

E X C E R P T E D F R O M :

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# THE WALL STREET TRANSCRIPT

Questioning Market Leaders For Long Term Investors

THE FOLLOWING REPORT IS EXCERPTED FROM  
**THE WALL STREET TRANSCRIPT**

## CEO/COMPANY INTERVIEW

**CURTIS WOZNIAK**

Electroglas, Inc.

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# Electroglas, Inc. (EGLS)



**CURTIS WOZNIAK** joined Electroglas, Inc. as CEO in April 1996. In August of the following year he was named Chairman of the company. Founded in 1960, Electroglas, Inc. is a world-leading supplier of essential process management tools to the semiconductor industry. Prior to joining Electroglas, Mr. Wozniak was President and Chief Operating Officer for Xilinx, Inc., the world's leading supplier of programmable logic. Before Xilinx, Mr.

Wozniak spent more than 10 years with Sun Microsystems, most recently as Vice President, Worldwide Marketing, for Sun's largest subsidiary, Sun Microsystems Computer Corporation (SMCC). SMCC accounted for more than 90% of corporate revenues when Mr. Wozniak departed in 1994. During his tenure with Sun, Mr. Wozniak also served as Vice President, Engineering for SMCC, responsible for development of all of Sun's hardware products and engineering operations in Mountain View, California; Boston, Massachusetts; Research Triangle Park, North Carolina; and Tokyo, Japan. Earlier roles at Sun included Director of Manufacturing; Vice President, Desktop Graphics Development; and Vice President and General Manager of Sun's Educational Products Division, where he was responsible for the development of SPARCstation products. Before Sun, Mr. Wozniak spent several years as Production Engineering Manager for Hewlett-Packard Co. He began his career at General Motors Corp., where he spent nine years in a variety of manufacturing, marketing and operations roles. He holds a Bachelor of Science degree in Mechanical Engineering from GMI Engineering and Management Institute (now Kettering University) and a Master of Business Administration from Stanford University. Mr. Wozniak serves on the Board of Directors of the Semiconductor Industry Suppliers Association of America (SISA) (formerly SEMI/SEMATECH), a consortium to strengthen the semiconductor supplier industry, and the Kettering University Board of Trustees.

**SECTOR — SEMICONDUCTOR EQUIPMENT (JAP205) TWST: Give us a brief overview of Electroglas.**

**Mr. Wozniak:** Electroglas has been in the semiconductor equipment business for about 40 years, and was spun-off by General Signal in 1993. Our primary business over those years has been in the wafer prober area; a prober is a piece of equipment used to test silicon wafers before they're cut apart and

sent out to be packaged. Over the last couple of years, however, we've been working to broaden that product line through a couple of acquisitions in 1997, one in inspection and one in yield management software in order to provide a whole set of process management tools, including our wafer probers.

**TWST: Are you contemplating further acquisitions, mergers, joint ventures, partnerships — those kinds of things?**

# Investors Brief



**Ticker (exchange)**  
**Price close 3/16/00**  
**12 Months Price Range**

**EGLS (NASDAQ)**  
**34 7/16**  
**11 1/2 - 44 1/8**

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 Chairman & CEO

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 VP, Finance & CFO

**Conor P. O'Mahony**  
 VP, Global Customer Operations

**Joseph Savarese**  
 VP, Business Development

**Jeff Hintzke**  
 VP, Marketing

## Corporate Business Description

Electroglas delivers essential tools for process management designed to enhance semiconductor companies' profitability. The Company's wafer probers, inspection systems and software solutions serve as data collection, management and analysis tools that semiconductor manufacturers depend on to improve their productivity and process control by optimizing sort-floor efficiency. Electroglas has been a leading supplier of wafer probers for over 40 years and has an installed base of more than 13,000 systems.

## Data Collection Tools

Electroglas probers align each die on a wafer with tiny test pins to measure the electrical performance of the device. As the first point in the manufacturing process at which the value of devices is determined, probers collect vital data about the quality of a device. This data is used to reduce costs, improve efficiency and ultimately increase yield.

Electroglas' QuickSilver™ is a 100% automated inspection system designed to deliver a sort-floor cost breakthrough for semiconductor fabs. The tool employs the same time delay integration (TDI) imaging technology as more expensive optical defect detection systems, but with resolution consistent with the needs of sort-floor inspection at one fourth the cost. Utilizing an open architecture, QuickSilver serves as a data collection tool providing critical data for higher-level process management and yield analysis systems.

## Data Management Tools

Electroglas pioneered the concept of connecting probers to a local area network to obtain and manage data that semiconductor manufacturers can use to improve yield. Designed to address the industry's pursuit of higher yields and shorter process times, SORTnet 4.0 facilitates the centralized, intelligent management of data obtained from Electroglas probers and for the first time, makes this data easily and quickly available to other areas in the manufacturing facility.

## Data Analysis Tools

Electroglas' acquisition of Knights Technology takes advantage of the synergy between both companies' products to create the industry's most comprehensive toolset for yield management linking design, manufacturing and test.

## Electroglas Reports Fourth Quarter Results

SANTA CLARA, CALIF. – January 27, 2000 – Electroglas, Inc. reported operating results for its fourth quarter ended December 31, 1999.

Revenue was \$44.9 million for the fourth quarter 1999, up 29% sequentially from third quarter 1999 and up 205% from the fourth quarter of 1998.

Net income was \$6.7 million, or \$.33 per diluted share for the fourth quarter 1999, compared to net income of \$3.6 million, or \$.18 per diluted share in the immediate prior quarter. A net loss of \$20.3 million, or \$1.04 per share was recorded in the fourth quarter of 1998.

During the quarter, cash and short-term investments increased \$7.7 million, to \$140.9 million.

For the year 1999, revenue was \$126.7 million, up 25% from revenue of \$101.6 million in 1998. Net income for 1999 was \$5.6 million, or \$.27 per diluted share. In 1998, a net loss of \$31.6 million, or \$1.62 per share was recorded.

Commented Curt Wozniak, CEO of Electroglas, "Business conditions continued to be strong throughout the fourth quarter for semiconductor capital equipment and for Electroglas, as semiconductor companies continued to add capacity to meet strong customer demand. Bookings were \$50.5 million and increased 22% from the third quarter and 310% from the previous year. The 22% increase from the third quarter paralleled the 21.9% that was experienced by the US Test and Assembly industry as indicated by the SEMI Express Report. For the entire year, bookings increased 98% from a disappointing 1998. The fourth quarter book to bill ratio of 1.13 enabled us to increase backlog and provide good visibility into the second quarter."

Continued Wozniak, "We have also responded to this increased business with a strong response in our manufacturing and through our outsourcing relationship with Sanmina Corporation. Our "lean" manufacturing capability led to a strong volume increase and reduced our inventory turns ratio to 58 days. We are also in the process of moving to a new corporate campus in San Jose, California, providing excellent facilities for our employees and additional capacity for manufacturing our products. As we head into the remainder of 2000, the current forecasts from most industry analysts are for continued strong growth for the semiconductor and semiconductor equipment industry."

**Mr. Wozniak:** Yes, all of those — joint ventures, partnerships. We've done an equity investment and strategic partnership with Cascade Microtech to broaden our prober technology. We continue to look for partnerships with test companies in order to do a better job of integrating our wafer probers. In our yield management area we are always working with other companies to increase the capability to bring data into a common yield management system.

In terms of acquisitions, we continue to look for good acquisitions that fit that overall strategic direction and can add to our bottom line.

**TWST: How do you think your R&D expenditures will change in the future?**

**Mr. Wozniak:** We have significantly ramped up our R&D expenditures over the last couple of years since 1996, to the point that they're running at a pretty good rate of revenue, about 12-15% of revenue now. And we do expect to continue to ramp those as our revenue grows. We're in a technology business. We have to create new products and new technologies for our technology-advanced customers, and that requires a lot of R&D investment. One of the significant things is that we need to continue to invest in, even somewhat independently of the business conditions of our very cyclical industry. So we have to keep the R&D motor turned on regardless of the environment.

**TWST: What are the most significant trends, developments, changes and so forth that you anticipate in your marketplace over the next several years?**

**Mr. Wozniak:** There are a couple of them. Probably the biggest one that people know about is the transition to larger wafer sizes. We're in the midst of a move from 200-millimeter size wafers to 300-millimeter size wafers, which generates over twice the area for semiconductors on the wafer. Of course, that's a big change for us, because all of our old equipment, current equipment

really cannot be used for those larger wafer sizes. That will drive a whole new generation of equipment across the board in the semiconductor industry. So that's one major change.

The other major change is continued new technology coming into semiconductors. Semiconductor companies continue to shrink devices which adds more complexity to a chip, more testing, more technical features that are required by us in order to align and touch down on those very sophisticated dies. So there is continued technological change going on there.

The final one really comes in how semiconductor manufacturers are running their manufacturing processes. Wafers have been run pretty much as a batch, almost a cooking, kitchen-style process over the years. One of the trends that we see is the whole impact of better data management and process management tools coming into the fab. And really utilizing a lot of the technologies that are now available on the Internet, that are used to drive the Internet, could be used in the manufacturing fabs to drive manufacturing. But today they're not, so that's one of the reasons we see data management and information processing as a huge opportunity.

**TWST: What are some of the greatest opportunities for the company in the next several years?**

**Mr. Wozniak:** One of them is testing at the wafer level. People have been somewhat limited by technology at the wafer level. As the tester companies, people like Teradyne, Credence or Schlumberger, do better wafer level testing, customers will try to do more testing, and that will drive use of wafer probers.

Another major opportunity we have is just faster deployment of the yield management software we provide; as people recognize the advantage of bringing better data management tools into the fab.

In our inspection business, one of the biggest opportunities is the trend of getting away from using wires to connect the chips to packages and using little solder bumps that all have to be geometrically correct. The ability to inspect those is an opportunity for us.

**TWST: What are the major concerns or risks that the company faces now and will also be facing in the future? Does anything keep you up at night about the company?**

**Mr. Wozniak:** Yes, a lot of things keep me up at night, one of which is while we're in a very good growth business, the semiconductor business is still a cyclical business and tends to go up and down rapidly. Trying to keep your eye out and see where those ups and downs are going to occur does keep you up at night all the time.

The other thing is, as I mentioned, we're a technology company. We really focus on getting new products done, and our ability to get new products out the door in time with these cycles is always a risk and one of the things that keeps us up at night.

The final thing is that the semiconductor industry is really going global, and being able to put in place a worldwide distribution and support network is one of the things that we continue to strive for. We're very strong in our support network in the US and Europe, and we're continually trying to improve our support and service and sales network in Asia.

**TWST: What are some of Electroglas' competitive advantages? What sets the company apart?**

**Mr. Wozniak:** In our wafer prober area, which we've been in now for probably 30 years, the overall flexibility of our system is one of the things that customers really like. When customers have a large variety of devices that they have to

test, the ability of our software system to accommodate that variety is a strength of ours.

We have two brand-new systems that we introduced last year and are going to be shipping this year. One is called the EG4|200, which has extremely good mechanical rigidity. This helps in testing very big devices, and a lot of the new chips are getting bigger and bigger. People are trying to test more at the same time, so they're trying to test 32 devices at once, and mechanical rigidity is a very important feature.

Our 300-millimeter product, the EG5|300, which was also introduced last year and we'll be shipping this year, has very good accuracy and throughput. So in our prober area these are two strong advantages.

In the yield management area we have very good coverage of a broad set of data sources to bring into our database, allowing a customer to analyze how different pieces of equipment have worked together to cause defects. So really the coverage is our strength there.

And finally, in our inspection business we have brought some very high speed, high resolution technology to an area of the manufacturing process that hasn't been able to utilize that level of technology before. They still use a lot of people looking through microscopes in order to find defects, and our inspection equipment automates all of that.

**TWST: You kind of touched on this, but any opportunities for improvement within Electroglas? Any weaknesses that need to be addressed?**

**Mr. Wozniak:** Yes, two that I mentioned. Getting products out faster is always a challenge in a technology and we're no different in that regard. Getting our products done is probably our number one challenge.

Strengthening our channel in that Asia market is something we need to work on, too.

And finally, just broadening our product line. We need to have a very good, strong, broad integrated product line for the changes going on in the marketplace.

So continuing to expand both through internal development and acquisition.

**TWST: What are your specific goals for Electroglas over the next several years in terms of such factors as market position and growth?**

**Mr. Wozniak:** Our major goal in our primary business is to gain market share in wafer probers. We compete against two very good Japanese competitors. There are only three of us in the marketplace, and our goal is to gain market share through technical advantage. So that's our number one goal.

Our second major goal is to expand the business in new product areas, such as the process management tools I discussed, in order to have a coherent strategic vision that allows customers to see where we're going.

And finally, we want to grow faster than the semiconductor equipment market, whatever that is. It's a cyclical business but it's a growth business, and we want to grow faster than the rest of the market.

**TWST: How do you feel about your current stock price?**

**Mr. Wozniak:** Pretty good, yes! You know, it's a pretty good stock price relative to where it was 52 weeks ago or just before that, so we've had a pretty good run, as a lot of technology companies have. If the expansion in the economy continues and continues to drive semiconductor demand, the semiconductor equipment market is forecast to double over the next four to five years.

So given that environment, it's a pretty good bet, and we have excellent financial leverage.

**TWST: If you were sitting down with a group of potential long-term investors, what two or three reasons would you give them to invest in Electroglas now?**

**Mr. Wozniak:** The first is that semiconductor equipment is a growth market. It's growing at 15-17% per year. On a long-term basis, it's expected to grow in excess of 20% for the next two to three years. But it is a cyclical market, so it does take the tolerance of a long-term investor.

Electroglas is very well-positioned for both our existing markets and new markets that we see coming into the business.

And then finally, we've had a very good history of maintaining a very strong financial backbone. We are cash rich, we manage our assets very well, and have good financial discipline. So we keep a strong eye on the books, in addition to trying to move into expansion markets.

**TWST: Thank you.**

**CURTIS WOZNIAK**

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*Each Executive who is the featured subject of a TWST Interview is offered the opportunity to include an Investors Brief or other highlight material to be provided and sponsored by and for the company. This Interview with Curtis Wozniak, Chairman & CEO of Electroglas, Inc. is accompanied by an Investors Brief containing corporate information.*