

KLA TENCOR CORP  
Form 10-Q  
October 29, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**FORM 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended: September 30, 2010

or

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 000-09992

**KLA-Tencor Corporation**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**04-2564110**  
(I.R.S. Employer  
Identification No.)

**One Technology Drive**

**Milpitas, California**

**95035**

(Address of principal executive offices)

(Zip Code)

**(408) 875-3000**

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of October 13, 2010, there were 167,064,459 shares of the registrant's Common Stock, \$0.001 par value, outstanding.

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**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****KLA-TENCOR CORPORATION****Condensed Consolidated Balance Sheets**

(Unaudited)

<i>(In thousands)</i>	<b>September 30, 2010</b>	<b>June 30, 2010</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 538,384	\$ 529,918
Marketable securities	980,608	1,004,126
Accounts receivable, net	500,022	440,125
Inventories, net	464,242	401,730
Deferred income taxes	317,240	328,522
Other current assets	132,865	131,044
<b>Total current assets</b>	<b>2,933,361</b>	<b>2,835,465</b>
Land, property and equipment, net	247,380	236,752
Goodwill	328,126	328,006
Purchased intangibles, net	108,908	117,336
Other non-current assets	385,090	389,497
<b>Total assets</b>	<b>\$ 4,002,865</b>	<b>\$ 3,907,056</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 138,226	\$ 107,938
Deferred system profit	201,663	204,764
Unearned revenue	33,518	37,026
Other current liabilities	390,211	422,059
<b>Total current liabilities</b>	<b>763,618</b>	<b>771,787</b>
Non-current liabilities:		
Long-term debt	745,882	745,747
Income tax payable	57,500	53,492
Unearned revenue	21,124	20,354
Other non-current liabilities	73,484	69,065
<b>Total liabilities</b>	<b>1,661,608</b>	<b>1,660,445</b>
Commitments and contingencies (Note 12 and Note 13)		
Stockholders' equity:		
Common stock and capital in excess of par value	953,437	921,460
Retained earnings	1,402,931	1,356,454

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Accumulated other comprehensive income (loss)	(15,111)	(31,303)
Total stockholders' equity	2,341,257	2,246,611
Total liabilities and stockholders' equity	\$ 4,002,865	\$ 3,907,056

*See accompanying notes to condensed consolidated financial statements (unaudited).*

**Table of Contents****KLA-TENCOR CORPORATION****Condensed Consolidated Statements of Operations**

(Unaudited)

<i>(In thousands, except per share data)</i>	<b>Three months ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Revenues:</b>		
Product	\$ 550,609	\$ 229,251
Service	131,733	113,436
<b>Total revenues</b>	<b>682,342</b>	<b>342,687</b>
<b>Costs and operating expenses:</b>		
Costs of revenues	263,969	171,892
Engineering, research and development	94,720	78,209
Selling, general and administrative	88,037	77,636
<b>Total costs and operating expenses</b>	<b>446,726</b>	<b>327,737</b>
Income from operations	235,616	14,950
Interest income and other, net	1,225	21,299
Interest expense	13,529	13,457
<b>Income before income taxes</b>	<b>223,312</b>	<b>22,792</b>
Provision for income taxes	69,116	2,387
<b>Net income</b>	<b>\$ 154,196</b>	<b>\$ 20,405</b>
<b>Net income per share:</b>		
Basic	\$ 0.92	\$ 0.12
Diluted	\$ 0.91	\$ 0.12
<b>Cash dividend paid per share</b>	<b>\$ 0.25</b>	<b>\$ 0.15</b>
<b>Weighted average number of shares:</b>		
Basic	167,187	170,698
Diluted	169,839	172,718

*See accompanying notes to condensed consolidated financial statements (unaudited).*

**Table of Contents****KLA-TENCOR CORPORATION****Condensed Consolidated Statements of Cash Flows**

(Unaudited)

<i>(In thousands)</i>	<b>Three months ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 154,196	\$ 20,405
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	20,783	23,134
Gain on sale of real estate assets		(2,824)
Non-cash stock-based compensation	24,213	20,199
Tax charge from equity awards		(5,133)
Net gain on sale of marketable securities and other investments	(1,047)	(1,292)
<b>Changes in assets and liabilities:</b>		
Increase in accounts receivable, net	(50,342)	(28,279)
Decrease (increase) in inventories	(63,450)	26,971
Decrease (increase) in other assets	10,870	(46,368)
Increase in accounts payable	30,096	11,288
Increase (decrease) in deferred system profit	(3,101)	18,902
Increase (decrease) in other liabilities	(26,690)	36,246
<b>Net cash provided by operating activities</b>	<b>95,528</b>	<b>73,249</b>
<b>Cash flows from investing activities:</b>		
Capital expenditures, net	(11,163)	(3,635)
Purchase of available-for-sale securities	(228,951)	(263,646)
Proceeds from sale and maturity of available-for-sale securities	239,650	221,588
Purchase of trading securities	(16,004)	(23,573)
Proceeds from sale of trading securities	30,623	29,145
<b>Net cash provided by (used in) investing activities</b>	<b>14,155</b>	<b>(40,121)</b>
<b>Cash flows from financing activities:</b>		
Issuance of common stock	2,953	2,917
Tax withholding payments related to vested and released restricted stock units	(9,517)	(1,833)
Common stock repurchases	(62,156)	
Payment of dividends to stockholders	(41,785)	(25,606)
<b>Net cash used in financing activities</b>	<b>(110,505)</b>	<b>(24,522)</b>
Effect of exchange rate changes on cash and cash equivalents	9,288	7,266
<b>Net increase in cash and cash equivalents</b>	<b>8,466</b>	<b>15,872</b>
Cash and cash equivalents at beginning of period	529,918	524,967

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Cash and cash equivalents at end of period	\$ 538,384	\$ 540,839
Supplemental cash flow disclosures:		
Income taxes paid, net	\$ 46,060	\$ 10,591
Interest paid	\$ 352	\$ 246

*See accompanying notes to condensed consolidated financial statements (unaudited).*



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**KLA-TENCOR CORPORATION**

**Notes to Condensed Consolidated Financial Statements**

(Unaudited)

**NOTE 1 BASIS OF PRESENTATION**

**Basis of Presentation.** The condensed consolidated financial statements have been prepared by KLA-Tencor Corporation ( KLA-Tencor or the Company ) pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ( SEC ). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. In the opinion of management, the unaudited interim financial statements reflect all adjustments (consisting only of normal, recurring adjustments) necessary for a fair statement of the financial position, results of operations and cash flows for the periods indicated. These financial statements and notes, however, should be read in conjunction with Item 8, Financial Statements and Supplementary Data included in the Company s Annual Report on Form 10-K for the fiscal year ended June 30, 2010, filed with the SEC on August 6, 2010.

The condensed consolidated financial statements include the accounts of KLA-Tencor and its majority-owned subsidiaries. All significant intercompany balances and transactions have been eliminated.

References in this Quarterly Report on Form 10-Q to authoritative guidance are to the Accounting Standards Codification issued by the Financial Accounting Standards Board ( FASB ) in June 2009.

The results of operations for the three months ended September 30, 2010 are not necessarily indicative of the results that may be expected for any other interim period or for the full fiscal year ending June 30, 2011.

Certain reclassifications have been made to the prior year s Condensed Consolidated Balance Sheet to conform to the current year presentation. The reclassifications had no effect on the Condensed Consolidated Statements of Operations or Cash Flows.

**Management Estimates.** The preparation of the condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

**Recent Accounting Pronouncements**

In April 2010, the FASB amended its guidance on share-based payment awards with an exercise price denominated in certain currencies. The amendment clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity s equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, an entity would not classify such an award as a liability if it otherwise qualifies as equity. This amendment becomes effective for the Company s interim period ending September 30, 2011. The Company does not expect the implementation to have a material impact on its financial position, results of operations or cash flows.

In April 2010, the FASB amended the authoritative guidance addressing accounting for arrangements in which a vendor satisfies its performance obligations over time, with all or a portion of the consideration contingent on future events, referred to as milestones. The scope of the new guidance is limited to milestones in arrangements that involve research or development activities, such as achieving a specific result from the research or development efforts. The amendment provides guidance on the criteria that should be met for determining whether the milestone method of revenue recognition is appropriate. A vendor can recognize consideration that is contingent upon achievement of a milestone in its entirety as revenue in the period in which the milestone is achieved only if the milestone meets all criteria to be considered substantive. A vendor that is affected by the amendments is required to provide a description of the overall arrangement, a description of each milestone and related contingent consideration, a determination of whether each milestone is considered substantive, the factors that the entity considered in determining whether the milestone or milestones are substantive, and the amount of consideration recognized during the period for the milestone or milestones. This amendment is effective for the Company s interim period ended September 30, 2010. The amendment did not have an impact

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on the Company's financial position, results of operations or cash flows.

In February 2010, the SEC issued a policy statement and staff work plan regarding the potential use by U.S. issuers of financial statements prepared in accordance with International Financial Reporting Standards (IFRS)