KLA-Tencor Reports Fiscal 2008 Second Quarter Results

SAN JOSE, Calif.--(BUSINESS WIRE)--

KLA-Tencor Corporation (NASDAQ:KLAC) today announced operating results for its second quarter of fiscal 2008, which ended on December 31, 2007. The Company reported GAAP net income of $84 million and GAAP earnings per diluted share of $0.45 on revenue of $636 million for the second quarter of fiscal 2008.

"The actions we have taken over the past several quarters to globalize our operations, reduce overhead, and streamline our cost structure are driving efficiencies throughout our business, even in this challenging demand environment," said Rick Wallace, CEO of KLA-Tencor.

<table>
<thead>
<tr>
<th>GAAP Results</th>
<th>Q2 FY 2008</th>
<th>Q1 FY 2008</th>
<th>Q2 FY 2007</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$ 636 million</td>
<td>$ 693 million</td>
<td>$ 649 million</td>
</tr>
<tr>
<td>Net Income</td>
<td>$ 84 million</td>
<td>$ 88 million</td>
<td>$ 90 million</td>
</tr>
<tr>
<td>Earnings per Share (diluted)</td>
<td>$0.45</td>
<td>$0.46</td>
<td>$0.44</td>
</tr>
</tbody>
</table>

| Non-GAAP Results (includes stock-based compensation) |
| Q2 FY 2008 | Q1 FY 2008 | Q2 FY 2007 |
| Net Income | $ 138 million | $ 145 million | $ 154 million |
| Earnings per Share (diluted) | $0.75 | $0.75 | $0.75 |

A reconciliation between GAAP net income and non-GAAP net income is provided in the tables accompanying this release. Non-GAAP results include the impact of stock-based compensation, but exclude the impact of acquisition, restatement and restructuring related items.

Financial Highlights for the second quarter of fiscal 2008

-- KLA-Tencor reached an agreement in principle for the settlement of a securities class action relating to its historical stock option practices. Under the agreement, KLA-Tencor will be required to make a payment of $65 million to the settlement class. The proposed settlement, which is subject to a final agreement and court approval, will provide a full release of KLA-Tencor and the other named defendants in connection with the allegations raised in the lawsuit.

-- The Company declared and paid dividends of $27 million and repurchased $126 million of its common stock.

-- KLA-Tencor generated cash flow from operations of $126 million.

Business Highlights for the second quarter of fiscal 2008
-- KLA-Tencor introduced the WaferSight 2(TM), the semiconductor industry's first metrology system that enables wafer suppliers and chipmakers to measure bare wafer flatness, shape, edge roll-off and nanotopography in a single system with the high precision and tool matching required for 45nm and beyond.

-- KLA-Tencor and Nikon Corporation have collaborated to develop a set of fully automated overlay correction control system tools, called Scanner Match Maker (SMM), that chipmakers can use to correct overlay errors common to "mix and match" lithography strategies which use lithography tools of varying capabilities and from different suppliers. The SMM technology is aimed at elevating the performance of all scanners, enabling chipmakers to reduce their dedication of leading-edge scanners to specific layers, thus cutting overall lithography tool costs at more advanced nodes and extending the lifetime of lithography tools.

-- KLA-Tencor introduced the Aleris(TM) family of films metrology systems, beginning with the Aleris 8500, which is the industry's first system to combine production-worthy composition and multi-layer film thickness metrology.

-- KLA-Tencor introduced a unique application for its SensArray(TM) wafer-level metrology tools, called PlasmaWafer(TM) Suite, which provides chipmakers and etch equipment suppliers with an easy-to-use measurement capability to help verify plasma etch chamber health and quickly identify problems such as drift, non-uniformity and slight differences in chamber matching.

KLA-Tencor will discuss its fiscal 2008 second quarter results, along with its outlook for the third quarter of fiscal 2008, on a conference call today beginning at 2:00 p.m. Pacific Standard 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 the success of collaborations with other companies, the benefit to customers of and demand for KLA-Tencor's products, and the finalization and approval of the securities class action settlement, 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; new and enhanced product offerings by competitors; cancellation of orders by customers; 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 the Company's Annual Report on Form 10-K for the year ended June 30, 2007, 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).

About KLA-Tencor:
KLA-Tencor is the world's leading supplier of process control and yield management solutions for the semiconductor and related microelectronics industries. Headquartered in San Jose, Calif., the Company has sales and service offices around the world. An S&P 500 Company, KLA-Tencor is traded on the NASDAQ Global Select Market under the symbol KLAC. Additional information about the Company is available on the Internet at http://www.kla-tencor.com

Use of Non-GAAP financial information:

The non-GAAP information and supplemental information provided in this press release is a supplement to, and not a substitute for, our financial results presented in accordance with GAAP.

To supplement our condensed consolidated financial statements presented in accordance with GAAP, we provide non-GAAP financial information, which are adjusted from results based on GAAP to exclude certain costs and expenses, as well as other supplemental information. The non-GAAP and supplemental information are provided to enhance the user's overall understanding of our operating performance and our prospects in the future. Specifically, we believe the non-GAAP information provide 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 budgeting and planning tools that management uses for future forecasting. The presentation of this additional information is not meant to be considered in isolation or as a substitute for results prepared in accordance with United States GAAP.

KLA-Tencor Corporation
Condensed Consolidated Unaudited Balance Sheets

(In thousands)                        December 31, 2007  June 30, 2007
-----------------  ---------------

ASSETS
Current assets:
Cash and investments                  $1,297,204 $1,710,629
Accounts receivable, net                        578,595        581,500
Inventories                                     482,948        535,370
Other current assets                            453,563        425,272
-----------------  ---------------
Total current assets                          2,812,310      3,252,771

Land, property and equipment, net               361,725        382,240
Goodwill                                        310,209        311,856
Purchased intangibles, net                      153,023        175,432
Other assets                                    516,558        500,950
-----------------  ---------------
Total assets                         $4,153,825      $4,623,249

LIABILITIES AND STOCKHOLDERS' EQUITY
Current liabilities:
Accounts payable                               $114,691  $92,165
Deferred system profit                          194,680        201,747
Unearned revenue                                53,838         52,304
Other current liabilities                      577,683        659,346
-----------------  ---------------
Total current liabilities                       940,892      1,005,562
Non-current liabilities
Income tax payable                               84,289              -
Unearned revenue                                 47,279         46,950
Other non-current liabilities                    37,586         20,695
-----------------------------------------------
Total Liabilities                             1,110,046      1,073,207

Stockholders' equity:
Common stock and capital in excess of
par value                                      674,703        967,886
Retained earnings                             2,340,557      2,570,751
Accumulated other comprehensive
income                                          28,519         11,405
-----------------------------------------------
Total stockholders' equity                    3,043,779      3,550,042

Total liabilities and stockholders'
equity                              $        4,153,825 $    4,623,249

KLA-Tencor Corporation
Condensed Consolidated Unaudited Statements Of Operations

Three months ended                     Six months ended
(In thousands except per share data)       December 31,      December 31,     December 31,  December 31,  
-----------------------------------------
Revenues:
Product                     $ 513,449 $  544,302 $1,091,881 $1,075,229
Service                       122,334    104,968    236,922    203,404
-----------------------------------------
Total revenues                635,783    649,270  1,328,803  1,278,633

Costs and operating expenses:
Cost of revenues              285,005    297,772    590,898    567,891
Engineering, research and
development                   97,513    108,101    196,857    207,394
Selling, general and
administrative               159,778    165,038    270,283    270,999
-----------------------------------------
Total costs and operating
expenses                     542,296    570,911  1,058,038  1,046,284

Income from operations         93,487     78,359    270,765    232,349
Interest income and other,
net                            13,269     22,657     30,743     45,114
-----------------------------------------
Income before income taxes
and minority interest          106,756    101,016    301,508    277,463
Provision for income taxes    22,821     11,637     129,415     53,005
-----------------------------------------
Income before minority
interest                      83,935    89,379    172,093    224,458  
Minority interest                   -        670          -      1,513  
--------   --------  ---------  ---------  
Net income                  $  83,935  $   90,049  $  172,093  $  225,971  
--------   --------  ---------  ---------  

Net income per share:  
Basic                       $    0.46 $     0.45 $     0.93 $     1.13  
Diluted                     $    0.45 $     0.44 $     0.91 $     1.11  

Weighted average number of  
shares:  
Basic                         181,241    199,789    184,516    199,603 
Diluted                       185,199    204,955    189,122    203,826 

KLA-TENCOR CORPORATION  
Condensed Consolidated Unaudited Statements of Cash Flows  
Three months ended  
December 31,  
(In thousands)                     2007       2006  
----------------------------------------------- ---------- -----------  
Cash flows from operating activities:  
Net income                                    $  83,935  $   90,049  
Adjustments to reconcile net income to net  
cash provided by operating activities:  
Depreciation and amortization              28,345      29,049  
Impairment charges                           6,163      56,830  
Non-cash, stock-based compensation          23,252      16,068  
Tax benefit from employee stock  
options                                    (340)          -  
Excess tax benefit from stock-based  
compensation                                 (284)          -  
Minority interest                                    -        (670)  
Net gain on sale of marketable  
securities and other investments               (409)       (710)  
Net gain on sale of real estate              (9,042)          -  
Changes in assets and liabilities:  
Accounts receivable, net               48,905     (17,055)  
Inventories                                17,782     (25,794)  
Other assets                               (31,646)     (16,562)  
Accounts payable                           (4,543)     (10,273)  
Deferred system profit                    (13,366)     14,804  
Other liabilities                         (22,325)     13,904  
----------------------------------------------- ---------- -----------  
Net cash provided by operating  
activities                                  126,427     149,640  
----------------------------------------------- ---------- -----------  
Cash flows from investing activities:  
Acquisitions of businesses, net of cash  
received                                  (3,966)     (390,162)  
Capital expenditures, net              (22,609)     (19,493)  
Proceeds from sale of real estate        34,622          -  
Purchase of available-for-sale securities    (247,426)     (877,429)  
Proceeds from sale of available-for-sale  
securities                               262,191     789,089  
Proceeds from maturity of available-for-  
sale securities                           6,500       30,397  
----------------------------------------------- ---------- -----------  

Net cash provided by (used in) investing activities: 29,312 (467,598)  

Cash flows from financing activities:  
| Issuance of common stock                  | 31,764 | -      |
| Common stock repurchases                  | (126,237) | -     |
| Payment of dividends to stockholders      | (27,151) | (23,967) |
| Excess tax benefit from stock-based compensation | 284 | -  |

Net cash used in financing activities: (121,340) (23,967)  

Effect of exchange rate changes on cash and cash equivalents: (807) 5,340  

Net increase (decrease) in cash and cash equivalents: 33,592 (336,585)  

Cash and cash equivalents at beginning of period: 514,051 1,199,969  

Cash and cash equivalents at end of period: $547,643 $863,384  

Supplemental cash flow disclosures:  
| Income taxes paid, net                  | $ 105,549 | $ 41,072 |

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

Reconciliation of GAAP Net Income to Non-GAAP Net Income  

| GAAP Net income                  | $ 83,935 | $ 88,158 | $ 90,049 | $172,093 | $225,971 |
| Adjustments to reconcile GAAP net income to non-GAAP net income | | | | | |
| Acquisition-related charges      | 21,904 | 12,366 | 18,074 | 34,270 | 18,892 |
| Restructuring, severance and others | 5,986 | 2,279 | 67,180 | (3,707) | 67,180 |
Restatement related charges 67,000 2,111 15,357 69,111 17,860

Income tax effect of non-GAAP adjustments (28,747) (6,320) (36,330) (35,067) (37,582)

Non recurring tax item - 46,613 - 46,613 -

Non-GAAP net income $138,106 $145,207 $154,330 $283,313 $292,321

GAAP Net income per diluted share $ 0.45 $ 0.46 $ 0.44 $ 0.91 $ 1.11

Non-GAAP net income per diluted share $ 0.75 $ 0.75 $ 0.75 $ 1.50 $ 1.43

Shares used in diluted shares calculation 185,199 193,043 204,955 189,122 203,826

Impact of items included in Condensed Statements of Operations:

<table>
<thead>
<tr>
<th>Acquisition- Restructuring, Restatement- related Charges</th>
<th>Severance and Other</th>
<th>Related Charges</th>
<th>Total Pre-tax GAAP to Non-GAAP Adjustment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of revenues</td>
<td>$15,261</td>
<td>$ 1,243</td>
<td>$ 0</td>
</tr>
<tr>
<td>Engineering, research and development</td>
<td>4,172</td>
<td>388</td>
<td>0</td>
</tr>
<tr>
<td>Sales, general and administrative</td>
<td>2,471</td>
<td>(7,617)</td>
<td>67,000</td>
</tr>
<tr>
<td>Total in Q2 FY 2008</td>
<td>$21,904</td>
<td>$(5,986)</td>
<td>$67,000</td>
</tr>
<tr>
<td>Total in Q1 FY 2008</td>
<td>$12,366</td>
<td>$ 2,279</td>
<td>$2,111</td>
</tr>
<tr>
<td>Total in Q2 FY 2007</td>
<td>$18,074</td>
<td>$67,180</td>
<td>$15,357</td>
</tr>
</tbody>
</table>

Stock-based compensation

Q2 FY 2008 Q1 FY 2008 Q2 FY 2007
<table>
<thead>
<tr>
<th></th>
<th>2021</th>
<th>2020</th>
<th>2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of revenues</td>
<td>4,700</td>
<td>6,253</td>
<td>8,002</td>
</tr>
<tr>
<td>Engineering, research and</td>
<td>7,109</td>
<td>8,592</td>
<td>11,243</td>
</tr>
<tr>
<td>development</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sales, general and</td>
<td>11,443</td>
<td>13,238</td>
<td>(3,177)</td>
</tr>
<tr>
<td>administrative</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provision for income taxes</td>
<td>(8,038)</td>
<td>(8,475)</td>
<td>(4,858)</td>
</tr>
<tr>
<td></td>
<td>=========</td>
<td>=========</td>
<td>=========</td>
</tr>
<tr>
<td>Total</td>
<td>15,214</td>
<td>19,608</td>
<td>11,210</td>
</tr>
</tbody>
</table>

To supplement our condensed consolidated financial statements presented in accordance with GAAP, we provide non-GAAP financial information, which are adjusted from results based on GAAP to exclude certain costs and expenses, as well as other supplemental information. The non-GAAP and supplemental information are provided to enhance the user's overall understanding of our operating performance and our prospects in the future. Specifically, we believe the non-GAAP information provide 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 budgeting and planning tools that management uses for future forecasting. The presentation of this additional information is not meant to be considered in isolation or as a substitute for results prepared in accordance with United States GAAP.

a Acquisition-related charges include impairment and amortization of intangibles, inventory fair value adjustments, in-process research and development associated with acquisitions, as well as asset impairment from discontinuing acquired products. Management believes that the expense associated with the impairment and 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 the Company's newly acquired and long-held business. Management believes that it is appropriate to exclude asset impairment from discontinuing acquired products as it is not indicative of ongoing operating results or limits comparability. Management believes excluding these items helps investors compare our operating performance with that of other companies.

b Restructuring, severance and other includes costs associated with facilities divestment program, worldwide reduction in force, and gains from sale of facilities. Management believes that it is appropriate to exclude those items as they are not indicative of ongoing operating results or limit comparability. Management believes excluding these items helps investors compare our operating performance with that of other companies.

c Restatement-related charges include compensation related to reimbursement of non-executive employees for penalty taxes under section 409A of the Internal Revenue Code, legal and other expenses related to the stock option investigation, shareholder litigation and related matters. Management believes that it is appropriate to exclude those items as they are not indicative of ongoing operating results or limit comparability. Management believes excluding these items helps investors compare our operating performance with that of other companies.
d Income tax effect on non-GAAP adjustments. Management believes that it is appropriate to exclude the tax effects of the items noted above in order to present a more meaningful measure on non-GAAP net income.

e Non recurring tax item includes the U.S. tax impact associated with the implementation of our global manufacturing strategy. Management believes that it is appropriate to exclude this item as it limits comparability. Management believes excluding these items helps investors compare our operating performance with that of other companies.

Source: KLA-Tencor Corporation