

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K
CURRENT REPORT

**Pursuant to Section 13 or 15(d) of The
Securities Exchange Act of 1934**

Date of Report (Date of earliest event reported): January 29, 2019

KLA-TENCOR CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

000-09992

04-2564110

(State or other jurisdiction of incorporation)

(Commission File Number)

(I.R.S. Employer Identification No.)

One Technology Drive, Milpitas, California

95035

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (408) 875-3000

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition.

On January 29, 2019, KLA-Tencor Corporation (the “Company”) issued a press release announcing selected financial and operating results for its second quarter of fiscal year 2019. A copy of the press release is furnished as Exhibit 99.1 to this Current Report on Form 8-K.

The information in Item 2.02 of this Current Report on Form 8-K and the exhibit attached hereto shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities under that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act, regardless of any general incorporation language in such filing.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

The following exhibit is filed herewith:

| Exhibit No. | Description |
|--------------------|--|
| <u>99.1</u> | <u>Text of press release dated January 29, 2019 issued by KLA-Tencor Corporation</u> |

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

KLA-TENCOR CORPORATION

Date: January 29, 2019

By: /s/ TERI A. LITTLE
Name: Teri A. Little
Title: Executive Vice President and Chief Legal Officer

FOR IMMEDIATE RELEASE

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KLA-TENCOR REPORTS FISCAL 2019 SECOND QUARTER RESULTS

MILPITAS, Calif., January 29, 2019 -[KLA-Tencor Corporation](http://www.kla.com) (NASDAQ: KLAC) today announced operating results for its second quarter of fiscal year 2019, which ended on December 31, 2018, and reported GAAP net income of \$369 million and GAAP earnings per diluted share of \$2.42 on revenues of \$1,120 million.

“KLA reported excellent results for the December quarter, with shipments, revenue, and earnings per share each closing above the range of guidance in the period, capping the third consecutive year of double-digit growth for the company in calendar 2018,” commented President and Chief Executive Officer Rick Wallace. “Our strong performance highlights the strength and resilience of the KLA business model, and demonstrates the company’s ability to consistently drive long-term growth, and deliver top-tier financial performance and strong cash returns to stockholders.”

| GAAP Results | | | |
|-----------------------------------|-------------------|-------------------|-------------------|
| | Q2 FY 2019 | Q1 FY 2019 | Q2 FY 2018 |
| Revenues | \$1,120 million | \$1,093 million | \$976 million |
| Net Income (Loss) | \$369 million | \$396 million | \$(134) million |
| Earnings (Loss) per Diluted Share | \$2.42 | \$2.54 | \$(0.86) |

| Non-GAAP Results | | | |
|----------------------------|-------------------|-------------------|-------------------|
| | Q2 FY 2019 | Q1 FY 2019 | Q2 FY 2018 |
| Net Income | \$372 million | \$384 million | \$309 million |
| Earnings per Diluted Share | \$2.44 | \$2.46 | \$1.97 |

Effective on the first day of fiscal 2019, the Company adopted Accounting Standards Update 2014-09, Revenue from Contracts with Customers (“ASC 606”). Prior periods were not retrospectively restated, and accordingly, the condensed consolidated unaudited balance sheet as of June 30, 2018, and the condensed consolidated unaudited statements of operations for the three and six months ended December 31, 2017 and cash flows for the three months ended December 31, 2017 were prepared using accounting standards that were different than those in effect for the three and six months ended December 31, 2018.

A reconciliation between GAAP operating results and non-GAAP operating results is provided following the financial statements included in this release. Non-GAAP results include the impact of stock-based compensation, but exclude the impact of acquisitions or pending acquisitions, restructuring, severance, merger and other related charges and certain discrete tax items. KLA will discuss the results for its fiscal year 2019 second quarter, along with its outlook, on a conference call today beginning at 2:00 p.m. Pacific Time. A webcast of the call will be available at: www.kla.com.

About KLA:

KLA-Tencor Corporation (aka “KLA Corporation” or “KLA”) develops industry-leading equipment and services that enable innovation throughout the electronics industry. We provide advanced process control solutions for manufacturing wafers and reticles, integrated circuits and packaging. In close collaboration with leading customers across the globe, our expert teams of physicists, engineers, data scientists and problem-solvers design solutions that move the world forward. Additional information may be found at www.kla.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's financial results presented in accordance with United States GAAP.

To supplement KLA'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 (benefits), as well as other supplemental information. The non-GAAP and supplemental information is provided to enhance the user's overall understanding of KLA's operating performance and its prospects in the future. Specifically, KLA believes that the non-GAAP information provides useful measures to both management and investors regarding financial and business trends relating to KLA's financial performance by excluding certain costs and expenses (benefits) 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 (benefits) 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

| <i>(In thousands)</i> | <u>December 31, 2018</u> | <u>June 30, 2018</u> |
|--|--------------------------|--------------------------|
| ASSETS | | |
| Cash, cash equivalents and marketable securities | \$ 2,694,094 | \$ 2,880,318 |
| Accounts receivable, net | 658,080 | 651,678 |
| Inventories | 1,005,990 | 931,845 |
| Other current assets | 127,350 | 85,159 |
| Land, property and equipment, net | 306,351 | 286,306 |
| Goodwill | 360,480 | 354,698 |
| Deferred income taxes, non-current | 225,124 | 193,200 |
| Purchased intangible assets, net | 23,818 | 19,333 |
| Other non-current assets | 204,000 | 216,819 |
| Total assets | <u>\$ 5,605,287</u> | <u>\$ 5,619,356</u> |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 152,491 | \$ 169,354 |
| Deferred system revenue | 196,242 | — |
| Deferred service revenue | 168,936 | 69,255 |
| Deferred system profit | — | 279,581 |
| Current portion of long-term debt | 249,996 | — |
| Other current liabilities | 714,873 | 699,893 |
| Total current liabilities | <u>1,482,538</u> | <u>1,218,083</u> |
| Non-current liabilities: | | |
| Long-term debt | 1,988,382 | 2,237,402 |
| Deferred service revenue | 90,466 | 71,997 |
| Other non-current liabilities | 446,279 | 471,363 |
| Total liabilities | <u>4,007,665</u> | <u>3,998,845</u> |
| Stockholders' equity: | | |
| Common stock and capital in excess of par value | 619,265 | 617,999 |
| Retained earnings | 1,048,804 | 1,056,445 |
| Accumulated other comprehensive income (loss) | (70,447) | (53,933) |
| Total stockholders' equity | <u>1,597,622</u> | <u>1,620,511</u> |
| Total liabilities and stockholders' equity | <u>\$ 5,605,287</u> | <u>\$ 5,619,356</u> |

KLA-Tencor Corporation
Condensed Consolidated Unaudited Statements of Operations

| <i>(In thousands, except per share amounts)</i> | Three months ended December 31, | | Six months ended December 31, | |
|---|---------------------------------|--------------|-------------------------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Revenues: | | | | |
| Product | \$ 852,201 | \$ 761,587 | \$ 1,681,428 | \$ 1,522,374 |
| Service | 267,697 | 214,235 | 531,730 | 423,029 |
| Total revenues | 1,119,898 | 975,822 | 2,213,158 | 1,945,403 |
| Costs and expenses: | | | | |
| Costs of revenues | 408,260 | 347,002 | 789,647 | 700,119 |
| Research and development | 165,903 | 156,700 | 319,433 | 303,387 |
| Selling, general and administrative | 112,462 | 105,265 | 226,900 | 212,697 |
| Interest expense and other, net | 17,310 | 19,548 | 33,647 | 45,741 |
| Income before income taxes | 415,963 | 347,307 | 843,531 | 683,459 |
| Provision for income taxes | 46,863 | 481,626 | 78,487 | 536,842 |
| Net income (loss) | \$ 369,100 | \$ (134,319) | \$ 765,044 | \$ 146,617 |
| Net income (loss) per share: | | | | |
| Basic | \$ 2.43 | \$ (0.86) | \$ 4.98 | \$ 0.94 |
| Diluted | \$ 2.42 | \$ (0.86) | \$ 4.96 | \$ 0.93 |
| Weighted-average number of shares: | | | | |
| Basic | 152,148 | 156,587 | 153,684 | 156,707 |
| Diluted | 152,648 | 156,587 | 154,389 | 157,688 |

KLA-Tencor Corporation
Condensed Consolidated Unaudited Statements of Cash Flows

| | Three months ended | |
|---|--------------------|--------------|
| | December 31, | |
| <i>(In thousands)</i> | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$ 369,100 | \$ (134,319) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 15,806 | 16,130 |
| Loss (gain) on unrealized foreign exchange and other | 895 | (4,154) |
| Stock-based compensation expense | 15,695 | 13,739 |
| Changes in assets and liabilities, net of business acquisitions: | | |
| Accounts receivable | (55,869) | (73,877) |
| Inventories | (15,109) | (24,240) |
| Other assets | 34,978 | 86,512 |
| Accounts payable | (2,440) | 11,069 |
| Deferred system revenue | (19,723) | — |
| Deferred service revenue | 12,211 | — |
| Deferred system profit | — | 40,773 |
| Other liabilities | (73,372) | 197,738 |
| Net cash provided by operating activities | 282,172 | 129,371 |
| Cash flows from investing activities: | | |
| Acquisition of non-marketable securities | — | (3,377) |
| Businesses acquisitions, net of cash acquired | — | (4,780) |
| Capital expenditures | (26,366) | (13,369) |
| Purchases of available-for-sale securities | (2,686) | (134,268) |
| Proceeds from sale of available-for-sale securities | 107,370 | 56,506 |
| Proceeds from maturity of available-for-sale securities | 128,052 | 123,095 |
| Purchases of trading securities | (27,481) | (18,914) |
| Proceeds from sale of trading securities | 29,722 | 21,062 |
| Net cash provided by investing activities | 208,611 | 25,955 |
| Cash flows from financing activities: | | |
| Proceeds from revolving credit facility, net of debt issuance costs | — | 248,693 |
| Repayment of debt | — | (540,000) |
| Issuance of common stock | 20,556 | 20,579 |
| Tax withholding payments related to equity awards | (3,233) | (2,567) |
| Common stock repurchases | (250,213) | (40,427) |
| Payment of dividends to stockholders | (114,562) | (92,575) |
| Net cash used in financing activities | (347,452) | (406,297) |
| Effect of exchange rate changes on cash and cash equivalents | 1,137 | 3,668 |
| Net increase (decrease) in cash and cash equivalents | 144,468 | (247,303) |
| Cash and cash equivalents at beginning of period | 1,649,514 | 1,320,697 |
| Cash and cash equivalents at end of period | \$ 1,793,982 | \$ 1,073,394 |
| Supplemental cash flow disclosures: | | |
| Income taxes paid | \$ 87,854 | \$ 123,625 |
| Interest paid | \$ 51,136 | \$ 55,693 |
| Non-cash activities: | | |
| Accrued purchase of land, property and equipment - investing activities | \$ 7,705 | \$ 5,548 |
| Business acquisition holdback amounts - investing activities | \$ 440 | \$ — |
| Contingent consideration payable - financing activities | \$ 2,529 | \$ — |
| Unsettled common stock repurchase - financing activities | \$ — | \$ 1,289 |
| Dividends payable - financing activities | \$ 5,404 | \$ 7,590 |

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

Reconciliation of GAAP Net Income (Loss) to Non-GAAP Net Income

| | Three months ended | | | Six months ended | |
|--|----------------------|-----------------------|----------------------|----------------------|----------------------|
| | December 31, 2018 | September 30, 2018 | December 31, 2017 | December 31, 2018 | December 31, 2017 |
| GAAP net income (loss) | \$ 369,100 | \$ 395,944 | \$ (134,319) | \$ 765,044 | \$ 146,617 |
| <u>Adjustments to reconcile GAAP net income (loss) to non-GAAP net income:</u> | | | | | |
| Acquisition-related charges | a 4,281 | 5,551 | 1,608 | 9,832 | 3,195 |
| Merger-related charges | b — | — | — | — | 3,015 |
| Income tax effect of non-GAAP adjustments | c (276) | (310) | (465) | (586) | (2,064) |
| Discrete tax items | d (765) | (17,106) | 441,894 | (17,871) | 441,894 |
| Non-GAAP net income | \$ 372,340 | \$ 384,079 | \$ 308,718 | \$ 756,419 | \$ 592,657 |
| GAAP net income (loss) per diluted share | \$ 2.42 | \$ 2.54 | \$ (0.86) | \$ 4.96 | \$ 0.93 |
| Non-GAAP net income per diluted share | \$ 2.44 | \$ 2.46 | \$ 1.97 | \$ 4.90 | \$ 3.76 |
| Shares used in diluted shares calculation | 152,648 | 156,083 | 156,587 | 154,389 | 157,688 |

Pre-tax impact of GAAP to non-GAAP adjustments included in Condensed Consolidated Unaudited Statements of Operations

| | <u>Acquisition- related charges</u> |
|---|---|
| <u>Three months ended December 31, 2018</u> | |
| Costs of revenues | \$ 967 |
| Selling, general and administrative | 3,314 |
| Total in three months ended December 31, 2018 | <u>\$ 4,281</u> |
| <u>Three months ended September 30, 2018</u> | |
| Costs of revenues | \$ 890 |
| Selling, general and administrative | 4,661 |
| Total in three months ended September 30, 2018 | <u>\$ 5,551</u> |
| <u>Three months ended December 31, 2017</u> | |
| Costs of revenues | \$ 1,530 |
| Selling, general and administrative | 78 |
| Total in three months ended December 31, 2017 | <u>\$ 1,608</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 and inventory fair value adjustments, and transaction costs associated with acquisitions or pending acquisitions, including the pending acquisition of Orbotech. Management believes that the expense associated with the amortization of acquisition related intangible assets and acquisition related costs are 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's newly acquired and long-held businesses. Management believes excluding these items helps investors compare our operating performances with our results in prior periods as well as with the performance of other companies.
- b. Merger-related charges associated with the terminated merger agreement between KLA and Lam Research Corporation ("Lam") primarily includes employee retention-related expenses, legal expenses and other costs. 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.
- c. 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.
- d. Discrete tax item includes the income tax effects of an income tax expense from the enacted tax reform legislation through the Tax Cuts and Jobs-Act (the "Act"), which was signed into law on December 22, 2017, of which the impact is primarily related to the provisional tax amounts recorded for the transition tax on accumulated foreign earnings and the re-measurement of certain deferred tax assets and liabilities as a result of the enactment of the Act. 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.