

February 5, 2007



# KLA-Tencor Reports of Fiscal 2007 Second Quarter Results

## Revenue of \$649 Million and EPS of \$0.44

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

KLA-Tencor Corporation (NASDAQ: KLAC) today announced operating results for its second quarter of fiscal 2007, ended December 31, 2006. The Company reported net income of \$90 million (including share-based compensation and the other charges described below) and earnings per diluted share of \$0.44 on revenue of \$649 million in the second quarter, compared to net income of \$136 million or \$0.67 per diluted share on revenue of \$629 million in the first quarter of fiscal 2007, and compared to net income of \$77 million or \$0.38 per diluted share on revenue of \$488 million in the second quarter of fiscal 2006.

Net income for the second quarter of fiscal 2007 reflects \$117 million pre-tax charges, as follows:

- One-time charges of \$67 million, including \$57 million for the write-down of buildings and related assets, and \$10 million for severance charges related to a reduction in force.
- Acquisition-related charges of \$19 million for in-process R&D and amortization of intangible assets primarily related to the acquisition of ADE Corporation.
- Net stock-based compensation charges of \$16 million, net of a credit of \$20 million related to the cancellation of a former executive's stock options and restricted stock units that had been previously expensed. Stock-based compensation for first quarter of fiscal 2007 was \$37 million and for second quarter of fiscal 2006 was \$39 million.
- Restatement-related charges of \$15 million, including compensation expense of \$11 million related to the reimbursement of non-executive employees for penalty taxes under Section 409A of the Internal Revenue Code and legal and other expenses of \$4 million related to the stock options investigation, shareholder litigation and related matters. Other restatement-related charges for first quarter of fiscal 2007 were \$3 million.

"With the restatement of our financials recently completed, we return to regular quarterly reporting and move forward with our business with confidence. We remain focused on introducing new products that help our customers meet their mission critical production challenges," stated Rick Wallace, Chief Executive Officer of KLA-Tencor.

KLA-Tencor ended the second quarter of fiscal 2007 with more than eight months of product-related shipment and revenue backlog. The geographic breakdown of orders in the

quarter was:

Region	Percent of Orders	
	Current Quarter	Historical Average
United States	22%	25%
Japan	21%	25%
Taiwan	25%	20%
Korea, China, & Singapore	23%	20%
Europe	9%	10%

KLA-Tencor completed its acquisition of ADE Corporation in the second quarter at a net cost of \$0.4 billion. As a result, cash, cash equivalents and marketable securities ended the quarter at \$2.1 billion, down \$0.3 billion.

As previously announced, on January 31, 2007, the Nasdaq Listing Qualifications Panel notified KLA-Tencor that the Company has regained compliance with the Nasdaq requirement relating to the filing of periodic reports with the Securities and Exchange Commission and has evidenced compliance with all other Nasdaq Marketplace Rules. Accordingly, the Panel determined to continue the listing of the Company's Common Stock on the Nasdaq Global Select Market, and the review of the Company's listing status has been closed.

KLA-Tencor will discuss its fiscal 2007 second quarter results, along with its outlook for the third quarter of 2007, on a conference call today beginning at 5:00 a.m. Pacific Standard Time. A webcast of the call will be available at: [www.kla-tencor.com](http://www.kla-tencor.com).

Forward Looking Statements: Statements in this press release other than historical facts, such as statements regarding the benefit to customers of KLA-Tencor's products, demand for KLA-Tencor's products and the Company's future financial performance, 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: our ability to successfully address and resolve all issues arising from the discovery that we had retroactively priced stock options (primarily from July 1, 1997 to June 30, 2002) and had not accounted for them correctly; 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 Form 10-K, 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 leader in yield management and process control solutions for semiconductor manufacturing and related industries. Headquartered in San Jose, Calif., the Company has sales and service offices around the world. An S&P 500 Company, KLA-Tencor was named one of the Best Managed Companies in America for

2005 by Forbes Magazine and is the only Company in the semiconductor industry to receive the accolade for this year. KLA-Tencor is traded on the Nasdaq National Market under the symbol KLAC. Additional information about the Company is available on the Internet at <http://www.kla-tencor.com>

KLA-TENCOR CORPORATION  
Condensed Consolidated Balance Sheets  
(Unaudited)

(in thousands)	December 31, 2006	June 30, 2006
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ASSETS		
Current assets:		
Cash and cash equivalents	\$ 863,384	\$ 1,129,191
Marketable securities	1,279,506	1,196,605
Accounts receivable, net	448,520	439,899
Inventories	564,566	449,156
Deferred income taxes	262,206	253,811
Other current assets	73,323	74,581
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Total current assets	3,491,505	3,543,243
Land, property and equipment, net	355,057	395,412
Other assets	996,166	637,256
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Total assets	\$ 4,842,728	\$ 4,575,911
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LIABILITIES, MINORITY INTEREST AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 104,204	\$ 95,192
Deferred system profit	233,393	226,142
Unearned revenue	87,352	80,543
Other current liabilities	585,220	600,604
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Total current liabilities	1,010,169	1,002,481
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Commitments and contingencies (Note 10)		
Minority interest in subsidiary	\$ 3,010	\$ 5,439
Stockholders' equity:		
Common stock and capital in excess of par value	1,492,696	1,421,373
Retained earnings	2,315,554	2,137,710
Accumulated other comprehensive income	21,299	8,908
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Total stockholders' equity	3,829,549	3,567,991
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Total liabilities, minority interest and stockholders' equity	\$ 4,842,728	\$ 4,575,911
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(in thousands except per share data)	(Unaudited)			
	Three months ended December 31,		Six months ended December 31,	
	2006	2005 As restated	2006	2005 As restated
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Revenues:				
Product	\$ 544,302	\$ 402,132	\$1,075,229	\$ 801,133
Service	104,968	85,550	203,404	170,810
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Total revenues	649,270	487,682	1,278,633	971,943
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Costs and operating expenses:				
Costs of revenues(1)	295,997	216,215	566,116	431,352
Engineering, research and development(1)	106,106	98,807	205,399	197,577
Selling, general and administrative(1)	168,808	97,666	274,769	193,030
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Total costs and operating expenses	570,911	412,688	1,046,284	821,959
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Income from operations	78,359	74,994	232,349	149,984
Interest income and other, net	22,657	16,685	45,114	30,761
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Income before income taxes and minority interest	101,016	91,679	277,463	180,745
Provision for income taxes	11,637	16,329	53,005	30,653
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Income before minority interest	89,379	75,350	224,458	150,092
Minority interest	670	1,255	1,513	2,000
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Net income	\$ 90,049	\$ 76,605	\$ 225,971	\$ 152,092
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Net income per share:				
Basic	\$ 0.45	\$ 0.39	\$ 1.13	0.77
	=====	=====	=====	=====
Diluted	\$ 0.44	\$ 0.38	\$ 1.11	0.75
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Weighted average number of shares:				
Basic	199,789	198,236	199,603	197,824
	=====	=====	=====	=====
Diluted	204,955	203,926	203,826	203,634
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(1) includes the following

stock-based compensation  
charges:

Costs of revenues	\$	8,002	\$	6,273	\$	16,589	\$	13,451
Engineering, research and development		11,243		12,502		22,948		25,531
Selling, general and administrative		(3,177)		20,063		13,578		39,583
Provision for Incomes Taxes		(4,858)		(15,682)		(16,247)		(31,073)

Source: KLA-Tencor Corporation