

October 21, 2015



KLA-Tencor Reports Fiscal 2016 First Quarter Results And Agreement To Combine With Lam Research

MILPITAS, Calif., Oct. 21, 2015 /PRNewswire/ --KLA-Tencor Corporation (NASDAQ: KLAC) today announced operating results for its first quarter of fiscal year 2016, which ended on September 30, 2015, and reported GAAP net income of \$105 million and GAAP earnings per diluted share of \$0.66 on revenues of \$643 million.

Logo - <https://photos.prnewswire.com/prnh/20140123/SF50413LOGO>

"KLA-Tencor posted solid results for the first quarter of fiscal year 2016, with new orders and earnings per share finishing above the range of guidance, and with revenue finishing at the top end of the range of guidance, demonstrating our market leadership, the resilience of our business model, and effective operational execution," said Rick Wallace, President and Chief Executive Officer. "The strong demand we are experiencing affirms KLA-Tencor's ongoing focus on providing superior value to customers both in terms of meeting market requirements and delivering superior competitive offerings."

| GAAP Results | | | |
|----------------------------|---------------|---------------|---------------|
| | Q1 FY 2016 | Q4 FY 2015 | Q1 FY 2015 |
| Revenues | \$643 million | \$756 million | \$643 million |
| Net Income | \$105 million | \$142 million | \$72 million |
| Earnings per Diluted Share | \$0.66 | \$0.89 | \$0.43 |

| Non-GAAP Results | | | |
|----------------------------|---------------|---------------|--------------|
| | Q1 FY 2016 | Q4 FY 2015 | Q1 FY 2015 |
| Net Income | \$112 million | \$159 million | \$79 million |
| Earnings per Diluted Share | \$0.71 | \$0.99 | \$0.47 |

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 acquisitions,

restructuring, severance and other related charges.

KLA-Tencor to Combine with Lam Research

KLA-Tencor also announced today that it has entered into a definitive agreement with Lam Research Corporation (NASDAQ: LRCX) pursuant to which KLA-Tencor would combine with Lam Research, and KLA-Tencor stockholders would be entitled to elect to receive the economic equivalent of \$32.00 in cash and 0.5 of a share of Lam Research common stock for each share of KLA-Tencor stock they hold.

Conference Call information:

KLA-Tencor and Lam Research will host a joint conference call to discuss the results for KLA-Tencor's fiscal year 2016 first quarter, along with its outlook, and the transaction to combine with Lam Research. ***Please refer to the separate joint press release issued by KLA-Tencor and Lam Research today for additional details regarding the conference call.***

Forward-Looking Statements:

Statements in this press release other than historical facts, such as statements regarding: our ability to benefit from our market leadership position; the resilience of our business model; operational execution; our ability to provide superior value to customers, meet market requirements and deliver superior competitive offerings, 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 manage its costs; market acceptance of KLA-Tencor's existing and newly issued products; changing customer demands; and industry transitions.

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, 2015, and other subsequent 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, 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, LED 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 nearly 40 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)

| | <u>September 30, 2015</u> | <u>June 30, 2015</u> |
|--|---------------------------|----------------------|
| ASSETS | | |
| Cash, cash equivalents and marketable securities | \$ 2,269,447 | \$ 2,387,111 |
| Accounts receivable, net | 460,813 | 585,494 |
| Inventories | 650,496 | 617,904 |
| Other current assets | 294,662 | 314,067 |
| Land, property and equipment, net | 302,868 | 314,591 |
| Goodwill | 335,218 | 335,263 |
| Purchased intangibles, net | 8,242 | 11,895 |
| Other non-current assets | 249,577 | 259,687 |
| Total assets | <u>\$ 4,571,323</u> | <u>\$ 4,826,012</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 107,363 | \$ 103,342 |
| Deferred system profit | 134,188 | 148,691 |
| Unearned revenue | 63,700 | 71,335 |
| Current portion of long-term debt | — | 16,981 |
| Other current liabilities | 609,990 | 661,414 |
| Total current liabilities | <u>915,241</u> | <u>1,001,763</u> |

| | | |
|---|---------------------|---------------------|
| Non-current liabilities: | | |
| Long-term debt | 3,151,046 | 3,173,435 |
| Unearned revenue | 44,970 | 47,145 |
| Other non-current liabilities | 165,625 | 182,230 |
| Total liabilities | <u>4,276,882</u> | <u>4,404,573</u> |
| Stockholders' equity: | | |
| Common stock and capital in excess of par value | 385,633 | 474,374 |
| Accumulated deficit | (45,055) | (12,362) |
| Accumulated other comprehensive income (loss) | (46,137) | (40,573) |
| Total stockholders' equity | <u>294,441</u> | <u>421,439</u> |
| Total liabilities and stockholders' equity | <u>\$ 4,571,323</u> | <u>\$ 4,826,012</u> |

KLA-Tencor Corporation
Condensed Consolidated Unaudited Statements of Operations

| <u>(In thousands, except per share amounts)</u> | <u>Three months ended September 30,</u> | |
|---|---|------------------|
| | <u>2015</u> | <u>2014</u> |
| Revenues: | | |
| Product | \$ 460,739 | \$ 476,598 |
| Service | 181,905 | 166,303 |
| Total revenues | <u>642,644</u> | <u>642,901</u> |
| Costs and expenses: | | |
| Costs of revenues | 270,244 | 288,467 |
| Engineering, research and development | 119,943 | 143,637 |
| Selling, general and administrative | 91,663 | 101,644 |
| Interest expense and other, net | 26,495 | 10,146 |
| Income before income taxes | <u>134,299</u> | <u>99,007</u> |
| Provision for income taxes | 29,402 | 26,774 |
| Net income | <u>\$ 104,897</u> | <u>\$ 72,233</u> |
| Net income per share: | | |
| Basic | \$ 0.67 | \$ 0.44 |
| Diluted | \$ 0.66 | \$ 0.43 |
| Cash dividends declared per share | \$ 0.52 | \$ 0.50 |
| Weighted-average number of shares: | | |
| Basic | 156,820 | 164,845 |
| Diluted | 157,984 | 166,580 |

KLA-Tencor Corporation
Condensed Consolidated Unaudited Statements of Cash Flows

| <u>(In thousands)</u> | <u>Three months ended September 30,</u> | |
|---------------------------------------|---|-------------|
| | <u>2015</u> | <u>2014</u> |
| Cash flows from operating activities: | | |
| Net income | \$ 104,897 | \$ 72,233 |

| | | |
|---|------------|------------|
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 19,735 | 21,159 |
| Non-cash stock-based compensation expense | 12,248 | 15,483 |
| Excess tax benefit from equity awards | (10,159) | (14,223) |
| Net gain on sales of marketable securities and other investments | (1,233) | (1,635) |
| Changes in assets and liabilities | | |
| Decrease in accounts receivable, net | 124,925 | 39,261 |
| Increase in inventories | (31,243) | (23,445) |
| Decrease (increase) in other assets | 34,381 | (2,732) |
| Increase in accounts payable | 4,158 | 5,276 |
| Decrease in deferred system profit | (14,504) | (59,122) |
| Decrease in other liabilities | (49,423) | (17,329) |
| Net cash provided by operating activities | 193,782 | 34,926 |
| Cash flows from investing activities: | | |
| Capital expenditures, net | (7,341) | (13,445) |
| Purchases of available-for-sale securities | (343,358) | (624,860) |
| Proceeds from sale of available-for-sale securities | 200,353 | 732,337 |
| Proceeds from maturity of available-for-sale securities | 184,973 | 135,097 |
| Purchases of trading securities | (18,267) | (22,567) |
| Proceeds from sale of trading securities | 15,540 | 18,986 |
| Net cash provided by investing activities | 31,900 | 225,548 |
| Cash flows from financing activities: | | |
| Repayment of debt | (40,000) | — |
| Issuance of common stock | — | 4,677 |
| Tax withholding payments related to vested and released restricted stock units | (21,526) | (27,168) |
| Common stock repurchases | (142,592) | (124,839) |
| Payment of dividends to stockholders | (101,674) | (82,413) |
| Excess tax benefit from equity awards | 10,159 | 14,223 |
| Net cash used in financing activities | (295,633) | (215,520) |
| Effect of exchange rate changes on cash and cash equivalents | (4,377) | (6,132) |
| Net increase (decrease) in cash and cash equivalents | (74,328) | 38,822 |
| Cash and cash equivalents at beginning of period | 838,025 | 630,861 |
| Cash and cash equivalents at end of period | \$ 763,697 | \$ 669,683 |
| Supplemental cash flow disclosures: | | |
| Income taxes paid, net | \$ 7,844 | \$ 20,361 |
| Interest paid | \$ 3,149 | \$ 136 |
| Non-cash activities: | | |
| Purchase of land, property and equipment - investing activities | \$ 1,490 | \$ 3,571 |
| Unsettled common stock repurchase - financing activities | \$ 9,610 | \$ 5,844 |
| Dividends payable - financing activities | \$ 20,892 | \$ — |

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

Reconciliation of GAAP Net Income to Non-GAAP Net Income

| | Three months ended | | |
|--|-----------------------|---------------|--------------------|
| | September 30, 2015 | June 30, 2015 | September 30, 2014 |

| | | | | |
|--|---|-------------------|-------------------|------------------|
| GAAP net income | | \$ 104,897 | \$ 142,019 | \$ 72,233 |
| <u>Adjustments to reconcile GAAP net income to non-GAAP net income</u> | | | | |
| Acquisition related charges | a | 3,581 | 3,578 | 3,998 |
| Restructuring, severance and other related charges | b | 7,066 | 22,417 | 4,057 |
| Income tax effect of non-GAAP adjustments | c | (3,348) | (9,159) | (1,539) |
| Non-GAAP net income | | <u>\$ 112,196</u> | <u>\$ 158,855</u> | <u>\$ 78,749</u> |
| GAAP net income per diluted share | | <u>\$ 0.66</u> | <u>\$ 0.89</u> | <u>\$ 0.43</u> |
| Non-GAAP net income per diluted share | | <u>\$ 0.71</u> | <u>\$ 0.99</u> | <u>\$ 0.47</u> |
| Shares used in diluted shares calculation | | <u>157,984</u> | <u>159,965</u> | <u>166,580</u> |

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

| | Acquisition related charges | Restructuring, severance and other related charges | Total pre-tax GAAP to non-GAAP adjustments |
|---|------------------------------------|---|---|
| <u>Three months ended September 30, 2015</u> | | | |
| Costs of revenues | \$ 2,285 | \$ 2,770 | \$ 5,055 |
| Engineering, research and development | 650 | 1,010 | 1,660 |
| Selling, general and administrative | 646 | 3,286 | 3,932 |
| Total in three months ended September 30, 2015 | <u>\$ 3,581</u> | <u>\$ 7,066</u> | <u>\$ 10,647</u> |
| <u>Three months ended June 30, 2015</u> | | | |
| Costs of revenues | \$ 2,282 | \$ 7,458 | \$ 9,740 |
| Engineering, research and development | 650 | 6,310 | 6,960 |
| Selling, general and administrative | 646 | 8,649 | 9,295 |
| Total in three months ended June 30, 2015 | <u>\$ 3,578</u> | <u>\$ 22,417</u> | <u>\$ 25,995</u> |
| <u>Three months ended September 30, 2014</u> | | | |
| Costs of revenues | \$ 2,577 | \$ 355 | \$ 2,932 |
| Engineering, research and development | 700 | 2,933 | 3,633 |
| Selling, general and administrative | 721 | 769 | 1,490 |
| Total in three months ended September 30, 2014 | <u>\$ 3,998</u> | <u>\$ 4,057</u> | <u>\$ 8,055</u> |

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 includes amortization of intangible assets 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 these expenses allows comparisons of operating results that are consistent over time for both KLA-Tencor's newly acquired and long-held businesses. 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 costs associated with employee severance and other exit costs. 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. 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.

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