

October 28, 2010



KLA-Tencor Reports Fiscal 2011 First Quarter Results

MILPITAS, Calif., Oct. 28 /PRNewswire-FirstCall/ -- KLA-Tencor Corporation (Nasdaq: KLAC) today announced operating results for its first quarter of fiscal year 2011, which ended on September 30, 2010. KLA-Tencor reported GAAP net income of \$154 million and GAAP earnings per diluted share of \$0.91 on revenues of \$682 million for the first quarter of fiscal year 2011.

"We are pleased with a very solid first quarter of fiscal year 2011. Orders were strong, backlog increased and we delivered outstanding gross and operating margins in the quarter," said Rick Wallace, KLA-Tencor's president and CEO. "Our customer focus, coupled with a high level of investment in R&D and successful new product execution, are helping drive increased adoption of process control and contributing to our strong financial results."

GAAP Results

| | Q1 FY 2011 | Q4 FY 2010 | Q1 FY 2010 |
|----------------------------|----------------|----------------|----------------|
| Revenues | \$ 682 million | \$ 559 million | \$ 343 million |
| Net Income | \$ 154 million | \$ 113 million | \$ 20 million |
| Earnings per Diluted Share | \$ 0.91 | \$ 0.66 | \$ 0.12 |

Non-GAAP Results

| | Q1 FY 2011 | Q4 FY 2010 | Q1 FY 2010 |
|----------------------------|----------------|----------------|---------------|
| Net Income | \$ 169 million | \$ 120 million | \$ 26 million |
| Earnings per Diluted Share | \$ 0.99 | \$ 0.70 | \$ 0.15 |

A reconciliation between GAAP operating results and non-GAAP operating results is provided following the financial statements that are part of this release. Non-GAAP results include the impact of stock-based compensation, but exclude the impact of acquisition, restatement and restructuring related items, goodwill and intangible asset impairment, and certain discrete tax items.

KLA-Tencor will discuss the results for its fiscal year 2011 first quarter, along with its outlook, on a conference call today beginning at 2:00 p.m. Pacific Daylight Time. A webcast of the call will be available at: www.kla-tencor.com

Forward-Looking Statements:

Statements in this press release other than historical facts, such as statements regarding adoption levels of process control, KLA-Tencor's level of investment in research and development and the company's ability to successfully innovate, develop and sell new technologies and products that meet customer needs are forward-looking statements, and are subject to the Safe Harbor provisions created by the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on current information and expectations, and involve a number of risks and uncertainties. Actual results may differ materially from those projected in such statements due to various factors, including but not limited to: the demand for semiconductors; the financial condition of the global capital markets and the general macroeconomic environment; new and enhanced product and technology offerings by competitors; cancellation of orders by customers; the ability of KLA-Tencor's research and development teams to successfully innovate and develop technologies and products that are responsive to customer demands; KLA-Tencor's ability to successfully integrate and manage businesses that it acquires; market acceptance of the company's existing and newly issued products; and changing customer demands. For other factors that may cause actual results to differ materially from those projected and anticipated in forward-looking statements in this release, please refer to KLA-Tencor's Annual Report on Form 10-K for the year ended June 30, 2010, subsequently filed Quarterly Reports on Form 10-Q and other filings with the Securities and Exchange Commission (including, but not limited to, the risk factors described therein). KLA-Tencor assumes no obligation to, and does not currently intend to, update these forward-looking statements.

About KLA-Tencor:

KLA-Tencor Corporation (NASDAQ: KLAC), a leading provider of process control and yield management solutions, partners with customers around the world to develop state-of-the-art inspection and metrology technologies. These technologies serve the semiconductor, data storage, LED, photovoltaic, and other related nanoelectronics industries. With a portfolio of industry-standard products and a team of world-class engineers and scientists, the company has created superior solutions for its customers for over 30 years. Headquartered in Milpitas, California, KLA-Tencor has dedicated customer operations and service centers around the world. Additional information may be found at www.kla-tencor.com. (KLAC-F)

Use of Non-GAAP Financial Information

The non-GAAP and supplemental information provided in this press release is a supplement to, and not a substitute for, KLA-Tencor's financial results presented in accordance with United States GAAP.

To supplement KLA-Tencor's condensed consolidated financial statements presented in accordance with GAAP, the company provides certain non-GAAP financial information, which is adjusted from results based on GAAP to exclude certain costs and expenses, as well as other supplemental information. The non-GAAP and supplemental information is provided to enhance the user's overall understanding of KLA-Tencor's operating performance and its prospects in the future. Specifically, KLA-Tencor believes that the non-GAAP information provides useful measures to both management and investors regarding financial and business trends relating to KLA-Tencor's financial performance by excluding certain costs and expenses that the company believes are not indicative of its core operating

results. The non-GAAP information is among the budgeting and planning tools that management uses for future forecasting. However, because there are no standardized or generally accepted definitions for most non-GAAP financial metrics, definitions of non-GAAP financial metrics (for example, determining which costs and expenses to exclude when calculating such a metric) are inherently subject to significant discretion. As a result, non-GAAP financial metrics may be defined very differently from company to company, or even from period to period within the same company, which can potentially limit the usefulness of such information to an investor. The presentation of non-GAAP and supplemental information is not meant to be considered in isolation or as a substitute for results prepared and presented in accordance with United States GAAP.

KLA-Tencor Corporation

Condensed Consolidated Unaudited Balance Sheets

(In thousands) September 30, 2010 June 30, 2010

ASSETS

| | | |
|-----------------------------------|--------------|--------------|
| Cash and marketable securities | \$ 1,518,992 | \$ 1,534,044 |
| Accounts receivable, net | 500,022 | 440,125 |
| Inventories, net | 464,242 | 401,730 |
| Other current assets | 450,105 | 459,566 |
| Land, property and equipment, net | 247,380 | 236,752 |
| Goodwill | 328,126 | 328,006 |
| Purchased intangibles, net | 108,908 | 117,336 |
| Other non-current assets | 385,090 | 389,497 |
| Total assets | \$ 4,002,865 | \$ 3,907,056 |

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:

| | | |
|---------------------------|------------|------------|
| Accounts payable | \$ 138,226 | \$ 107,938 |
| Deferred system profit | 201,663 | 204,764 |
| Unearned revenue | 33,518 | 37,026 |
| Other current liabilities | 390,211 | 422,059 |
| Total current liabilities | 763,618 | 771,787 |

Non-current liabilities:

| | | |
|-------------------------------|-----------|-----------|
| Income tax payable | 57,500 | 53,492 |
| Unearned revenue | 21,124 | 20,354 |
| Other non-current liabilities | 73,484 | 69,065 |
| Long-term debt | 745,882 | 745,747 |
| Total liabilities | 1,661,608 | 1,660,445 |

Stockholders' equity:

| | | |
|---|-----------|--------------|
| Common stock and capital in excess of par value | 953,437 | 921,460 |
| Retained earnings | 1,402,931 | 1,356,454 |
| Accumulated other comprehensive income (loss) | (15,111) | (31,303) |
| Total stockholders' equity | 2,341,257 | 2,246,611 |
| Total liabilities and stockholders' equity \$ | 4,002,865 | \$ 3,907,056 |

KLA-Tencor Corporation

Condensed Consolidated Unaudited Statements of Operations

Three months ended

(In thousands, except per share data) September 30, 2010 September 30, 2009

Revenues:

| | | |
|---------|------------|------------|
| Product | \$ 550,609 | \$ 229,251 |
|---------|------------|------------|

| | | |
|--|------------|-----------|
| Service | 131,733 | 113,436 |
| Total revenues | 682,342 | 342,687 |
| Costs and operating expenses: | | |
| Costs of revenues | 263,969 | 171,892 |
| Engineering, research and development | 94,720 | 78,209 |
| Selling, general and administrative | 88,037 | 77,636 |
| Total costs and operating expenses | 446,726 | 327,737 |
| Income from operations | 235,616 | 14,950 |
| Interest and other income (expense), net | (12,304) | 7,842 |
| Income before income taxes | 223,312 | 22,792 |
| Provision for income taxes | 69,116 | 2,387 |
| Net income | \$ 154,196 | \$ 20,405 |
| Net income per share: | | |
| Basic | \$ 0.92 | \$ 0.12 |
| Diluted | \$ 0.91 | \$ 0.12 |
| Cash dividend paid per share | \$ 0.25 | \$ 0.15 |
| Weighted average number of shares: | | |
| Basic | 167,187 | 170,698 |
| Diluted | 169,839 | 172,718 |

| | Three months ended | |
|---|--------------------|-----------|
| | September 30 | |
| (In thousands) | 2010 | 2009 |
| Cash flows from operating activities: | | |
| Net income | \$ 154,196 | \$ 20,405 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 20,783 | 23,134 |
| Non-cash stock-based compensation | 24,213 | 20,199 |
| Tax charge from equity awards | - | (5,133) |
| Net gain on sale of marketable securities and other investments | (1,047) | (1,292) |
| Gain on sale of real estate assets | - | (2,824) |
| Changes in assets and liabilities: | | |
| Increase in accounts receivable, net | (50,342) | (28,279) |
| Decrease (increase) in inventories | (63,450) | 26,971 |
| Decrease (increase) in other assets | 10,870 | (46,368) |
| Increase in accounts payable | 30,096 | 11,288 |
| Increase (decrease) in deferred system profit | (3,101) | 18,902 |
| Increase (decrease) in other liabilities | (26,690) | 36,246 |
| Net cash provided by operating activities | 95,528 | 73,249 |
| Cash flows from investing activities: | | |
| Capital expenditures, net | (11,163) | (3,635) |
| Purchase of available-for-sale securities | (228,951) | (263,646) |
| Proceeds from sale and maturity of available-for-sale securities | 239,650 | 221,588 |
| Purchase of trading securities | (16,004) | (23,573) |
| Proceeds from sale of trading securities | 30,623 | 29,145 |
| Net cash provided by (used in) investing activities | 14,155 | (40,121) |
| Cash flows from financing activities: | | |

| | | |
|--|------------|------------|
| Issuance of common stock | 2,953 | 2,917 |
| Tax withholding payments related to vested and released restricted stock units | (9,517) | (1,833) |
| Common stock repurchases | (62,156) | - |
| Payment of dividends to stockholders | (41,785) | (25,606) |
| Net cash used in financing activities | (110,505) | (24,522) |
| Effect of exchange rate changes on cash and cash equivalents | 9,288 | 7,266 |
| Net increase in cash and cash equivalents | 8,466 | 15,872 |
| Cash and cash equivalents at beginning of period | 529,918 | 524,967 |
| Cash and cash equivalents at end of period | \$ 538,384 | \$ 540,839 |
| Supplemental cash flow disclosures: | | |
| Income tax paid, net | \$ 46,060 | \$ 10,591 |
| Interest paid | \$ 352 | \$ 246 |

KLA-Tencor Corporation
Condensed Consolidated Unaudited Supplemental Information
(In thousands, except per share data)

Reconciliation of GAAP Net Income to Non-GAAP Net Income

| | Three months ended | | |
|---|--------------------|---------------|--------------------|
| | September 30, 2010 | June 30, 2010 | September 30, 2009 |
| GAAP net income | \$ 154,196 | \$ 113,085 | \$ 20,405 |
| Adjustments to reconcile GAAP net income to non-GAAP net income | | | |
| Acquisition related | | | |

| | | | | |
|---|---|------------|------------|-----------|
| charges | a | 8,178 | 8,280 | 8,095 |
| Restructuring, severance and other related charges | b | - | 3,311 | (4,409) |
| Restatement related charges | c | - | (866) | 5,188 |
| Income tax effect of non-GAAP adjustments | d | (2,857) | (3,824) | (3,121) |
| Discrete tax items | e | 9,154 | - | - |
| Non-GAAP net income | | \$ 168,671 | \$ 119,986 | \$ 26,158 |
| GAAP net income per diluted share | | \$ 0.91 | \$ 0.66 | \$ 0.12 |
| Non-GAAP net income per diluted share | | \$ 0.99 | \$ 0.70 | \$ 0.15 |
| Shares used in diluted shares calculation | | 169,839 | 171,275 | 172,718 |

Pre-tax impact of items included in Consolidated Statements of Operations

| | Acquisition related charges | Restructuring, severance and other related charges | Restatement related charges | Total pre-tax GAAP to non-GAAP adjustment |
|--|-----------------------------------|---|-----------------------------------|---|
| Three months ended September 30, 2010 | | | | |
| Costs of revenues | \$ 5,790 | \$ - | \$ - | \$ 5,790 |
| Engineering, research and development | 898 | - | - | 898 |
| Selling, general and administrative | 1,490 | - | - | 1,490 |
| Total in three months ended September 30, 2010 | \$ 8,178 | \$ - | \$ - | \$ 8,178 |

Three months ended
June 30, 2010

| | | | | |
|---|----------|----------|----------|-----------|
| Costs of revenues | \$ 5,790 | \$ (57) | \$ - | \$ 5,733 |
| Engineering, research and development | 898 | - | - | 898 |
| Selling, general and administrative | 1,592 | 3,368 | (866) | 4,094 |
| Total in three months ended June 30, 2010 | \$ 8,280 | \$ 3,311 | \$ (866) | \$ 10,725 |

Three months ended
September 30, 2009

| | | | | |
|--|----------|------------|----------|----------|
| Costs of revenues | \$ 5,721 | \$ (104) | \$ - | \$ 5,617 |
| Engineering, research and development | 897 | (213) | - | 684 |
| Selling, general and administrative | 1,477 | (4,092) | 5,188 | 2,573 |
| Total in three months ended September 30, 2009 | \$ 8,095 | \$ (4,409) | \$ 5,188 | \$ 8,874 |

Three months ended

| | September 30, 2010 | June 30, 2010 | September 30, 2009 |
|---------------------------------------|--------------------|---------------|--------------------|
| Stock-based compensation | | | |
| Costs of revenues | \$ 4,168 | \$ 3,869 | \$ 3,288 |
| Engineering, research and development | 7,618 | 7,176 | 6,603 |
| Selling, general and administrative | 12,427 | 12,414 | 10,308 |
| Total | \$ 24,213 | \$ 23,459 | \$ 20,199 |

To supplement our condensed consolidated financial statements presented in accordance with GAAP, we provide certain non-GAAP financial information, which is adjusted from results based on GAAP to exclude certain costs and expenses, as well as other supplemental information. The non-GAAP and supplemental information is provided to enhance the user's overall understanding of our operating performance and our prospects in the future. Specifically, we believe that the non-GAAP information provides useful measures to both management and investors regarding financial and business trends relating to our financial performance by excluding certain costs and expenses that we believe are not indicative of our core operating results. The non-GAAP information is among the budgeting and planning tools that management uses for future forecasting. However, because there are no standardized or generally accepted definitions for most non-GAAP financial metrics, definitions of non-GAAP financial metrics (for example, determining which costs and expenses to exclude when calculating such a metric) are inherently subject to significant discretion. As a result, non-GAAP financial metrics may be defined very differently from company to company, or even from period to period within the same company, which can potentially limit the usefulness of such information to an investor. The presentation of non-GAAP and supplemental information is not meant to be considered in isolation or as a substitute for results prepared and presented in accordance with United States GAAP.

a Acquisition related charges include amortization of intangible assets, inventory fair value adjustments, and in-process research and development charges associated with acquisitions. Management believes that the expense associated with the amortization of acquisition related intangible assets is appropriate to be excluded because a significant portion of the purchase price for acquisitions may be allocated to intangible assets that have short lives, and exclusion of the amortization expense allows comparisons of operating results that are consistent over time for both KLA-Tencor's newly acquired and long-held businesses. Management believes that it is appropriate to exclude acquisition related inventory fair value adjustments and in-process research and development charges as they are not indicative of ongoing operating results and therefore limit comparability. Management believes excluding these items helps investors compare our operating performance with our results in prior periods as well as with the performance of other companies.

b Restructuring, severance and other related charges include gains and costs associated with the company's facilities divestment and consolidation program, reductions in force, and gains and losses from sales of facilities. Management believes that it is appropriate to exclude those items as they are not indicative of ongoing operating results and therefore limit comparability. Management believes excluding these items helps investors compare our operating performance with our results in prior periods as well as with the performance of other companies.

c Restatement related charges include legal and other expenses related to the investigation regarding the company's historical stock option granting process and related shareholder litigation and other matters. Management

believes that it is appropriate to exclude those items as they are not indicative of ongoing operating results and therefore limit comparability. Management believes excluding these items helps investors compare our operating performance with our results in prior periods as well as with the performance of other companies.

d Income tax effect of non-GAAP adjustments includes the income tax effects of the excluded items noted above. Management believes that it is appropriate to exclude the tax effects of the items noted above in order to present a more meaningful measure of non-GAAP net income.

e Discrete tax items include the tax impact of shortfalls in excess of cumulative windfall tax benefits recorded as provision for income taxes during the period. Windfall tax benefits arise when a company's tax deduction for employee stock activity exceeds book compensation for the same activity. A shortfall arises when the tax deduction is less than book compensation. Windfalls are recorded as increases to capital in excess of par value. Shortfalls are recorded as decreases to capital in excess of par value to the extent that cumulative windfalls exceed cumulative shortfalls. Shortfalls in excess of cumulative windfalls are recorded as provision for income taxes. Management believes that it is appropriate to exclude these items as they are not indicative of ongoing operating results and therefore limit comparability. Management believes excluding these items helps investors compare our operating performance with our results in prior periods as well as with the performance of other companies.

SOURCE KLA-Tencor Corporation