

April 25, 2013



KLA-Tencor Reports Fiscal 2013 Third Quarter Results

MILPITAS, Calif., April 25, 2013 /PRNewswire/ -- KLA-Tencor Corporation (NASDAQ: KLAC) today announced operating results for its third quarter of fiscal year 2013, which ended on March 31, 2013, and reported GAAP net income of \$166 million and GAAP earnings per diluted share of \$0.98 on revenues of \$729 million.

"KLA-Tencor delivered solid financial results in the March quarter, demonstrating consistent execution against our long-term strategic objectives," said president and CEO Rick Wallace. "The importance of process control to our customers is increasing as the yield challenges at the leading edge become more complex. We believe that this trend, paired with KLA-Tencor's superior technology and customer focus, will enable KLA-Tencor to continue generating strong operating results and maintain its market leadership position."

GAAP Results			
	Q3 FY 2013	Q2 FY 2013	Q3 FY 2012
Revenues	\$729 million	\$673 million	\$841 million
Net Income	\$166 million	\$107 million	\$205 million
Earnings per Diluted Share	\$0.98	\$0.63	\$1.21

Non-GAAP Results			
	Q3 FY 2013	Q2 FY 2013	Q3 FY 2012
Net Income	\$171 million	\$106 million	\$216 million
Earnings per Diluted Share	\$1.01	\$0.63	\$1.27

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, restatement and restructuring related items, and certain discrete tax items.

KLA-Tencor will discuss the results for its fiscal year 2013 third 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 market conditions in the semiconductor equipment industry, anticipated innovation efforts by customers, expected trends and focus areas in customers' capital investment, the importance of process control in the success of future innovation, KLA-Tencor's ability to preserve and extend its market leadership position and KLA-Tencor'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: 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 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, 2012, 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, 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 more than 35 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

<u>(In thousands)</u>	<u>March 31, 2013</u>	<u>June 30, 2012</u>
ASSETS		
Cash, cash equivalents and marketable securities	\$ 2,879,503	\$ 2,534,444
Accounts receivable, net	454,224	701,280
Inventories	649,822	650,802
Other current assets	280,107	277,517
Land, property and equipment, net	298,617	277,686
Goodwill	326,792	327,716
Purchased intangibles, net	39,008	55,636
Other non-current assets	266,400	275,227
Total assets	<u>\$ 5,194,473</u>	<u>\$ 5,100,308</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 107,753	\$ 139,183
Deferred system profit	136,816	147,218
Unearned revenue	63,751	63,095
Other current liabilities	511,688	513,411
Total current liabilities	<u>820,008</u>	<u>862,907</u>
Non-current liabilities:		
Long-term debt	747,240	746,833
Income tax payable	59,104	50,839
Unearned revenue	32,321	34,899
Other non-current liabilities	89,417	89,235
Total liabilities	<u>1,748,090</u>	<u>1,784,713</u>
Stockholders' equity:		
Common stock and capital in excess of par value	1,141,959	1,089,480
Retained earnings	2,329,251	2,247,258
Accumulated other comprehensive income (loss)	(24,827)	(21,143)
Total stockholders' equity	<u>3,446,383</u>	<u>3,315,595</u>
Total liabilities and stockholders' equity	<u>\$ 5,194,473</u>	<u>\$ 5,100,308</u>

KLA-Tencor Corporation
Condensed Consolidated Unaudited Statements of Operations

<u>(In thousands, except per share data)</u>	<u>Three months ended March 31,</u>		<u>Nine months ended March 31,</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Revenues:				
Product	\$ 579,746	\$ 701,179	\$ 1,676,847	\$ 1,852,094
Service	149,283	139,342	445,902	427,385
Total revenues	<u>729,029</u>	<u>840,521</u>	<u>2,122,749</u>	<u>2,279,479</u>
Costs and operating expenses:				
Costs of revenues	309,508	355,149	930,648	968,353
Engineering, research and development	118,788	110,102	360,138	334,227
Selling, general and administrative	98,487	90,996	289,913	278,873
Total costs and operating expenses	<u>526,783</u>	<u>556,247</u>	<u>1,580,699</u>	<u>1,581,453</u>
Income from operations	202,246	284,274	542,050	698,026
Interest income and other, net	(10,131)	(10,241)	(28,519)	(29,824)
Income before income taxes	192,115	274,033	513,531	668,202
Provision for income taxes	25,733	68,687	105,152	160,064
Net income	<u>\$ 166,382</u>	<u>\$ 205,346</u>	<u>\$ 408,379</u>	<u>\$ 508,138</u>
Net income per share:				
Basic	\$ 1.00	\$ 1.23	\$ 2.46	\$ 3.05
Diluted	\$ 0.98	\$ 1.21	\$ 2.41	\$ 2.99
Cash dividends declared per share	<u>\$ 0.40</u>	<u>\$ 0.35</u>	<u>\$ 1.20</u>	<u>\$ 1.05</u>
Weighted average number of shares:				
Basic	166,234	167,070	166,297	166,748
Diluted	169,180	170,146	169,425	170,023

KLA-Tencor Corporation
Condensed Consolidated Unaudited Statements of Cash Flows

	Three months ended March 31,	
	2013	2012
<i>(In thousands)</i>		
Cash flows from operating activities:		
Net income	\$ 166,382	\$ 205,346
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,168	22,400
Non-cash stock-based compensation expense	18,536	20,914
Excess tax benefit from equity awards	(872)	—
Net gain on sale of marketable securities and other investments	(712)	(96)
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable, net	142,764	(97,698)
Decrease (increase) in inventories	11,138	(9,694)
Decrease (increase) in other assets	2,753	(42,190)
Increase in accounts payable	4,552	10,481
Decrease in deferred system profit	(19,959)	(7,021)
Increase in other liabilities	69,033	159,652
Net cash provided by operating activities	414,783	262,094
Cash flows from investing activities:		
Capital expenditures, net	(18,300)	(14,278)
Purchase of available-for-sale securities	(426,630)	(523,615)
Proceeds from sale and maturity of available-for-sale securities	288,244	267,256
Purchase of trading securities	(14,005)	(9,434)
Proceeds from sale of trading securities	15,054	10,939
Net cash used in investing activities	(155,637)	(269,132)
Cash flows from financing activities:		
Issuance of common stock	48,685	74,640
Tax withholding payments related to vested and released restricted stock units	(728)	(364)
Common stock repurchases	(68,343)	(66,934)
Payment of dividends to stockholders	(66,561)	(58,524)
Excess tax benefit from equity awards	872	—
Net cash used in financing activities	(86,075)	(51,182)
Effect of exchange rate changes on cash and cash equivalents	(6,183)	(2,853)
Net increase (decrease) in cash and cash equivalents	166,888	(61,073)
Cash and cash equivalents at beginning of period	767,313	824,986
Cash and cash equivalents at end of period	\$ 934,201	\$ 763,913
Supplemental cash flow disclosures:		
Income taxes paid, net	\$ 11,041	\$ 9,724
Interest paid	\$ 204	\$ 248

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			Nine months ended	
		March 31, 2013	December 31, 2012	March 31, 2012	March 31, 2013	March 31, 2012
GAAP net income		\$ 166,382	\$ 106,630	\$ 205,346	\$ 408,379	\$ 508,138
<u>Adjustments to reconcile GAAP net income to non-GAAP net income</u>						
Acquisition related charges	a	4,180	4,242	6,996	15,308	22,030
Restructuring, severance and other related charges	b	2,845	—	—	5,979	4,032
Restatement related charges	c	—	—	—	—	135
Income tax effect of non-GAAP adjustments	d	(2,212)	(1,392)	(2,281)	(6,583)	(9,230)
Discrete tax items	e	—	(3,514)	5,718	(3,514)	10,797
Non-GAAP net income		<u>\$ 171,195</u>	<u>\$ 105,966</u>	<u>\$ 215,779</u>	<u>\$ 419,569</u>	<u>\$ 535,902</u>
GAAP net income per diluted share		<u>\$ 0.98</u>	<u>\$ 0.63</u>	<u>\$ 1.21</u>	<u>\$ 2.41</u>	<u>\$ 2.99</u>
Non-GAAP net income per diluted share		<u>\$ 1.01</u>	<u>\$ 0.63</u>	<u>\$ 1.27</u>	<u>\$ 2.48</u>	<u>\$ 3.15</u>
Shares used in diluted shares calculation		<u>169,180</u>	<u>169,076</u>	<u>170,146</u>	<u>169,425</u>	<u>170,023</u>

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
<u>Three months ended March 31, 2013</u>				
Costs of revenues	\$ 1,921	\$ 713	\$ —	\$ 2,634
Engineering, research and development	835	2,405	—	3,240
Selling, general and administrative	1,424	(273)	—	1,151
Total in three months ended March 31, 2013	<u>\$ 4,180</u>	<u>\$ 2,845</u>	<u>\$ —</u>	<u>\$ 7,025</u>
<u>Three months ended December 31, 2012</u>				
Costs of revenues	\$ 1,921	\$ —	\$ —	\$ 1,921
Engineering, research and development	835	—	—	835
Selling, general and administrative	1,486	—	—	1,486
Total in three months ended December 31, 2012	<u>\$ 4,242</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 4,242</u>
<u>Three months ended March 31, 2012</u>				
Costs of revenues	\$ 4,608	\$ —	\$ —	\$ 4,608
Engineering, research and development	898	—	—	898
Selling, general and administrative	1,490	—	—	1,490
Total in three months ended March 31, 2012	<u>\$ 6,996</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 6,996</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 include 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 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 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 the company's decision in the first quarter of fiscal year 2013 to exit from the solar inspection business, as well as those associated with reductions in force. 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.
- c. Restatement related charges include legal and other expenses related to the investigation regarding the company's historical stock option granting process and related stockholder litigation and other matters. KLA-Tencor has paid or reimbursed legal expenses incurred by a number of its current and former directors, officers and employees in connection with the investigation of the company's historical stock option practices and the related litigation and government inquiries. 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.
- 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 and are generally recorded as increases to capital in excess of par value. Shortfalls arise when the tax deduction is less than book compensation and 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. When there are shortfalls recorded as provision for income taxes during an earlier quarter, windfalls arising in subsequent quarters within the same fiscal year are recorded as a reduction to income taxes to the extent of the shortfalls recorded. Management believes that it is appropriate to exclude these or other adjustments to the cumulative windfall tax benefit that are not indicative of ongoing operating results and 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