporated by reference to Exhibit 10-E of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1986. 1

10-B. ESI 1989 Stock Option Plan, as amended. Incorporated by reference to Exhibit 10-B of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1997. 1

10-C. Form of Change in Control Agreement between the Company and each of its appointed officers. Incorporated by reference to Exhibit 10-C of the Company's Annual Report on Form 10-K for the fiscal year ended June 2, 2001. 1

10-D. 1996 Stock Incentive Plan. Incorporated by reference to Exhibit 10-E of the Company's Annual Report on Form 10-K for the fiscal year ended May 31, 1997. 1

10-E. 2000 Stock Option Plan. Incorporated by reference to Exhibit 10-F of the Company's Annual Report on Form 10-K for the fiscal year ended June 3, 2000. 1

10-F. Form of Indemnity Agreement between the Company and each of its corporate officers. Incorporated by reference to Exhibit 10-F of the Company's Annual Report on Form 10-K for the fiscal year ended June 2, 2001.

10-G. 2000 Stock Option Incentive Plan. Incorporated by reference to Appendix A of the Company's definitive Proxy Statement for its 2000 Annual Meeting of Shareholders.1

10-H. Form of Employment and Separation Agreement between the Company and Donald R. VanLuvanee. 1, 2

21. Subsidiaries of the Company. 2

23. Independent Auditors' Consent.

24.1 Power of Attorney for Frederick Ball

24.2 Power of Attorney for David F. Bolender

24.3 Power of Attorney for Richard J. Faubert

24.4 Power of Attorney for Larry L. Hansen

24.5 Power of Attorney for W. Arthur Porter

24.6 Power of Attorney for Vernon B. Ryles, Jr.

24.7 Power of Attorney for Gerald F. Taylor

24.8 Power of Attorney for Keith L. Thomson

24.9 Power of Attorney for Jon D. Tompkins

99.1 Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2 Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

1 Management contract or compensatory plan or arrangement.
2 Incorporated by reference to the same numbered exhibit in the Company's originally filed Annual Report on Form 10-K for the year ended June 1, 2002 filed on August 20, 2002.

(c) Reports on Form 8-K.

The Company filed a report on Form 8-K on April 23, 2002, announcing that Donald VanLuvanee retired as president and chief executive officer and that David F. Bolender was named acting chief executive officer and James T. Dooley was named senior vice president and acting chief operating officer.

The Company filed a report on Form 8-K on May 14, 2002, announcing that it had dismissed Arthur Andersen LLP as its principal accountants and engaged KPMG LLP as its new principal accountants.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this amendment to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: August 11, 2003

ELECTRO SCIENTIFIC INDUSTRIES, INC.

By: /s/ BARRY L. HARMON

Barry L. Harmon
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this

amendment has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on August 11, 2003.

Signature	Title
/s/ BARRY L. HARMON Barry L. Harmon	President and Chief Executive Offic (Principal Executive Officer)
/s/ J. MICHAEL DODSON J. Michael Dodson	Vice President of Administration an Financial Officer(Principal Financial and Accounting Officer)
*FREDERICK BALL Frederick Ball	Director
*DAVID F. BOLENDER David F. Bolender	Director
*RICHARD J. FAUBERT Richard J. Faubert	Director
*LARRY L. HANSEN Larry L. Hansen	Director
*W. ARTHUR PORTER W. Arthur Porter	Director
*VERNON B. RYLES JR. Vernon B. Ryles	Director
*GERALD F. TAYLOR Gerald F. Taylor	Director
*KEITH L. THOMSON Keith L. Thomson	Director
*JON D. TOMPKINS Jon D. Tompkins	Chairman of the Board

*/s/ BARRY L. HARMON

By Barry L. Harmon, Attorney-in-Fact

CERTIFICATION PURSUANT TO
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, Barry L. Harmon, certify that:

1. I have reviewed this annual report on Form 10-K/A of Electro Scientific Industries, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements and other financial information included in this annual report fairly present, in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 11, 2003
/s/ Barry L. Harmon

Barry L. Harmon
President and Chief Executive Officer

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CERTIFICATION PURSUANT TO
SECTION 302(a) OF THE SARBANES-OXLEY ACT OF 2002

I, J. Michael Dodson, certify that:

1. I have reviewed this annual report on Form 10-K/A of Electro Scientific Industries, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements and other financial information included in this annual report fairly present, in all material respects, the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this amended annual report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other

employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: August 11, 2003
/s/ J. Michael Dodson

J. Michael Dodson
Vice President of Administration and
Chief Financial Officer