

July 28, 2016



# KLA-Tencor Reports Fiscal 2016 Fourth Quarter And Full Year Results

MILPITAS, Calif., July 28, 2016 /PRNewswire/ -- KLA-Tencor Corporation (NASDAQ: KLAC) today announced operating results for its fourth quarter and fiscal year ended June 30, 2016. KLA-Tencor reported GAAP net income of \$272 million and GAAP earnings per diluted share of \$1.73 on revenues of \$919 million for the fourth quarter of fiscal year 2016. For the fiscal year ended June 30, 2016, the company reported GAAP net income of \$704 million and GAAP earnings per diluted share of \$4.49 on revenues of \$3 billion.

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| GAAP Results               |               |               |               |
|----------------------------|---------------|---------------|---------------|
|                            | Q4 FY 2016    | Q3 FY 2016    | Q4 FY 2015    |
| Revenues                   | \$919 million | \$712 million | \$756 million |
| Net Income                 | \$272 million | \$176 million | \$142 million |
| Earnings per Diluted Share | \$1.73        | \$1.12        | \$0.89        |

| Non-GAAP Results           |               |               |               |
|----------------------------|---------------|---------------|---------------|
|                            | Q4 FY 2016    | Q3 FY 2016    | Q4 FY 2015    |
| Net Income                 | \$277 million | \$179 million | \$159 million |
| Earnings per Diluted Share | \$1.77        | \$1.15        | \$0.99        |

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, merger-related charges, and debt extinguishment loss and recapitalization charges.

In light of the pending merger transaction with Lam Research Corporation, KLA-Tencor has discontinued conducting quarterly earnings conference calls to discuss financial results, but instead publishes a quarterly stockholder letter and other supplemental data on the Investor Relations section of the KLA-Tencor website.

## 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](http://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

| <u>(In thousands)</u>                            | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
|--|----------------------|----------------------|
| <b>ASSETS</b>                                    |                      |                      |
| Cash, cash equivalents and marketable securities | \$ 2,491,294         | \$ 2,387,111         |
| Accounts receivable, net                         | 613,233              | 585,494              |
| Inventories                                      | 698,635              | 617,904              |
| Other current assets                             | 64,870               | 314,067              |
| Land, property and equipment, net                | 278,014              | 314,591              |
| Goodwill   | 335,177              | 335,263              |
| Deferred income taxes, non-current               | 302,219              | 78,648               |
| Purchased intangibles, net                       | 4,331                | 11,895               |
| Other non-current assets                         | 174,659              | 181,039              |
| Total assets                                     | <u>\$ 4,962,432</u>  | <u>\$ 4,826,012</u>  |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>      |                      |                      |
| Current liabilities:                             |                      |                      |
| Accounts payable                                 | \$ 106,517           | \$ 103,342           |
| Deferred system profit                           | 174,551              | 148,691              |
| Unearned revenue                                 | 59,147               | 71,335               |
| Current portion of long-term debt                | —                    | 16,981               |
| Other current liabilities                        | 662,208              | 661,414              |
| Total current liabilities                        | <u>1,002,423</u>     | <u>1,001,763</u>     |
| Non-current liabilities:                         |                      |                      |
| Long-term debt                                   | 3,057,936            | 3,173,435            |
| Unearned revenue                                 | 56,336               | 47,145               |

|   |                     |                     |
|---|---------------------|---------------------|
| Other non-current liabilities                   | 156,623             | 182,230             |
| Total liabilities                               | <u>4,273,318</u>    | <u>4,404,573</u>    |
| Stockholders' equity:                           |                     |                     |
| Common stock and capital in excess of par value | 452,974             | 474,374             |
| Retained earnings (accumulated deficit)         | 284,825             | (12,362)            |
| Accumulated other comprehensive income (loss)   | <u>(48,685)</u>     | <u>(40,573)</u>     |
| Total stockholders' equity                      | 689,114             | 421,439             |
| Total liabilities and stockholders' equity      | <u>\$ 4,962,432</u> | <u>\$ 4,826,012</u> |

**KLA-Tencor Corporation**  
**Condensed Consolidated Unaudited Statements of Operations**

|   | Three months ended |                   | Twelve months ended |                   |
|---|--------------------|-------------------|---------------------|-------------------|
|   | June 30,<br>2016   | June 30,<br>2015  | June 30,<br>2016    | June 30,<br>2015  |
| <i>(In thousands, except per share amounts)</i>   |                    |                   |                     |                   |
| Revenues:   |                    |                   |                     |                   |
| Product   | \$ 731,118         | \$ 579,733        | \$ 2,250,260        | \$ 2,125,396      |
| Service   | 188,053            | 176,599           | 734,233             | 688,653           |
| Total revenues  | <u>919,171</u>     | <u>756,332</u>    | <u>2,984,493</u>    | <u>2,814,049</u>  |
| Costs and expenses:   |                    |                   |                     |                   |
| Costs of revenues   | 337,568            | 323,267           | 1,163,391           | 1,215,229         |
| Research and development  | 127,454            | 128,839           | 481,258             | 530,616           |
| Selling, general and administrative   | 103,797            | 101,739           | 379,399             | 406,864           |
| Loss on extinguishment of debt and other, net   | —                  | —                 | —                   | 131,669           |
| Interest expense and other, net   | 21,865             | 27,549            | 102,253             | 95,540            |
| Income before income taxes  | <u>328,487</u>     | <u>174,938</u>    | <u>858,192</u>      | <u>434,131</u>    |
| Provision for income taxes  | 56,946             | 32,919            | 153,770             | 67,973            |
| Net income  | <u>\$ 271,541</u>  | <u>\$ 142,019</u> | <u>\$ 704,422</u>   | <u>\$ 366,158</u> |
| Net income per share:   |                    |                   |                     |                   |
| Basic   | <u>\$ 1.74</u>     | <u>\$ 0.90</u>    | <u>\$ 4.52</u>      | <u>\$ 2.26</u>    |
| Diluted   | <u>\$ 1.73</u>     | <u>\$ 0.89</u>    | <u>\$ 4.49</u>      | <u>\$ 2.24</u>    |
| Cash dividends declared per share (including a special cash dividend of \$16.50 per share declared during the three months ended December 31, 2014) | <u>\$ 0.52</u>     | <u>\$ 0.50</u>    | <u>\$ 2.08</u>      | <u>\$ 18.50</u>   |
| Weighted-average number of shares:  |                    |                   |                     |                   |
| Basic   | 155,712            | 158,635           | 155,869             | 162,282           |
| Diluted   | 156,618            | 159,965           | 156,779             | 163,701           |

**KLA-Tencor Corporation**  
**Condensed Consolidated Unaudited Statements of Cash Flows**

|   | Three months ended |                |
|---|--------------------|----------------|
|   | June 30,<br>2016   | 2015           |
| <i>(In thousands)</i>   |                    |                |
| Cash flows from operating activities:   |                    |                |
| Net income  | \$ 271,541         | \$ 142,019     |
| Adjustments to reconcile net income to net cash provided by operating activities: |                    |                |
| Depreciation and amortization   | 14,888             | 19,966         |
| Asset impairment charges  | —                  | 428            |
| Non-cash stock-based compensation expense   | 12,292             | 12,204         |
| Excess tax benefit from equity awards   | 240                | (217)          |
| Net gain on sales of marketable securities and other investments                  | (1,782)            | (143)          |
| Changes in assets and liabilities:  |                    |                |
| Decrease in accounts receivable, net  | 21,400             | 43,714         |
| Decrease in inventories   | 26,397             | 16,498         |
| Decrease in other assets  | 29,758             | 49,382         |
| Increase (decrease) in accounts payable   | (19,847)           | 148            |
| Increase (decrease) in deferred system profit                                     | (18,668)           | 2,337          |
| Increase in other liabilities   | 17,874             | 31,143         |
| Net cash provided by operating activities   | <u>354,093</u>     | <u>317,479</u> |
| Cash flows from investing activities:   |                    |                |
| Capital expenditures, net   | (7,508)            | (9,237)        |
| Proceeds from sale of assets  | 3,050              | —              |

|  |              |            |
|--|--------------|------------|
| Purchases of available-for-sale securities                                     | (301,733)    | (297,695)  |
| Proceeds from sale of available-for-sale securities                            | 105,610      | 328,498    |
| Proceeds from maturity of available-for-sale securities                        | 130,009      | 134,825    |
| Purchases of trading securities  | (20,130)     | (11,859)   |
| Proceeds from sale of trading securities                                       | 21,449       | 13,309     |
| Net cash provided by (used in) investing activities                            | (69,253)     | 157,841    |
| Cash flows from financing activities:  |              |            |
| Repayment of debt  | (40,000)     | (29,375)   |
| Issuance of common stock   | 16,388       | 17,430     |
| Tax withholding payments related to vested and released restricted stock units | (219)        | (439)      |
| Common stock repurchases   | —            | (167,858)  |
| Payment of dividends to stockholders   | (81,120)     | (79,653)   |
| Excess tax benefit from equity awards  | (240)        | 217        |
| Net cash used in financing activities  | (105,191)    | (259,678)  |
| Effect of exchange rate changes on cash and cash equivalents                   | 2,865        | 491        |
| Net increase in cash and cash equivalents                                      | 182,514      | 216,133    |
| Cash and cash equivalents at beginning of period                               | 925,974      | 621,892    |
| Cash and cash equivalents at end of period                                     | \$ 1,108,488 | \$ 838,025 |
| Supplemental cash flow disclosures:  |              |            |
| Income taxes paid, net   | \$ 23,408    | \$ 3,851   |
| Interest paid  | \$ 57,091    | \$ 55,413  |
| Non-cash activities:   |              |            |
| Purchase of land, property and equipment - investing activities                | \$ 2,035     | \$ 1,843   |
| Unsettled common stock repurchase - financing activities                       | \$ —         | \$ 5,968   |
| Dividends payable - financing activities                                       | \$ 19,556    | \$ 42,002  |

**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 |                |               | Twelve months ended |               |
|--|--------------------|----------------|---------------|---------------------|---------------|
|  | June 30, 2016      | March 31, 2016 | June 30, 2015 | June 30, 2016       | June 30, 2015 |
| GAAP net income  | \$ 271,541         | \$ 175,777     | \$ 142,019    | \$ 704,422          | \$ 366,158    |
| <u>Adjustments to reconcile GAAP net income to non-GAAP net income</u> |                    |                |               |                     |               |
| Acquisition-related charges  | a 1,294            | 1,309          | 3,578         | 7,493               | 15,336        |
| Restructuring, severance and other related charges                     | b —                | 137            | 22,417        | 8,945               | 33,409        |
| Merger-related charges   | c 5,795            | 3,582          | —             | 18,197              | —             |
| Debt extinguishment loss and recapitalization charges                  | d —                | —              | —             | —                   | 134,147       |
| Income tax effect of non-GAAP adjustments                              | e (1,795)          | (1,535)        | (9,159)       | (8,999)             | (61,258)      |
| Non-GAAP net income  | \$ 276,835         | \$ 179,270     | \$ 158,855    | \$ 730,058          | \$ 487,792    |
| GAAP net income per diluted share                                      | \$ 1.73            | \$ 1.12        | \$ 0.89       | \$ 4.49             | \$ 2.24       |
| Non-GAAP net income per diluted share                                  | \$ 1.77            | \$ 1.15        | \$ 0.99       | \$ 4.66             | \$ 2.98       |
| Shares used in diluted shares calculation                              | 156,618            | 156,429        | 159,965       | 156,779             | 163,701       |

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

|                                     | Acquisition-related charges | Restructuring, severance and other related charges | Merger-related charges | Total pre-tax GAAP to non-GAAP adjustment |
|-------------------------------------|-----------------------------|--|------------------------|---|
| <b>Three months ended</b>           |                             |  |                        |   |
| <b>June 30, 2016</b>                |                             |  |                        |   |
| Costs of revenues                   | \$ 658                      | \$ —   | \$ 346                 | \$ 1,004                                  |
| Research and development            | —                           | —  | 1,223                  | 1,223                                     |
| Selling, general and administrative | 636                         | —  | 4,226                  | 4,862                                     |

|  |          |           |          |           |
|--|----------|-----------|----------|-----------|
| Total in three months ended June 30, 2016  | \$ 1,294 | \$ —      | \$ 5,795 | \$ 7,089  |
| <b>Three months ended March 31, 2016</b>   |          |           |          |           |
| Costs of revenues                          | \$ 663   | \$ 121    | \$ 238   | \$ 1,022  |
| Research and development                   | —        | 5         | 508      | 513       |
| Selling, general and administrative        | 646      | 11        | 2,836    | 3,493     |
| Total in three months ended March 31, 2016 | \$ 1,309 | \$ 137    | \$ 3,582 | \$ 5,028  |
| <b>Three months ended June 30, 2015</b>    |          |           |          |           |
| Costs of revenues                          | \$ 2,282 | \$ 7,458  | \$ —     | \$ 9,740  |
| 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  | \$ 3,578 | \$ 22,417 | \$ —     | \$ 25,995 |

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, impairment of certain long-lived assets.

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. Merger-related charges that are directly related to the pending merger between KLA-Tencor and Lam as announced on October 21, 2015. Charges primarily includes costs for advisory services, appraisals, legal services, employee-related expense and auditing services. Management believes that it is appropriate to exclude these items as they are not indicative of ongoing operating results and therefore limit comparability and 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. Debt extinguishment loss and recapitalization charges include a pre-tax loss on early extinguishment of debt related to the 6.900% Senior Notes due in 2018, net and certain other expenses incurred in connection with the leveraged recapitalization plan which was completed in the second quarter of fiscal year ended June 30, 2015. Management believes that it is appropriate to exclude these items as they are not indicative of ongoing operating results and therefore limit comparability and excluding these items helps investors compare our operating performance with our results in prior periods as well as with the performance of other companies.
- e. 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.

To view the original version on PR Newswire, visit <http://www.prnewswire.com/news-releases/kla-tencor-reports-fiscal-2016-fourth-quarter-and-full-year-results-300305310.html>

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